

Early EV trends in India

Two- and three-wheelers seem likely to take off first and the ride-share market will probably be more enthusiastic than private owners



TECH-ENABLED

DEVANGSHU DATTA

Various policy measures have been adopted to encourage electric vehicles (EV). EVs have many advantages. They are zero-emission and less noisy, though the electricity may be dirty. Electric power is much cheaper in terms of per km consumption. EV engines have fewer moving parts than internal combustion (IC) engines. So they are easier to maintain and less liable to breakdown. This is

true even for hybrids, given less wear-and-tear for IC engines.

One downside is price. Despite tax cuts, EVs and hybrids are much more expensive than IC vehicles. While this is offset by cheaper running costs, the difference is daunting. Then, there's safety. EV fires are hard to extinguish. Lithium-ion batteries can reignite hours after they appear to have been extinguished, due to internal short-circuits. Fire departments used to dealing with burning IC cars need to retrain for EV accidents.

EV recharges take much longer than filling a petrol tank. Even a fast recharge (up to 50 per cent of the full battery capacity) takes a minimum of 20 minutes. A battery swap is a quicker option but even that is cumbersome. Different vehicles need different fast and slow charge points.

Setting up infrastructure to support EVs is a challenge. There are over 60,000 petrol pumps across India. That gives us an idea what the mass adoption of EVs may mean in terms of

charge station penetration. And, of course, workforce retraining is needed to create the necessary service, maintenance and repair ecosystem.

In March 2019, the Cabinet cleared the ₹10,000 crore FAME-II programme. The FAME I (faster adoption and manufacturing of hybrid and electric vehicles (FAME) was launched on April 1, 2015 with ₹895 crore support and a two-year timeline, which was extended multiple times.

FAME II has a three-year timeline from April 2019. It aims to support 1 million two-wheelers, 500,000 three-wheelers, 55,000 four-wheelers and 7,000 buses. Currently EV sales are growing very fast off a low base. The Society of Manufacturers of Electric Vehicles (SMEV) claims 630,000 EV auto-rickshaws were sold in 2018-19 along with 126,000 two-wheelers and about 3600 passenger cars. That's less than 4 per cent of total two/three-wheeler sales of over 19 million in 2018-19, and less than 1 per cent of 3 million plus car sales.

FAME-II will have ₹1,500 crore outlay in 2019-20; ₹5,000 crore in 2020-21 and ₹3,500 crore in 2021-22. It offers a subsidy of ₹150,000 each to 35,000 electric four-wheelers, and ₹13,000 each to 20,000 strong hybrid four-wheelers. It will subsidise 7,090 e-buses at ₹50 lakh each.

Delhi's draft Electric Vehicle Policy 2018 is also ambitious: It targets an EV base of 25 per cent of all new vehicles registered by 2023 and aims to set up battery-swapping facilities and charge stations every 3 km. Delhi registers about 700,000 new vehicles annually.

Delhi's policy also offers a lot of tax breaks and subsidies in addition to FAME-II. There's a subsidy of up to ₹22,000 for electric two-wheelers, with additional subsidies for battery-swapping EVs. There's a cash-back incentive of ₹15,000 for scrapping BS-2/BS-3 standard two-wheelers. All road tax, registration, MCD parking fees are waived for all EVs and there's a cashback of ₹10 per trip for e-autos or e-cabs. In addition, the state will buy 1,000 electric

buses in 2019-20.

Charge stations are delicensed under FAME-II with a target of a charge station every 3 km in urban areas and every 25 km on the highways. Every charge station needs different fast-charge and slow charge plug-points.

The fast charge systems include a combined charging system and a ChadeMo plug with 50 kw connections with 200-1000 volts of DC power. They also need Type 2 AC fast chargers with a 22 kw connection at 380-480 volts. There also need to be two slow charge points — Bharat AC 001 (10 kw, 230 volts) and Bharat DC 001 (15 kw 72 volts).

EV adoption will depend on many things falling into place. The market will probably respond positively to the policy push. Vehicle prices should fall as volumes rise and the cost of batteries falls. Similarly, the number of charge stations and qualified service personnel will surely grow.

However, this will take time and there will be an enormous reformatting of value chains. By 2030, global IC sales should peak and EV sales will start to take over. If we go by the trends in India, EV two and three-wheelers seem likely to take off first and the ride-share market will probably be more enthusiastic than private owners. But that could change as the ecosystem develops and prices reduce.

