# ECONOMY

| GOLD | RUPEE | OIL | SILVER |
|---|---|---|---|
| ₹32,385 | ₹69.35 | $71.38* | ₹38,246 |

*Indian basket as on April 17, 2019

SENSEX: 39,140.28 ▼ 135.36 NIFTY: 11,752.80 ▼ 34.35 NIKKEI: 22,090.12 ▼ 187.85 HANG SENG: 29,963.26 ▼ 161.42 FTSE: 7,462.64 ▼ 8.68 DAX: 12,213.53 ▲ 60.46

IF BIDDING PROCESS FAILS, AIRLINE TO BE TAKEN TO BANKRUPTCY COURT

## Jet Airways lenders to focus on bidding process; share price crashes 32.23%

ENS ECONOMIC BUREAU
MUMBAI, APRIL 18

AFTER REFUSING to extend any emergency funding to Jet Airways, lenders on Thursday said they will focus on the bidding process to get an investor to run the crippled airline.

However, with the share price of the airline crashing by 32.23 per cent to Rs 163.90 on the stock exchanges a day after the airline decided to shut down operations, the bidding process and the valuation of the airline is likely to run into hurdles, market sources said.

The lenders, after due deliberations, decided that the best way forward for the survival of Jet Airways is to get the binding bids from potential investors who have expressed EoI (expression of interest) and have been issued bid documents on April 16, according to a spokesperson for the lenders. "Lenders are reasonably hopeful that the bid process is likely to be successful in determining fair value of the enterprise in a transparent manner," said a spokesperson for lenders.

If the bidding process fails, banks will have to take the airline to the bankruptcy court — the National Company Law Tribunal (NCLT) — for a suitable resolution plan or liquidation. If the airline goes for liquidation, banks are unlikely to get much as there are not much tangible assets for loan recovery.

Jet shares faced intense selling as worried investors dumped the shares as the revival of the airline has become bleak after the banks refused to provide emergency funding. "We don't think it's easy to revive an airline after it closes down. At least half a dozen airlines closed down operations in the last 20 years, but none of them were revived. Even if a new investor comes in, he will have to pump in huge funds," said veteran BSE broker Pawan Dharnidharka.

Banks, led by State Bank of India (SBI), which have an exposure of over Rs 8,000 crore informed Jet Airways late in the night on Tuesday that they are unable to consider its request for critical interim funding. Bankers in the consortium were divided on the issue of funding Jet Airways. "The airline will come to banks for more funds once the Rs 400 crore is exhausted in a few days. The bidding process to bring in a new promoter/ investor will take at least two months. It was going to be a tough task to bail out the airline on a daily basis. Nearly half of the banks were against providing emergency funding," said an official.

Banks which have an exposure of over Rs 8,000 crore in the crippled airline was dilly-dallying on releasing Rs 1,500 crore as promised in the resolution plan. State Bank of India had this week said the bid process for "orderly sale" of equity in the airline is currently being run by SBI Caps and is being vetted by the legal team. "The prospective bidders will be shortlisted by SBI Caps shortly," an SBI spokesperson said. "The proposed equity conversion by banks, if any, will be undertaken as a transitory mechanism to facilitate the bidding cum sale process. SBI is acting on behalf of the group of lenders as part of the Bank Led Resolution Process," he said.

EXPLAINED

### Herculean task ahead for revival of Jet Airways

IT'S GOING to be a Herculean task to revive Jet Airways which closed down operations on Wednesday.

With no tangible assets and share prices on a free fall, it remains to be seen how many bidders will seriously bid for the airline. Lenders which have sink Rs 8,000 crore in the airline haven't many choices. Many observers expect the airline to land up in the bankruptcy court for liquidation.

PUBLIC COMMENTS INVITED ON DRAFT REPORT

## I-T Dept proposes new norms for taxing MNCs with permanent India base

**The Income-Tax Department said multinational companies that are incurring global loss, or profit margin of less than 2%, will be deemed to have made a profit of 2% of Indian revenue or turnover and will be taxed accordingly**

ENS ECONOMIC BUREAU
NEW DELHI, APRIL 18

INVITING PUBLIC comments on draft report of taxation methodology for multinational companies (MNCs) having permanent establishment in India, the Income-Tax Department on Thursday said MNCs that are incurring global loss, or profit margin of less than 2 per cent, will be deemed to have made a profit of 2 per cent of Indian revenue or turnover and will be taxed accordingly.

Giving weightage to factors like domestic sales, employee strength, assets and user base to determine taxation of MNCs, the CBDT Committee's report on 'Profit Attribution to Permanent Establishment (PE) in India' is expected to impact several permanent establishments especially of infrastructure projects which have incurred losses recently, tax experts said. "The committee noted the need to protect India's revenue interests in cases where an enterprise having global losses or a global profit margin of less than 2 per cent, continues with the Indian operations, which could be more profitable than its operations elsewhere ... the continuation of Indian operations justifies the presumption of higher profitability of Indian operations, and in such cases, a deeming provision that deems profits of Indian operations at 2 per cent of revenue or turnover derived from India should be introduced," the report said.

