Don't be a dinosaur!

Failure to change with the times is making some of the best educational institutions of yesteryear lose their sheen

OUT OF THE BLUE

ANJULI BHARGAVA

When we were growing up in the late 70s and early 80s, it was common for many girls to study in what we then called convents. The Convent of Jesus and Mary (CJM), Loreto Convent (LC) and Carmel Convent were three well-known and respected institutions in Delhi. Boys were often sent to St. Columba's, St. Xavier's and Mount St Mary's. Mumbai too had its own counterparts — Cathedral & John Connon, Queen Mary, Campion, branches of CJM and Loreto and Don Bosco to name a few.

But no matter which school you attended, St Stephen's College in Delhi and Xavier's College in Mumbai were quite the place to be. By and large, both institutions were the first choice for any student who finished their board examinations and were headed to college.

But close to 30 years later, I find things have changed rather dramatically. Hardly anyone I know aspires to send their children to any of the schools I mention above. How many of you know children currently studying in St. Columba's or Loreto Convent in Delhi? CJM? Be it Delhi or Mumbai, the old names have been relegated to the backbenches.

In a certain set, the only names one hears of today are Sanskriti, Vasant Valley, The Shri Ram School, The British School and even The American Embassy School. These are considered "the" places to be. Those who fail to make it to what is considered the A list go to Modern School (slipped down from being in the A list back then), DPS and Step by Step, to name a few.

In Mumbai, where fewer new schools have been added, Bombay Scottish, Bombay International and Cathedral still figure quite high in the list. A new aspirational addition has been Dhirubhai Ambani International School but many more wealthy Indian parents send their wards to the American, German and French schools in the city and even overseas to United World College, Singapore.

The college scenario too has changed drastically. Almost anyone who can comfortably afford it heads out of the country after school, mainly to the US to pursue an undergraduate usually funded by parents. This holds true for both science and engineering fields and for the humanities.

But even those who stay back seem less and less enamoured with St Stephen's and St Xavier's. Why has this happened? What has led to the decline of these Christian institutions — be it at the school or college level — that were once considered absolutely the best. I asked a few alumni and some academicians and here's what they had to say.

One, they all argue that these institutions have simply refused to change with the times. For instance, I was horrified to learn that St Stephen's has failed to add any kind of liberal arts programme to its offerings. This at a time when several new private options like Symbiosis and Flame in Pune and Ashoka in Sonepat, offering a credible liberal arts degree, have sprung up. Why wouldn't a St. Stephen's manage to introduce a similar course and do a better job of it than the newbies?

In times as politically charged as today, I learnt to my surprise that St Stephen's doesn't even offer a degree in political science. In fact, the courses on offer were pretty much what they were 30 years ago when we went to college.

A former Xavier's student told me that he recently visited the college to speak at a function and was amazed to find how little had changed. To repeat his words: "Everything seemed at a stand-still and set in stone". While there's something to be said for consistency, it's alarming if an educational institution appears to be unchanged for three decades. Almost all the alumni were of the view that these institutions have failed to invest in their faculty.

The same holds for the schools. The philosophy, content, delivery and ethos in these convent schools has remained stubbornly unchanged. Coupled with this is the fact that many parents no longer see any advantages in keeping the two sexes apart: When the world comprises both men and women, learning to deal with them from the word go makes more sense than them being suddenly thrust in your face.

A more worrying factor has been the decline of these Christian institutions that has set in primarily after they reserved a large percentage of their seats for their own community. This has ensured that many students who fail to make it on merit get admission, resulting in both a drop in the quality of minds that are entering and subsequently leaving the institution and a reduction in diversity.

None of these moves bode well for the institutions. Reserving seats, refusal to let go of traditions and teaching styles that have long outlived their utility and a failure to change with the times are ensuring that these institutions lose their edge. It's a heavy price to pay.

CHINESE WHISPERS

Too much confusion

The announcement of the exit poll results has landed the regional satraps — at least in the south — in a state of disarray. With hardly two days to go before the results of the Lok Sabha election are announced, there is much confusion about a possible meeting of the Congress-allied regional parties with the party high command in Delhi on May 23. While Tamil Nadu Congress chief K S Alagiri said leaders of the regional major Dravida Munnetra Kazhagam (DMK) would participate in the meeting on May 23, DMK President M K Stalin told party colleagues there was no such meeting on the cards that day. Later, Alagiri told journalists since he wasn't participating in the proposed meeting he wouldn't know when it had been scheduled.

Enough clarification

A day after nearly all exit polls predicted a comfortable majority for the Bharatiya Janata Party-led (BJP-led) National Democratic Alliance in the Lok Sabha polls, Union minister and senior BJP leader Nitin Gadkari (*pictured*) launched the poster of *PM Narendra Modi*, a biopic on Prime Minister Narendra Modi, in Nagpur. Gadkari, who contested from the Nagpur Lok Sabha seat, said the exit polls were not the "final decision" but indicated that the BJP would once again come to power. Asked if his name was also being considered for the PM's post, Gadkari said, "I have clarified this around 50 times. We fought the elections under the leadership of Modiji and he will certainly become the prime minister again. The people of the country are once again supporting the BJP, Prime Minister Narendra Modi and the work done by us in the last five years. And the exit polls are an indication," he said. The makers of the biopic, announced earlier this month, said the film would be released countrywide on May 24, a day after the results of the general elections polls are declared.