CHINESE WHISPERS

Stories of bravery

While many among the Congress party leaders continue to question the "authenticity" of the Balakot air strikes, the Congress government in Rajasthan has included a chapter about the Indian Air Force fighter jets attacking terrorist camps across the Line of Control in a school textbook. The chapter not only speaks of the valour of Wing Commander Abhinandan Varthaman — who was held under captivity for 60 hours in Pakistan after his aircraft was shot down in an aerial dogfight — but also waxes eloquent about Union minister Rajyavardhan Singh Rathore, a Bharatiya Janata Party candidate from Jaipur Rural who won a silver medal for the country at the 2004 Summer Olympics. The two stories are part of the chapter, National Security and Tradition of Bravery, which appear in a new textbook meant for Class 9 students.

103 not out

Hundred and three-year-old Shyam Saran Negi cast his vote yesterday for the 32nd time since 1951 when he had first exercised his franchise. And he cast his vote at the same polling booth at the village Kalpa in Kinnaur, Himachal Pradesh. Negi has voted in all 16 Lok Sabha elections; he has also voted in 13 Assembly and two territorial council elections. The local administration had made arrangements to ferry him from his home to the polling booth in a primary school nearby and accorded him a hero's welcome when he arrived to cast his ballot.

Too early



O P Ravindranath Kumar, the son of Tamil Nadu Deputy Chief Minister and All India Anna Dravida Munnetra Kazhagam (AIADMK) coordinator O Pannerseelvan, found himself in the middle of a controversy when a plaque in a temple was spotted depicting his name as Theni Member of Parliament (MP) though the election results have not been declared yet. When a picture of the plaque became viral on social media, the temple management moved in quickly and covered it with a new one that omitted the "MP" bit. However, the episode triggered allegations of foul play at a time when the Election Commission has already announced repolling to be held in some booths in the Theni constituency. Kumar was swift in denying the allegations and said he was not aware of the plaque till it was pointed out to him on Friday. The culprit was later identified as a former police constable and AIADMK follower who had once shaved off his head praying for the success of former Chief Minister J Jayalalithaa.

The biggest challenge before the new govt

More than liquidity crisis, banks' risk aversion is at the root of the current problem. Despite two policy rate cuts, most banks have raised lending rates



BANKER'S TRUST

TAMAL BANDYOPADHYAY

A senior banker has recently said that traditionally the real sector affects the health of the financial sector but now, in the world's fastest growing major economy, the financial sector woes are set to spill over to the real sector. My aunt agrees with the banker. Running the risk of being dubbed a Cassandra, she says it will be a big mess unless the new government and the Reserve Bank of India (RBI) act on this on a war footing.

Have the government and the banking regulator been in a denial mode? Not exactly. But, they need to act fast. Why? Let's take a quick look at what's happening in the Indian financial sector.

■The industry of non-banking finance companies (NBFCs), which have been growing at a much faster rate than the banks, is in a mess because of asset-liability mismatches. (For many, even the quality of assets is an issue.) The compounded annual growth rate of NBFCs in the past five years has been 17 per cent

versus 9.4 per cent growth of the banking system; the housing finance companies have been growing at 20 per cent. The total credit market of the NBFCs till mid-last year was close to ₹28.5 trillion, almost a third of the banking assets. It has started shrinking.

■Bank credit has been growing at around 12.3 per cent, much higher than around 8.4 per cent in the past two years but this does not reflect the true picture. In the past few years, there were credit substitutes, including loans given by the NBFCs. The relatively higher bank credit growth has not been able to cover that up. A closer look at the components of the bank credit bares all. Credit to large industry is growing at less than 8.2 per cent; micro and small industries 0.7 per cent; and medium industries 2.6 per cent. Where is the money going? The banking sector's personal loan portfolio has been growing at around 18 per cent and housing loan at 19 per cent.

■The ₹23-trillion mutual fund industry is feeling the tremor of debt mutual funds' exposure to various promoters of Indian corporations who have pledged their shares. The value of such shares has gone down, forcing the fund houses and the promoters themselves to sell shares in the market. Many NBFCs too have such an exposure.

■BSE data says the value of shares pledged by the promoters was ₹2.25 trillion in the last week of April. More than 50 per cent of the promoters — 2,932 out of 5,126 BSE-listed companies — have raised money through this route. With many promoters rushing to pare their



ILLUSTRATION BY BINAY SINHA

ownership, capitalism is being redefined in Asia's third largest economy.