The CBDT committee report has proposed that sales, employees (manpower and wages) and assets in India of a MNC should be taken into account for determining domestic tax liability. In case of digital companies, the weightage will be given to an additional fourth criteria of 'user' base, the report said. An MNC having a fixed place of business in India is considered as having PE in India and is taxed as per domestic laws. The stakeholders will have to submit their comments on the report within 30 days.

The report provides different weightage for digital companies categorising them as "high" and "low or medium" user base with significant economic presence in India. In case of 'high user intensity', the weight of users should be 20 per cent, share of assets and employees 25 per cent each and sales at 30 per cent, while for 'low and medium user intensity', users should be assigned a weight of 10 per cent while three factors would have a weight of 30 per cent each.

Ashok Maheshwary & Associates LLP partner Amit Maheshwari said the report by the CBDT committee on profit attribution to PE deems 2 per cent of revenue derived from India as profit attributable to Indian operations in spite of having losses on a global level. "This will impact several loss-making PEs especially in infrastructure projects which have been into chronic losses lately. Assuming that if MNCs are continuing with Indian operations in spite of losses, there has to be higher profits in India, is not correct," Maheshwari said.

Nangia Advisors (Andersen Global) director Sandeep Jhunjhunwala said the committee, in its report, has observed a major deviation from generally accepted accounting principles. He added that the deviation is in cases where business profits could not be readily determined on the basis of accounts, completely ignoring the sales receipts derived from a tax jurisdiction, and attribution done on the basis of function, assets and risk (FAR) analysis.

The report suggested "amendments to Rule 10 of income tax rules to provide that in the case of an assessee who is not a resident of India, has a business connection in India and derives sales revenue from India ... the income from such business that is attributable to the operations carried out in India and deemed to accrue or arise in India shall be determined by apportioning the profits derived from India by a three equally weighted factors of sales, employees (manpower & wages) and assets".

DRAFT PROPOSAL

## RBI may allow fintech firms to test regulatory sandbox

ENS ECONOMIC BUREAU
MUMBAI, APRIL 18

THE RESERVE Bank of India on Thursday put out a draft enabling framework for regulatory sandbox (RS) for fintechs, including an indicative list of relevant products and services and fit-and-proper criteria for participants in the RS.

A regulatory sandbox usually refers to live testing of new products or services in a controlled/test regulatory environment for which regulators may or may not permit certain regulatory relaxations for the limited purpose of the testing.

"The RS allows the regulator, the innovators, the financial service providers (as potential deployers of the technology) and the customers (as final users) to conduct field tests to collect evidence on the benefits and risks of new financial innovations, while carefully monitoring and containing their risks," the central bank said in the draft, which refers to each end-to-end sandbox process as a cohort.

The RS shall be based on thematic cohorts focusing on financial inclusion, payments and lending, and digital KYC, among other things. The cohorts may run for varying time periods but should ordinarily be completed within six months, the RBI said. The indicative list of products, services and technologies where the RS could be applicable includes retail payments, money transfer services, marketplace lending, mobile technology applications, data analytics and application program interface (API) services.

Regulatory requirements with respect to customer privacy and data protection, storage and access to payment data, security of transactions and KYC regulations will have to be maintained. Products and services such as credit registry, credit information, crypto currency etc will not be eligible for testing under the RS framework. Comments on the draft can be sent in till May 8. FE

## Govt to allocate 440 vacant slots to other airlines to mitigate Jet vacuum

ENS ECONOMIC BUREAU
NEW DELHI, APRIL 18

WITH WHAT was till recently one of India's largest airlines suspending operations, the government has started moving to ensure passengers are not inconvenienced by high airfares and unavailability of flights. On Thursday, Civil Aviation Secretary Pradeep Singh Kharola held meetings with airport operators and airlines in light of Jet Airways' collapse to discuss the plans to mitigate the situation.

As many as 440 slots that are vacant at Delhi and Mumbai airports will be reallocated to other airlines on an interim basis through a "rational, fair and equitable" manner, Kharola said. There are 280 vacant slots at Mumbai airport and over 160 at Delhi airport. These two stations are among the busiest in the country.

The slots would be allocated for three months by a committee, comprising officials from the Directorate General of Civil Aviation (DGCA), Airports Authority of India (AAI) and respective airports. Kharola also said around 30 more planes would be inducted by airlines in next 3 months. Besides, a decision on 20-30 leased planes of Jet that have been grounded is likely next week as some airlines have expressed interest in taking them, he added.

