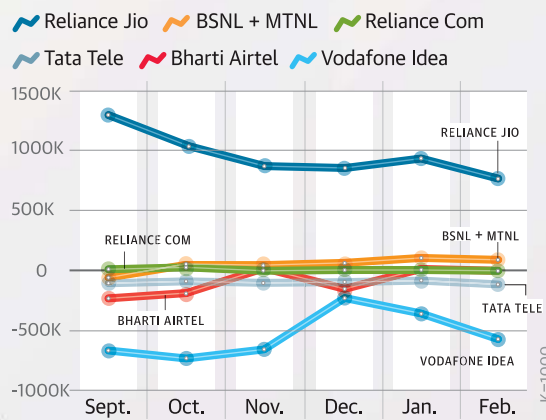


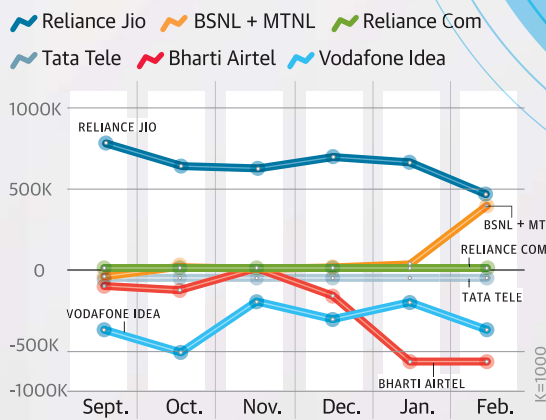
**Where Jio gained**

Here is a look at net addition/loss of subscribers by telecom operators in the last six months. Jio's rate of addition has dropped a bit, while Vodafone Idea has cut the pace at which it has lost customers



**Rural connect**

Both Airtel and Vodafone Idea have lost rural customers in the last six months, with Jio initially gaining from those losses. In Feb., BSNL saw a sudden surge in new subscribers



**Race of the telcos**

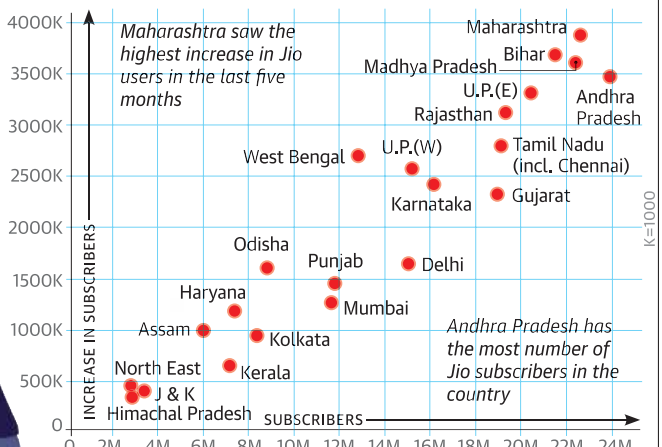
Telecom subscriber trends over the past six months suggest that those customers who left Vodafone Idea may have shifted in large numbers to Reliance Jio. But the same doesn't seem to hold in rural areas, where government operators have held their ground

By Vignesh Radhakrishnan and Sumant Sen



**States at play**

The graph shows the number of total wireless subscribers with Jio as of February 2019 and the increase in its subscriber base over the past five months across States



**Why Jet's fall isn't good news for rivals**

Temporary allocation of troubled airline's slots to competitors may have an impact on their cash flows

JAGRITI CHANDRA

The temporary shutdown of Jet Airways may have enabled other airlines to raise their fares because of the gap in demand and capacity, seize premium slots at the Mumbai and Delhi airports, and operate more flights on the most-profitable routes.

But uncertainty surrounding Jet Airways' fate is no cause for celebration for its competitors, and poses several challenges.

The Ministry of Civil Aviation announced that a slot allocation committee comprising the Airports Authority of India, airport operators and airlines, will re-distribute Jet Airways' 440 slots at two of the busiest airports for a period of three months.

As Jet Airways began to cancel its flights, competitors like SpiceJet, IndiGo, Vistara and GoAir announced as many as 100 new flights from Delhi and Mumbai. But along with allegations of one airline being shown undue preference, there are also questions about whether these temporary slots make strategic sense for airlines.