■After the Infrastructure Leasing & Financial Services (IL&FS) fiasco, most raters are either scurrying for cover or aggressively downgrading companies. There are seven of them. Do all of them know how to assess risks? Of course, they are competent to read the balance sheets and the profit and loss accounts but they woefully lack market intelligence. This is why they always close the stable door after the horse bolts. Going by media reports, the rating agencies have rated around ₹40,000 crore worth of debentures backed by promoter shares; these instruments have found place on the books of debt mutual funds and NBFCs.

For the record, the raters have put more companies under "rating watch" in recent times (after the IL&FS episode) than they had done at least in the last one decade. In fiscal year 2019, corporate bonds worth ₹10 trillion were put under rating watch, about 10 per cent of the total corporate debt. The comparable figure for 2018 was ₹2 trillion.

■If these are not enough to prompt the authorities for fast corrective action, there is a perceived liquidity crisis. Is the

liquidity crisis grave? Many feel so. They say, it will jam the entire credit system and the \$2 trillion economy will come to a grinding halt. While I agree with the gravity of the situation and the likely fallout, the perception on the liquidity crisis is exaggerated. At the root of the problem is not the lack of liquidity but the risk aversion of banks.

■The daily systemic liquidity deficit, which was ₹1.3 trillion earlier this month, has come down to around ₹30,000 crore. The RBI has been persistently addressing the issues generating around ₹70,000 crore through \$10 billion swaps in two tranches, selling bonds worth ₹25,000 crore in May, and tweaking the so-called liquidity coverage ratio of banks to add liquidity to the system in April. But the banks are not willing to lend as they feel many NBFCs can go down under and they will not get back their money. Most of them have also not cut their loan rates despite two rate cuts by the RBI in the past few months. In fact, they have raised their loan rates.

When my aunt says it's the Lehman moment for India, I don't agree with her but we could head towards that if we don't address the issues first.

What should be done? Parts of

NBFCs, mutual funds and rating agencies have lost credibility. Quite a few banks are not in the best of health. And the banking system has turned its back to credit-starved entities. They are giving money only to individuals for buying houses and personal consumption. Essentially, they are leveraging the India growth story. So far, the debate has been on joblessness and job cuts in the unorganised sectors but once the job cuts spill over to the organised sector, banks will see retail borrowers defaulting. That will be the proverbial last straw on the camel's back.

Before the Lehman moment stares at us, we need to act. For the government and the Indian central bank, it's time to shed the inhibitions and act decisively to avoid a systemic collapse. A few NBFCs may have to be put to sleep (the US did that to Wachovia — its forced merger with Wells Fargo), a few of them with impeccable track record may have to be made banks and kept under RBI glare (a la what the US Fed had done to Morgan Stanley and Goldman Sachs). We also need an Indian version of quantitative easing (QE) and a troubled asset relief programme (TARF).

The RBI can take a close look at the troubled NBFCs and banks, force them to write down assets, arrive at the fair market value, and the government can pump in the money. If the structure is right, the government can reap rich dividends from the TARF once they get back to health.

The columnist, a consulting editor of Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. His latest book, "HDFC Bank 2.0: From Dawn to Digital" will be released in July
Twitter: @TamalBandyay

INSIGHT

Tactical voting in our democracy

Psephologists and social scientists might have lot more attention to pay to "tactical voting" statistics for a better understanding of our democracy



ATANU BISWAS

Leaders like Mayawati and Navjot Singh Sidhu were barred from campaigning for two-three days by the Election Commission (EC) in this Lok Sabha elections for mixing religion with political discourse while electioneering. Supposedly they crossed the *lakshmanrekha* while engineering "tactical voting" to get votes from minority communities. There were several accusations of "vote transfer" too in this election. In fact, "tactical voting" is very common in a multi-party democracy like India. There is data evidence that a significant section of voters do vote differently in Lok Sabha and state Assembly elections. Isn't that also tactical voting?

In his seminal book *An Economic Theory of Democracy* (1957, p. 48), Anthony Downs concluded that rational voters do not vote for their most preferred candidate when they think that candidate is not likely to win — rather a voter "decides what party he believes will benefit him most; then he tries to estimate whether this party has any chance of winning", of course by necessarily predicting "how other cit-

izens will vote by estimating their preferences". Thus, voting for a less preferred but more generally popular candidate is very common in a simple plurality election where the third-party supporters usually vote for one of the major parties. In the popular Gibbard-Satterthwaite theorem in social choice theory dealing with deterministic ordinal electoral systems with a single winner, every voting rule is susceptible to tactical voting — in certain conditions some voter's sincere ballot may not defend their opinion best. It is known as "tactical voting" in the UK, and "strategic voting" in the US elections.