With the additions, Kharola said there would be a "healthy growth in capacity". In the last five months, around 75 planes were out of the domestic sector due to groundings by Jet. During the same period, about 58 aircraft were inducted by various carriers, he noted. SpiceJet on Thursday said it will dry lease six more Boeing 737 planes, and roll out of 24 daily new flights connecting Mumbai and Delhi as it seeks to encash void left by the temporary grounding of Jet Airways. Fares in trunk sectors of the country during April have increased by 19-36 per cent on an average over the same period previous year.

As per official data, a total of 74 planes have been inducted by carriers since October last year. "We wanted to know from Jet Airways on how many passengers have booked tickets and how they plan to refund it. Jet has said that they have to collect information from all over the world and they will be coming to meet us on Monday or Tuesday....," he said. According to industry sources, Jet owes passengers around Rs 3,500 crore in refunds towards cancellations.

DGCA on Thursday said it will ask the airline for a "concrete and credible" revival plan. A senior official of the DGCA also said the regulator would take action in accordance with due procedure under relevant regulations.

### IATA suspends Jet from clearing house membership

*Mumbai:* International airlines lobby IATA on Thursday suspended membership of the grounded Jet Airways of its clearing house system, a move that is likely to impact the refund process to passengers.

The suspension, which comes in the wake of the airline halting operations temporarily, is with immediate effect, the International Air Transport Association (IATA) said in a circular. PTI

## 'PE/VC fund inflows to scale past $65-bn-mark by 2025'

**Investments by private equity players/venture capitalists are expected to cross the $65- billion-mark by 2025, according to the data collated by advisory firm EY**

**$35.8 bn**
The country has received $35.8 billion in PE/VC investments in 2018, 37% higher than the previous high of $26.1 billion in 2017

**$65 bn**
As the economy grows, the PE/VC ecosystem is expected to grow faster. There is a good chance that annual PE/VC investments can exceed $65 billion by 2025

**EXITS DOUBLED:** PE/VC exits almost doubled in value to $26 billion in 2018 compared to the previous high of $13 billion in 2017

**LARGER DEALS:** Deals are becoming larger and more complex. 2018 recorded 78 deals of value greater than $100 million, aggregating $26.2 billion and accounting for 73 per cent of the total value of PE/VC investments

**25.23%**
PE/VC investments have grown at an annual rate of 25.23% during five fiscal up to 2018

**12.8%**
Financial services continued to be the top sector getting $7.9 billion in PE/VC finds across 144 deals

**START-UP:** 2018 recorded a strong uptick in start-up investments on the back of some mega deals and was the best year for the sector, surpassing the previous high of $4.8 billion in 2015

**STRESSED LOANS** in demand: Stressed loans in the banking system are at an all-time high, prompting regulatory and structural changes, providing an opportunity to PE funds to look at distressed debt as part of their credit strategy

**BUY-OUTS:** In 2018, there were 49 buy-outs worth $9.9 billion, surpassing all the previous highs and almost equal to the value of buy-outs in the previous three years combined

## Reliance Industries net profit rises 9.8% to ₹10,362 cr in Q4

### Reliance Jio registers net profit of ₹2,964 crore in 2018-19

ENS ECONOMIC BUREAU
MUMBAI, APRIL 18

AIDED BY a rise in the bottom line of its telecom and digital arm, Reliance Industries, India's largest company in market capitalisation, has reported 9.8 per cent rise in net profit to Rs 10,362 crore for the fourth quarter ended March 2019 as against Rs 9,438 crore in the same period of last year.

Revenue increased by 19.4 per cent to Rs 154,110 crore from Rs 129,120 crore in the same period of last year. However, on a standalone basis, RIL's net profit was down 1.6 per cent at Rs 8,556 crore in the fourth quarter.

RIL's telecom arm Reliance Jio reported a net profit of Rs 2,964 crore for the year 2018-19 as against Rs 723 crore in the previous year, a rise of 310 per cent. Jio's standalone net profit of Rs 840 crore for the quarter ended March as against Rs 510 crore in the year ago period. Jio's revenue from operations were up 7 per cent at Rs 11,106 crore. According to RIL, the increase in revenue was primarily on account of strong growth in retail and digital services businesses which grew by 51.6 per cent and 61.6 per cent, respectively. Higher petrochemical volumes also contributed to growth in revenue.

**"The company has delivered record consolidated net profit of Rs 39,588 crore for the year in a period of heightened volatility in the energy market"**

**MUKESH AMBANI,**
CHAIRMAN & MD, RIL

"During FY 2018-19, we achieved several milestones and made significant strides in building Reliance of the future. Reliance Retail crossed Rs 100,000 crore revenue milestone, Jio now serves over 300 million consumers and our petrochemicals business delivered its highest ever earnings," RIL chairman and MD Mukesh Ambani said.