"Around 60% of traffic has a metro city at one end. But most of these metros like Mumbai, Delhi, Ben-

galuru, Hyderabad and Chennai either don't have any slots available or have exhausted those that generate higher revenue for airlines. So, Jet Airways' slots represent a significant value for airlines acquiring them. But their temporariness means airlines will not be able to sell this beyond three months, impacting their cash flow. Moreover, if Jet Airways is returned these slots, the airlines will have to re-deploy their planes on non-metro routes," says Satyendra Pandey, ex-head of strategy at GoAir. He says that the government has not "thought through" the decision to provisionally re-distribute Jet Airways slots.

**'Govt. making a mess'**

"The government is weaving something that will be messy to get out of. It is either indulging in double-speak or figuring things out as we go, because whoever pumps money into Jet Airways would want to start selling tickets immediately, but will not be able to do so without available slots," he adds.

The re-allocation of the airline's slots was necessitated due to a mismatch in

passenger demand and available flights, caused due to the grounding of the third-largest airline in the country by fleet size. According to ICRA, the gap led to a '30-40%' increase in airfares as compared to September 2018. This forced the government to step in.

By March end, an airline with a fleet size of 123 aircraft was left with merely 35 aircraft. With airfares spiralling out of control, the growth in domestic passenger trips, among the fastest globally, flattened out, recording a mere 0.14% rise. This was a sharp fall from double-digit growth figures over the past five years.

Combined with the grounding of 12 of SpiceJet's Boeing 737 MAX 8 after the Ethiopian Airlines crash, the domestic aviation market saw 135 of the nearly 670 aircraft going kaput, i.e. a 20% fall in seats available for passengers. While a rise in airfares is good news for airlines that are constantly under-cutting themselves in a fiercely-competitive market, in-

dustry watchers say that in the long term, higher airfares can drive passengers away from air travel.

"Increase in airfares due to a sudden fall in capacity is expected to have a short-term positive impact on RASK [revenue per available seat kilometre] by the operating airlines," says Manish Raniga, an independent aviation expert and former vice-president of Jet Airways.

**Air travel unaffordable**

However, it comes at the expense of the customer. Air travel in the current climate has become less attractive and an unaffordable mode of travel for all customer segments, corporate or leisure, he says. In the past, capacity growth by airlines has benefited the customer through connectivity, choice and convenience, he adds.

"The higher levels of pricing is unsustainable and will impact demand until such time that capacity growth meets demand at the right price point," Mr. Raniga says. Civil Aviation Secretary Pradeep Singh Kharola says the shortfall in capacity and a spike in airfares are being

addressed, and airlines have shared an induction plan of 31 planes over a period of three months between March and May. However, it is evident that airlines will not be able to entirely replace Jet Airways in a short period of time.

**Spike in input costs**

Apart from staring at the prospect of losing customers to other modes of transport, airlines could also see a spike in input costs as vendors of Jet Airways readjust their margins to make up for lost revenue. Additionally, various carriers like IndiGo, SpiceJet and Vistara may be forced to tweak their plans to introduce new international routes as they see an opportunity to capture the domestic market.

But what has steered the downfall of Jet Airways and why are most airlines seeing a slump in their profits?

Amrit Pandurang, a former consultant at Deloitte blames the tendency of airlines to snatch passengers away from competitors by wooing them with ultra-low airfares. "The airlines have behaved very poorly in terms of under-cutting airfares. So, when the going was good and crude oil prices were low they were fine, but when costs went up, they began to realise their mistakes. They are literally living on thin margins. Instead of wooing passengers with rock bottom fares, they need to manage their cost structures," Mr. Pandurang says.



**Public sector banks' long-term strategy on Jan Dhan begins to pay off**

Total deposits in the last three years have grown by over 2.5 times to ₹98,400 cr.

TCA SHARAD RAGHAVAN

Public sector banks stand to earn as much as ₹5,000 crore due to the increasing quantum of deposits placed in Jan Dhan accounts, and can vastly monetise this resource once they start implementing advanced analytics and begin lending to these customers, according to industry players and analysts.

Over the last three years, the number of Jan Dhan beneficiaries has risen from 22 crore to 35 crore, as of April 10, 2019. This represents a growth of nearly 60% over the three years. The growth in the number of accounts has been pretty steady over the last three years, with the demonetisation year of 2016-17 seeing the fastest growth of about 27%, which then subsequently slowed to a nevertheless robust 10% in 2017-18 and 12% in 2018-19.

Deposits, however, have seen a much stronger growth rate over this period. The total quantum of deposits in Jan Dhan accounts has grown from a little more than ₹36,000 crore in April 2016 to ₹98,400 crore in April 2019, a growth of more than 2.5 times.