The Conventional wisdom suggests that "tactical voting" should be highest in seats that are closely contested. It is never easy to measure the quantum of tactical votes as it requires knowledge of both individuals' voting choices as well as their unobserved preferences. I didn't see any serious attempt from the social scientists or pollsters to estimate the percentages of tactical votes favouring or opposing any party in important elections. But there are a few estimates in other countries.

Just prior to the 2005 general election in the UK, BBC noted that "there is a strong interest among British voters in tactical voting". In the UK, tactical voting played a significant role in the

2010 election also, mainly for Liberal-Democratic voters supporting Labour. Left-leaning newspapers like the *Daily Mirror*, *The Guardian*, *The Independent* and *New Statesman* advised voters to vote tactically and many proposed voting guides such as identifying constituencies in which voters should consider voting tactically like "Lib Dems Vote Labour Here" and "Labour Vote Lib Dem Here". Two days before the election, Labour leader Ed Balls said that Labour supporters in Conservative-Liberal Democrat marginal seats should strongly consider voting tactically for Liberal Democrat candidates. Then the

UK's 2017 general elections was a "hold your nose" vote; an Electoral Reform Society report claims that 6.5 million people (more than 20 per cent of voters) said they planned to choose a candidate most likely to beat the one they disliked. They voted tactically to prevent a "hard Brexit" or another Conservative government.

Thirty per cent of Canadian voters (over 5 million) are non-partisan, and they consider a host of issues including party platforms, leaders, and electability to vote. Justin Trudeau won in Canada's 2015 election, when in a span of three weeks, 1.4 million voters changed their mind from New Democratic Party to Liberal. In

Slovenia, 30 per cent voters voted tactically in their parliamentary election in 2011. During the 2018 parliamentary election in Hungary, several websites such as *taktikaiszavazas.hu* (meaning "tactical voting") promoted the idea to vote for opposition candidates with the highest probability of winning a given seat, which was adopted by about one-fourth opposition voters.

There is a widespread belief that single transferable vote resists tactical voting. Reducing incentives to tactical voting was the primary argument behind the unsuccessful United Kingdom Alternative Vote referendum in 2011 to change the voting system in the UK from First-Past-The-Post to alternative voting.

What's the approximate percentage of "tactical voting" in India? Nobody knows. However, although it should vary from one part of the country to another, given the complex multi-party system of the country, can it be less than the corresponding estimates obtained from the UK or Slovenia? If not, then it's more than the percentages of vote shares of many major (or every?) political parties in India. And what about a "tactical map" of the country by plotting the estimated tactical vote shares in different constituencies using different colours on a map of India? Psephologists and social scientists might have lot more attention to pay to "tactical voting" statistics for a better understanding of the democracy.

The author is professor of Statistics at the Indian Statistical Institute, Kolkata

LETTERS

Mutual gain

This refers to "Skilling: The way forward" (May 17). Most youths aspire for upward mobility in jobs and hence, existing labour laws, which are too restrictive, require revision with greater flexibility for both employer and employee due to the capitalistic leanings of the economy. Accordingly, there should be greater control over labour inspectors. The substantial cost of labour due to shortage in supply over demand raises costs. It also necessitates apprenticeship in skilled labour to be made a part of the curriculum for continuing education. India, even according to the existing National Apprenticeship Law Act, falls well behind China and Germany but economic expansion demands statutory flexibility and thus can solve this problem for the future.

The distribution and returns from skilled labour today are too lopsided with migration of a section of them overseas bringing in foreign exchange while the same in domestic areas fall short in supply against demand. Unlike in the past, where the employer was the king and unemployment compelled employees to be dictated to, the situation today calls for satisfaction for both sides. The prospective employee today seeks skilled jobs and not any job as in the past. The National Skill Development Corporation (NSDC) has been set up for exactly this purpose. Skilled employees on many occasions feel that their capabilities are being under-utilised and seek greener pastures. This



competitive market compels the employers' desire to absorb a larger percentage of skilled labour which explains why 47 per cent of the trainees provided by the NSDC move into the private sector as against 15-18 per cent in government schemes. Established private companies, both Indian and foreign, absorb skilled labour to both employer and employee satisfaction. The Maharashtra Knowledge Corporation wherein educational degrees are combined with apprenticeship benefiting lower income groups is being considered a model for implementation at National level for imparting and promoting skilled labour.