"... The company has delivered record consolidated net profit of Rs 39,588 crore for the year in a period of heightened volatility in the energy markets. I am delighted to highlight that our company has more than doubled its PBDIT in last five years to Rs 92,656 crore — establishing a global benchmark for value creation," Ambani said.

He said focus on service and customer satisfaction led to higher numbers of subscribers and footfalls across the company's consumer businesses, driving robust revenue growth.

RIL's revenue from the refining and marketing segment decreased by 6.1 per cent year-on-year to Rs 87,844 crore while segment EBIT declined by 25.5 per cent Rs 4,176 crore. The refining segment performance was impacted by lower crude throughput due to planned maintenance. "Also, weak light and middle distillate product cracks impacted gross refining margin. GRM for the March quarter stood at $8.2/bbl, outperforming Singapore complex margins by $5.0/bbl," RIL said.

In the retail segment, revenue for the March quarter grew by 51.6 per cent to Rs 36,663 crore as against Rs 24,183 crore in the corresponding period of the previous year. Profit before depreciation, interest and tax (PBDIT) for Q4 grew by 77.1 per cent to Rs 1,923 crore as against Rs 1,086 crore in the corresponding period of the previous year. In the telecom arm, subscriber base as of March 2019 was 306.7 million while ARPU (average revenue per user) during the quarter was Rs 126.2 per subscriber per month. "Growth in data and voice traffic at this scale has been unparalleled. Jio's network is one of the largest mobile data networks in the world carrying over 3 Exabytes of data every month at unmatched download speeds. Jio 4G LTE network would soon cover every district, taluk, gram panchayat and village of India with targeted population coverage of 99 per cent," Ambani said.

## Amazon to pull the plug on China online retail operations

REUTERS
SAN FRANCISCO/BEIJING/HONG KONG, APRIL 18

AMAZON.COM INC said it will shut its China online store by July 18, as the US e-commerce giant focuses on the lucrative businesses of selling overseas goods and cloud services in the world's most populous nation.

The move underscores how entrenched, home-grown e-commerce rivals have made it difficult for Amazon's marketplace to gain traction in China. Consumer research firm iResearch Global said Alibaba Group Holding's Tmall marketplace and JD.com controlled 82 per cent of the Chinese e-commerce market last year.

An Amazon spokeswoman said on Thursday that it is notifying sellers that it will no longer operate a marketplace, nor provide seller services on Amazon.cn.

"We are working closely with our sellers to ensure a smooth transition and to continue to deliver the best customer experience possible," the spokeswoman said in a statement.

"Sellers interested in continuing to sell on Amazon outside of China are able to do so through Amazon Global Selling."

The Amazon spokeswoman said that the company would continue to invest and grow in China through its Amazon Global Store, Global Selling, Kindle e-readers and online content. Amazon Web Services, the company's cloud computing unit that sells data storage and computing power to enterprises, will also remain.

### Amazon, Google to allow each other's streaming apps

*Washington:* Amazon and Google announced on Thursday that they had agreed to allow each other's streaming media applications to work on their platforms, ending a spat over video between the firms. PTI

AIRCRAFT MAKER CONDUCTS FINAL TEST FLIGHT

## 'Steady progress' on 737 MAX software certification: Boeing CEO

REUTERS
WASHINGTON/CHICAGO, APRIL 18

BOEING CO is making "steady progress" on the path to certifying a software update to the grounded 737 MAX and has made the final test flight before a certification flight, its chief executive said on Wednesday.

Boeing's newest 737 model, the MAX, was grounded worldwide in March following two fatal crashes, one on Lion Air in Indonesia on Oct. 29 and another on Ethiopian Airlines on March 10, which together killed all 346 on board. Battling its biggest crisis in years, the world's largest aircraft manufacturer is under pressure to convince global regulators that the aircraft can be safely recertified to fly again.

"We are making steady progress toward certification," Boeing CEO Dennis Muilenburg said in a video on his Twitter account. Standing in front of a 737 MAX plane at Boeing Field in Seattle, Muilenburg said the company had completed on Tuesday the official engineering flight test with the updated software with technical and engineering leaders on board the airplane. "That was the final test flight prior to the certification flight," he said.

Boeing is reprogramming 737 MAX software to prevent erroneous data from triggering an anti-stall system that came under scrutiny following the two deadly nose-down crashes.

A 737 Max aircraft at the Boeing factory in Renton, Washington. *Reuters File Photo*

Muilenburg said he had seen first-hand the new software in its final form operating in a range of flight conditions, adding that his team was committed to making the 737 MAX "one of the safest airplanes ever to fly." Boeing must deliver the fix to international regulators for their review, which is expected to last about 90 days.

Of some 50 MAX customers and operators, Muilenburg said more than 85 per cent had experienced the new software in simulator sessions and that 120 737 MAX test flights had been held with more than 230 hours of air time with the new software.