Demonetisation, as expected, resulted in a rapid increase in the quantum of deposits soon after the announcement. Deposits



**Bigger share:** Public sector banks make up an overwhelming 72.5% of the total number of Jan Dhan accounts. •PTI

surged 66% from about ₹44,500 crore in mid-October 2016 to ₹74,000 crore by mid-December 2016.

To put this in perspective, the growth in the same two-month period of the subsequent year was just 4.6%. Deposit levels declined over the next five months to fall to as low as ₹64,500 by June 2017, but have been consistently growing since then.

**Rising balances**

"The story is how average balances are consistently rising," Saurabh Tripathi, senior partner and leader of the Asia Pacific Financial Institutions Practice at the Boston Consulting Group said. "A balance of about ₹1 lakh crore is equal to a revenue of ₹3,000 crore and maybe up to ₹4,000-₹5,000 crore made by the banks

with these accounts. With that amount of revenue, the banking system can start making it a break-even business, and if they start lending on top of it, it can really become viable."

"This is one of those stories where the public sector, because of its ownership, can take a longer term view while the private sector has a shorter horizon," Mr. Tripathi added.

This is a view taken by industry players as well, who say that the business of opening and maintaining Jan Dhan accounts must be viewed in the long-term, and must also be taken in combination with other activities that see the opening of bank accounts for the poorer sections of society.

"We have a very strong microfinance programme

where we are doing lending via self-help groups," Suveer Kumar Gupta, MD and CEO of Shivalik Mercantile Co-operative Bank said.

"Under that programme, we opened the accounts of marginal sections of society, predominantly women. These provide banking services to similar sections of society that are targeted by Jan Dhan."

"It must also be looked at in the long run, not just on a monthly basis," Mr. Gupta added. The data also shows two distinct trends in the Jan Dhan accounts. The first is that the public sector banks make up an overwhelming 72.5% of the total number of Jan Dhan accounts, and 89.5% of total deposits. The bulk of the rest are made up by regional rural banks. Private sector banks make up only 3.3% of the accounts and 3.9% of the deposits.

"For any bank account, the bank has to incur some expenses on opening and maintaining it regardless of whether there is any balance in the account or not," Vishwas Utagi, former Secretary in the All India Bank Employees Association said. "That's why Jan Dhan accounts are compulsory for the government-owned banks, but they have not made it compulsory for the private sector banks."

**Pranab's stimulus overdose**

The then Finance Minister's unwise decision actually hurt economic recovery

During the first four years of UPA-I, from 2004-05 to 2007-08, P. Chidambaram had pared down the fiscal deficit, simultaneously raising the direct tax-GDP ratio. The improvement in government finances led to a rise in the economy's savings and investment rates. The fiscal correction had helped greatly in creating conditions conducive for high growth, seen in the pre-global financial crisis years. After the crisis, a stimulus to stave off a growth collapse could be crafted out of the fiscal space created by Chidambaram.

Manmohan Singh, before repairing for his bypass surgery, had overseen the preparation and announcement of two tranches of the stimulus. Announcing the second, Ahluwalia had made it clear that it was going to be the last such injection of stimulus into the economy that financial year. And yet, barely weeks later, Pranab Mukherjee announced a third tranche of fiscal giveaways on 25 February 2009. This announcement could have been made as part of the Interim Budget he presented on 16 February, but it was not. The Interim Budget had been prepared under Chidambaram's supervision and was approved by the cabinet.

Mukherjee did not obtain cabinet approval for his stimulus package that ended up hurting rather than accelerating the economic recovery. Taken outside the regular schedule of a budget, at a time when the prime minister was indisposed, this was an unusual and clearly an unwise decision. It involved a huge sum of money, and its impact, whether negative or positive, on the economy was certainly going to be tremendous. If he did take on board the views of the prime minister, whether Singh was in a position at all at that point to give advice is difficult to say.

Singh, recuperating still, held his first official engagement post-surgery ten days after Mukherjee announced the third stimulus package. The future course of events would demonstrate that the finance minister rarely heeded the prime minister's advice on matters of economic policy. As Mukherjee writes



in his memoirs, The Coalition Years, 'I and Manmohan Singh held differing views on economic issues.'

**BOOK EXTRACT**

Mukherjee's package came ahead of the Election Commission's pronouncement of the dates for the general elections. The announcement, made on 2 March 2009, activated the model code of conduct, which would have disallowed fiscal giveaways. Mukherjee extended the previously announced excise cuts, which would have expired on 31 March 2009. States were allowed to exceed their fiscal deficit targets.