C Gopinath Nair Kochi

Letters can be mailed, faxed or e-mailed to: The Editor, Business Standard Nehru House, 4 Bahadur Shah Zafar Marg New Delhi 110 002 Fax: (011) 23720201 E-mail: letters@bsmail.in All letters must have a postal address and telephone number

HAMBONE



© Graphic Syndication, England.

Advantage Mr Modi

If NDA manages a majority, it should focus on the economy

In a political scenario as complicated as India's, it is not always safe to rely on exit polls. They have frequent problems with sampling, and with extrapolating from vote shares to seats. The exit polls have not been accurate in two of the last four Indian general elections. Even elsewhere in the world, elections are never over until the last vote is counted — and sometimes dozens of exit polls are wrong, as demonstrated by the surprise victory by the incumbent government in Australia, which overturned every prediction by exit and opinion polls. That said, when almost all the exit polls share a particular trajectory, as has happened in the case of those for the 2019 general elections — which have been released now that voting has ended — the chances are that they are based on an underlying trend. Even a heavy discounting of exit poll accuracy cannot take away from the conclusion that the National Democratic Alliance is likely to return to power with a comfortable majority in the Lok Sabha.

If this is the case, several conclusions could be drawn. The first is that assembly elections — such as those in Rajasthan, Madhya Pradesh and Chhattisgarh — are not good predictors of a Lok Sabha election, in which nationalism became a major campaign factor. In addition, the popularity of Prime Minister Narendra Modi is sufficient to lift his party even in states where its local leaders or governments had become unpopular. Many predicted that there would be a difference in how people voted once Mr Modi himself was “on the ballot”, as it were, and the exit polls seem to bear out that belief. Mr Modi's image as a decisive leader who takes decisions based on the national interest in that case would have outweighed the Congress' focus on pocket-book politics. The Congress' policy prescriptions seemed designed to focus on discontented sections of society — but it continues to be handicapped electorally by the fact that Rahul Gandhi, even if much improved as a campaigner, does not have the stature to be a serious challenge to Mr Modi's popularity. According to the exit polls, the Congress will do marginally better than its stunning defeat in the 2014 elections, but it will remain a distant second to the BJP. The grand old party will have to do some serious introspection about leadership gaps.

If the polls are correct, and the NDA wins a second term easily, Mr Modi, who rose to power in 2014, promising to deliver faster growth and job creation and has been waging a tough re-election battle against the backdrop of an economic slowdown and rural distress, should seize the political capital he will have built up through a victory and translate it into long-delayed economic reforms. It will be necessary to employ some fiscal prudence, now that the general elections are over, and to address both structural and cyclical factors plaguing the Indian economy. The time for boosting the NDA's performance is over — it will be time to acknowledge the scale of the task required to meet Mr Modi's goal of a decent society by 2022. This will require speedy changes to many laws, including those governing labour and employment; it will require ensuring that continuing hassles for manufacturing and exporters are removed, and it will require a focus on education and skilling. The politics is hopefully now done — the action should be all on the economic front.

The Basmati question

Delhi HC does well to allow MP farmers to produce it

By quashing the Centre's orders, which confined the cultivation and seed production of Basmati to seven northern states, the Delhi High Court has essentially upheld Madhya Pradesh's contention that its farmers can continue to produce this premium-quality aromatic rice as they have been doing for decades. The court's verdict is based chiefly on the technicalities that the Centre's directives were in contravention of the Seeds Act and that they encroached upon the domain of the state governments, as agriculture is a state subject. This decree, therefore, cannot be construed to automatically grant the geographical indications (GI) status to Madhya Pradesh's scented rice as demanded by the state's government, the rice industry and Basmati growers. That matter pertains to the Geographical Indications of Goods Act.

Madhya Pradesh, while challenging the agriculture ministry's orders, had contended that Basmati was being grown for decades in 13 districts of the state and these should be included in the areas demarcated for GI-covered Basmati farming. However, the Basmati industry of the north and the apex farm exports promotion body, the Agricultural and Processed Food Products Export Development Agency (Apeda), do not buy this plea. Their main worry is that the inclusion of central India in the notified Basmati belt would dilute the exclusivity of the Basmati-growing region that qualifies it for the GI privilege. They also fear that the increased supply would lower the premium on the prices of this scented rice in the domestic and export markets.