**Tempted to try**

"The ideal approach would have been to sit back and watch the paint dry on the previous two fiscal stimulus packages announced. But Mukherjee could not resist the temptation to cut excise duties and service tax rates to put money in people's hands – something that the industrial lobbies had been asking for, completely un-mindful of how, in the medium run, the macroeconomic consequences of these sops would hurt business.

Over the next three years, Mukherjee, the dirigiste finance minister, hiked allocations for social-sector spends, ignoring the revenue position, the expanding

fiscal deficit and the economy's capacity for absorbing the fund releases productively. The budget for 2008-09 presented in February 2008, months ahead of Lehman's collapse, had projected a fiscal deficit of 2.5 per cent and a revenue deficit of 1 per cent. A year later, presenting the Interim Budget in February 2009, Mukherjee told a shocked Lok Sabha that the fiscal deficit had ballooned to 6 per cent of GDP and the revenue deficit had widened to 4.4 per cent. The actuals came out later in line with these projections.

The fiscal stimulus overdose, Chidambaram conceded in 2013, overheated the economy and stoked inflation. The effects played out over time. In the next couple of years the country's macroeconomic stability diminished and the government's unpopularity with voters shot up. The decision to administer the stimulus had been an economic one. To keep it going was a purely political one. 2009 was an election year. There may have been pressure on Mukherjee from Sonia Gandhi or the Congress party for pre-election fiscal goodies. Mukherjee, though, takes full ownership of the decisions in his memoir.

(Excerpted from the book *The Lost Decade 2008-18* by Puja Mehra, published by Penguin Random House India)



**Making space:** In 2019, 8,574 rooms are estimated to enter the market, 19% more than that in the last 2 years. •REUTERS

**Hospitality sector set for boom after a decade's lull**

Better times on the horizon as demand outstrips supply

LALATENDU MISHRA

After a decade, the Indian hospitality sector seems to be heading towards a boom.

With demand outstripping supply and room rates showing an increase, the hotel industry is expected to see better times.

"The ongoing general elections could dampen some of the sector's otherwise upbeat performance in 2019. However, the tide is set to change as market sentiment can recover with the aid of a stable government, post the elections, to support the required economic growth," said Mandeep Lamba, president (South Asia), HVS Anarock.

"Banking on this important factor and considering limited new supply in 2020, the hotel industry can record its highest-ever recorded occupancy and is expected to outpace 2006, which was a superlative year for the hotel industry," he said.

In 2019, it is estimated that 8,574 new rooms will enter the market, 19% higher than in the last two years.

Gross Operating Profit margins of hospitality firms are likely to improve 8% and supply is expected to grow 4%, compared to a demand of 7%, HVS Anarock said in its India Hospitality review.

In 2018, the average room rate grew 6.25% and for the first time in many years, the industry-wide ADRs in 2018 grew at a rate faster than the long-term inflation rate of

4.5%, suggesting that the sector is on a steady path of recovery. In the last two years, hotel supply grew by 3.7% and 3.5% respectively, while demand grew by 7% and 6.8% respectively, as per HVS Anarock data.

**Rebranding for future**

Rebranding of hotels is expected to continue, as in 2018. That year, several properties were rebranded after dissatisfied owners migrated to a new operator. "The significant jump in 2018 and 2017 hotel openings over 2016 was partly a result of rebranding, the most notable being the migration of a 14-hotel portfolio with 2,000 rooms by SAMHI Hotels to Holiday Inn Express. Rebranded openings accounted for 24% of the openings in 2018," the report said.

Pascal Gauvin, MD, IMEA, IHG, said, "Holiday Inn Express Gurgaon Sector 50, which has been open for six months, is operating at 21% above the forecast RevPAR."

"With recent openings, we now have 27 operating hotels under the Holiday Inn brand family in India, and a pipeline of 33 hotels due to open in the next 2-3 years."

Ashish Jakhanwala, founder, MD & CEO, SAMHI, added, "We have conducted one of the largest re-branding exercises in the Indian hospitality industry."

According to analysts, the midscale space is seeing traction in the market and new hotels are coming up in this segment. The economy segment is being taken over by new entrants like OYO, Treebo and Fab Hotels, a space vacated by Ginger.

The industry, which recently witnessed two major acquisitions of stressed assets – Leela Venture's 4-hotel acquisition by Brookfield for ₹3,950 crore and Keys Hotels by Lemon Tree and Warburg Pincus for an undisclosed sum – is expected to see further consolidation. Hotels M&A are estimated to touch \$800 million.