At present, the Basmati tag is reserved solely for the fragrant rice grown in the Indo-Gangetic plains along the Himalayan foothills in the states of Punjab, Haryana, Delhi, Uttarakhand, the Jammu region of Jammu and Kashmir, and western parts of Uttar Pradesh. The typical characteristics that set Basmati apart from the other aromatic rice varieties include long slender seeds that elongate on cooking, instead of swelling; distinct aroma; and soft, fluffy and non-sticky texture of the grains. Besides, real Basmati is photo-sensitive in nature, meaning that its seeds can perform to their potential only under specific agro-ecological conditions found in the north-western Indo-Gangetic zone. Conductive ecological factors are deemed imperative for the development of typical aroma and taste in the Basmati grains.

That said, the truth that is often disregarded by the stakeholders in the Basmati sector is that many of the officially recognised Basmati varieties are not pure-bred or pedigreed Basmati lines but are the “derived Basmati” strains with only one of the parents being genuine Basmati. The bulk of the Basmati exports are also of the derived varieties. However, their legal status as Basmati under the GI convention is indisputable. Since many of the varieties grown in Madhya Pradesh are either the same or similar to those grown in the north, they can safely be acknowledged as Basmati even if, technically, they do not qualify for the GI tag on a geographical location basis. There should, therefore, be no objection to Madhya Pradesh's aromatic rice being traded as Basmati at least in the domestic market to cater to the huge and rapidly growing demand for this delectable rice. The state's Basmati traders would be well-advised also to develop their own brands of aromatic rice for the domestic market. That would be a win-win situation for all stakeholders in the rice sector, including growers, traders and consumers.

ILLUSTRATION: AJAY MOHANTY



Elections and stock prices

Macro-forecasting is the area where more effort is required

We have seen big election-related moves of the stock market in the past. But with the benefit of hindsight, the market's forecast of future profit growth has been poor. This is part of a larger pattern, where the Indian stock market is often good at sizing up one company at a time, but fails to understand the macro forces that are shaping the entire country and influence all firms. Finance players need more macroeconomics and political science expertise. Election results may also be particularly important for “politically connected firms” (PCFs).

In 2004, everyone had expected the NDA to be re-elected, but in fact the UPA won. The CPI(M), which was part of the UPA, was on television promising that there would be no more privatisation of PSUs. On 17 May 2004, Nifty had its biggest ever one-day decline, giving a scare to the managers of exchanges.

But in hindsight, this rapid assessment was wrong. We constructed an index of the net profit of all listed companies (excluding finance and oil companies). This did pretty well in the UPA-1 period. The index of net profit tripled: it went up from 264 to 808 between Q2, 2004 and Q2, 2009.

In 2009, the stock market was delighted when the election results came in: strong profit growth was expected in the future. Look forward into time, and we see that the rapid assessment was wrong. The index of net profit went up from 808 in Q2, 2009 to 954 in Q2, 2014. If you take inflation out, this was a decline in net profit.

From 2013 onwards, the stock market was optimistic that with the expected change in government, strong net profit growth would come back. We do

not yet know the net profit index for Q2, 2019. The latest value for the net profit index, for Q4, 2018, stands at 875. When the Q2, 2019 results are out, it is unlikely that strong net profit growth would be visible over the five year period.

These three experiences suggest that the Indian stock market has fared poorly in absorbing the information from an election outcome and thinking about its impact upon net profit. So we should be cautious about how well the stock market will parse the election outcome of May 2019.

This is part of a larger pattern of weak macro-forecasting by the Indian stock market. When we look back at the big moves of the overall market P/E ratio, we find it fares poorly at anticipating the big moves of net profit. The main story of earnings in India is that there was a strong increase in the period 2002-08. By and large, the P/E of the market rose after — not before — this profit growth came through. The market failed to anticipate what was coming. And later, the P/E ratio was high for a sustained period, thus forecasting that high profit growth would come about in the future, but this anticipated profit growth did not come about.

The Indian stock market fares better when looking at one company at a time. When averages of hundreds of companies are made, a company with a high P/E ratio tends to produce more profit growth, in the future, when compared with a company with low P/E ratio. But it has not fared well at thinking about the macroeconomic and political outlook.

Going from the macro to the micro, how might election results impact upon individual companies? Some linkages between political parties and certain



SNAKES & LADDERS

AJAY SHAH

Fani's climate change fingerprint

A horrific tropical cyclone-making landfall in the midst of election cacophony is not a good idea. It captures headlines briefly and it makes for good politics — who did what and who did not. But the fact is the impact of cyclone Fani, which devastated large parts of the Odisha and then hit West Bengal and Bangladesh, has not gone away. It has left behind a trail of broken homes, powerlines and infrastructure. The state has lost years of its development dividend in one rude and cruel shock.

But what needs to be acknowledged is the undeniable fact that there were far fewer fatalities in this cyclone than before. It tells us of the huge and incredible effort that was made by scientists, who correctly predicted the path and by the Odisha administration, which ensured over a million people were evacuated and taken to shelters for protection. The state had lost 10,000 people in the super cyclone of 1999. This time, even when wind speeds crossed 170 km/hour and reached 204 km/hour, the loss of human life was contained at 41 (which has now reportedly increased to 70). This is no small feat.

However, what we need to understand is what Fani means in an increasingly climate-risked world. Every time there is a similar natural disaster, fingers are pointed and attribution is made to climate change. Every time, there is a pushback, with climate sceptics arguing that there have always been cyclones and such natural disasters. Why blame climate change? Sceptics will point to the fact that there is no absolute count, over time, to show that the number of

tropical storms — cyclones or hurricanes — has increased. There is some change but the time-scale is not long enough to count the difference. The 2018 climate assessment by the World Meteorological Organization (WMO) found that tropical storms in the Northern Hemisphere were up — from 63 in the previous year to 74 in 2018; and were roughly the same, 22, in the Southern Hemisphere. So, if you want, at your risk, you could argue, nothing is new. Storms will come and go. Why blame climate change? The fact is that there is a big difference in these

storms, as the India Meteorological Department (IMD) is finding. These storms are increasingly and crazily unpredictable — in recent years the IMD has nearly perfected the science of cyclone forecast but now it is learning, in real time, to change its methods and to advance its technology to keep pace with this erratic creature of the oceans.

The first shock was with Ockhi, which hit the Kerala coast in late 2017, took many lives and caught fishermen at sea unawares. Ockhi went from a deep depression in the ocean to a cyclonic storm in a matter of six hours. We must realise that the failure to predict and warn was not just human. It was because of the unnatural characteristics — never seen before — of such a tropical storm. It changed direction; it gathered steam when least expected and become more intense and more virulent at speeds never seen before. One reason for this changing “nature” of the storm was, as scientists later found, the intense heat pockets in the ocean, which changed the direction and speed of the cyclone.



DOWN TO EARTH

SUNITA NARAIN

Dissecting Hindu nationalism



BOOK REVIEW

AKSHAYA MUKUL

decades has written on almost every aspect of Hindu nationalism, has teamed up with anthropologist Thomas Blom Hansen and gender and conflict expert Angana P Chatterji to produce a volume that promises to become a benchmark of contemporary history writing.

In the past five decades or so, there has been a shift in history writing, with an increasing focus on contemporary times. There has, however, been a parallel debate on techniques, or lack of it, in the writing of such accounts. Contemporary historians do not have the wisdom that time provides to general historians in assessing the significance of a period, an event or a personality. But contributors to this volume have made full use of the advantages that Cambridge historian David Thomson listed in favour of writers of contemporary history: personal experience, sense of the atmosphere of the time and the possibility of talking to participants.

This interdisciplinary volume successfully demonstrates how the unprecedented electoral verdict of 2014 has played out in

creating a majoritarian narrative, in capturing the institutions and legitimising forces and groups to take over civil society with no regard for law.

In the introduction, the editors have aptly characterised Mr Modi and his five years as a period of “neo-sultanism”, a take-off on Max Weber's notion of “sultanism” in which “power operates primarily on the basis of discretion under the aegis of a strong man”. Having placed the Modi years within a theoretical paradigm, the contributors look at each aspect of his government, how it has assiduously created the majoritarian world, how dissent is being targeted and also how it is being contested “from the streets to the courts”.

Mr Hansen's essay, illustrated through three revealing ethnographic studies from Mumbai and Aurangabad (Maharashtra) where he has spent years, shows the subversion of “force of law” into “law of force” when it comes to Muslims and other marginal groups. Mr Jaffrelot looks at the worldwide trends and traces the roots of

“ethnic democracy” (a product of ethnic nationalism, the ideology of majoritarian group based on racial, linguistic, religious or, more generally speaking, cultural characteristics, that implies a strong sense of belonging and often of superiority) in India and its coming of age in the last five years.

Most of the essays in the volume stand out for the way they synthesise contemporary accounts with a historical perspective and maintain a safe distance from propagandist literature and dogma. Tanika Sarkar's essay on how history is perceived and taught by the Sangh Parivar is the most comprehensive account of right-wing pedagogy and takes it beyond mere rhetoric. She raises the pertinent question of the failure of the mainstream historians — mostly Left-secular — to deal with public histories written by the Rashtriya Swayamsevak Sangh (RSS). Ms Sarkar rightly argues that this has happened because scientific secular history has been written in “isolation from local, organic social-cultural processes”.

Nandini Sundar answers the question many Bharatiya Janata Party (BJP) leaders and their acolytes in media often ask their critics: “If BJP is anti-*adivasi* and anti-Dalit why does it get their support, their vote?” Ms

Sundar explains how voting is not always a reflection of one's ideological preference, and lists BJP's transformation as an electoral machine, the media's failure to call out BJP's doublespeak on an issue like the beef ban — silence in the north-east, lynching Muslims in north India — and the changing aspirations of *adivasis* beyond *jal* (water), *jungle* (forest), *zameen* (land) as possible reasons.

The volume is equally insightful on the economic side of Mr Modi's majoritarian policies, which bear close resemblance to totalitarian regimes worldwide. Pranab Bardhan's deconstruction of Mr Modi's economic policies as “hoaxes”, “PR coups” and a “continuation of UPA policies” is a succinct description of how disproportionate time was spent on superficial issues leaving key economic issues such as employment to languish. Veteran writers on the Indian economy A K Bhattacharya and Paranjoy Guha-Thakurta, while admitting less evidence of crony capitalism so far, detail the opaqueness that governs Modi's economic decisions, demonetisation being just one of them. They remind readers that neither has crony capitalism disappeared nor can the possibility be ruled out of economic scandals of this regime emerging later. Together the two essays provide an

insight into how the majoritarian agenda works in the field of economy, how few benefit and through a narrative of “us” versus “them”, the majority is convinced that those blocking their way to prosperity are the minorities and the marginals, the beneficiaries of the state's appeasement past policies.

Overall, the book is the most coherent and comprehensive analysis of five years of Modi rule. It looks at the long-term trends and threats the majoritarian narrative has created. For future historians this volume offers useful reference material on how to produce a first-rate contemporary account of a regime that had no regard for facts and scholarship.

Relatively little is known about India on these themes. But there are several studies for other countries which are illuminating.

■ A paper (Mobarak and Purbasari, 2006) shows that in Indonesia, firms connected with the Suharto regime preferentially got import licences.

■ A paper on Pakistan (Khwaja and Mian, 2005) found that ex-politicians shape bank loans to PCFs.

■ A paper (Faccio and Parsley, 2009) found that when a politician dies, there is a 1.7 per cent decline in the stock price of companies headquartered in the politician's hometown, and this rapid assessment is the correct one as earnings growth and access to credit is adversely affected in the period after the death.

■ A paper (Claessens *et al*, 2008) finds that Brazilian firms which engaged in election funding got better stock market returns in the 1998 and 2002 elections.

■ In Indonesia (Fisman, 2001), rumours about Suharto's ill health induced negative returns of PCFs.

■ In 1933, when Hitler rose to power, the firms with strong links to the Nazis got strong returns (Ferguson and Voth, 2008).

■ In Malaysia, when the government ran out of money to give subsidies to PCFs, in the 1997 crisis, the PCFs got negative stock market returns (Johnson and Mitton, 2003).

These examples, of fascinating research projects from other less developed countries, help in thinking about stock prices in the coming week.

The Indian stock market is getting firm valuations right, when averaged across a few hundred companies. On average, low P/E firms produce lower profit growth in the future than high P/E firms. In this micro-forecasting, there is a role for thinking more about political connections of PCFs. But the Indian stock market is weak at macro/political thinking, at anticipating aggregate earnings growth of listed companies. In the past, the aggregate P/E ratio has been a poor forecaster of future aggregate earnings growth. In an emerging market, the overall market index is a rather important factor in shaping the returns of individual firms and portfolios, which amplifies the importance of correct thinking about the overall index valuation.

Macro-forecasting is thus the area where more effort is required. The finance fraternity in India needs to strengthen its capabilities in macroeconomics and political science.

The writer is a professor at National Institute of Public Finance and Policy, New Delhi

The writer is at the Centre for Science and Environment sunita@csindia.org Twitter: @sunitanar

The reviewer is author of Gita Press and the Making of Hindu India

MAJORITARIAN STATE How Hindu Nationalism Is Changing India Angana P Chatterji, Thomas Blom Hansen and Christophe Jaffrelot (eds) HarperCollins; ₹899; 537 pages