The most aware state

Madhya Pradesh has emerged as the "most aware state" with the largest increase in the proportion of votes polled in the just concluded Lok Sabha election. The state recorded a 10 percentage point increase in the votes polled compared to the 2014 election. According to the Chief Electoral Officer of the state, V L Kantarao, in 2014, Madhya Pradesh recorded 61 per cent voting but in 2019, it crossed 71 per cent. Andhra Pradesh recorded an 8.78 percentage point increase in voting and is in second position. Polling for the general elections concluded on Sunday. In the last phase Madhya Pradesh recorded more than 75 per cent voting.

ITC's post-Deveshwar challenges

Why Sanjiv Puri will have his work cut out achieving his late mentor's long-term goals

SURAJEET DAS GUPTA

TAKE TWO

In 2011, just after getting another five-year term as chairman of ITC, Yogesh Chandra Deveshwar (excluding cigarettes) elaborated his broad vision for the tobacco-to-Fast Moving Consumer Goods (FMCG) company in a free-wheeling interview with *Business Standard*. One, he wanted ITC to become the country's largest FMCG company (excluding cigarettes) overtaking its key rivals like Hindustan Unilever and Nestle in the next 10 to 15 years. Two, he envisioned that half of the group's profits would come from non-tobacco business within the same time period. Three, he was open to spinning off the FMCG business into a separate company maybe when it has revenues over ₹15,000 crore. A few years later, he added a fourth target: Revenues of ₹1 trillion for the FMCG business by 2030.

These ambitious plans will now be the responsibility of Sanjiv Puri who last week was appointed chairman, a man whom Deveshwar, who died earlier this month, had handpicked for the job. To say that achieving the targets his mentor set will be challenging would be an understatement.

To take the ₹49,000 crore ITC to the top slot in the highly competitive FMCG business will require some aggression. Hindustan Lever's revenues continues to be over three times those of ITC's FMCG (non-cigarette) revenues, and the gap is not really getting smaller. In FY2019, the gap between ITC's non-cigarette FMCG revenues and Hindustan Lever's sales was over ₹25,000 crore, compared with ₹21,000 crore in FY2015.

Indeed, Deveshwar's ambition to garner a larger share of profit from ITC's non-tobacco business still looks a tall ask. In FY19. tobacco accounted for around 80 per cent of ITC's profit before tax (PBT), even though the bulk of the capital outlay was invested in the non-tobacco businesses. FMCG's contribution is a mere 1.7 per cent to PBT. To be fair, Deveshwar had succeeded in garnering sufficient volumes from the FMCG business; it accounts for 25 per cent of company's gross revenues from sales. It also has been in the black for the past six years.

But Deveshwar's revenue target for 2030 for FMCG simply means that this business has to grow over eightfold in the next 11 years to reach that magic number. To offer an idea of the challenge: in FY2019, Deveshwar's last full year as chairman, ITC's non-cigarette FMCG revenues grew only 10 per cent.

Puri is well placed to understand the multiple challenges involved in ITC's transformation, having worked through various divisions from tobacco to consumer goods. Old ITC hands also say he'll likely have an easier time organisationally. Thanks to the management changes, which saw many senior and older executives leave or retire, Deveshwar has ensured that Puri has a free hand in running the show. "That is very different from when Deveshwar was appointed as chairman, which saw the old guard and contenders challenge him and split the board. He has ensured that his successor does not have to face the same challenge," says a former top executive of ITC who worked closely with Deveshwar.

CRUISING ALONG

■ FY 18 ■ FY 19 (figures in ₹ cr)

Segment	FY 18	FY 19
Cigarettes	24,848	22,913
Other-FMCG	11,357	12,535
Hotels	1,494	1,746
Agri business	8,155	9,565
Paperboards, paper & packaging	5,249	5,880
Gross revenue from sale	47,362	49,348

The key segmental revenues, does not include some others. Other FMCG include packaged foods, dairy and beverages, apparel, education and stationery products, personal care, safety matches and agarbattis. Source: Company

But Puri's challenge is no longer just to ensure that the share of non-tobacco revenues grows year on year. He has to go to the next stage to ensure that the share of ITC's profits from the non-tobacco business grows exponentially to meet Deveshwar's target — from FMCG, hotels, paper boards, agri business amongst others.

The cornerstone of that strategy has to be the FMCG business where there is huge potential for volume expansion in new categories, deepening of distribution, as well as increasing the brand portfolio. That is why Puri is pushing the FMCG business into dairy, coffee, frozen and fresh vegetables as well as chocolates. But crowding the shop shelves is one thing; catching the consumer's attention is another. As an analyst pointed out, "In tobacco, ITC dominated the market and there was hardly any credible challenger. Those who came either failed to enter or closed operations (Japan Tobacco, Rothmans and so on) or made no dent due to regulatory and foreign direct investment restrictions and the ban on manufacturing."

FMCG, however, is another ballgame. ITC does not enjoy protection from competition here, and faces not just global giants but even domestic biggies like Patanjali and Dabur. "Each segment of the FMCG market has entrenched players where ITC is just a new challenger — for instance, in juices it faces PepsiCo as well as Dabur," an analyst who has tracked the FMCG space points out.

Still, concentrating on the non-tobacco business is imperative for ITC's long-term survival: Cigarette sales are slowing, margins are being squeezed with the government increasing duties by over 200 per cent and the anti-tobacco lobby is pushing in for more restrictions.

That is yet another area that Puri has to handle: Managing the environment, whether it is with the government, which has relentlessly increased duties or when it periodically reviews FDI policy in tobacco. He also has to engage with tobacco farmers in Andhra and Karnataka always looking for better price or take a stand against anti-tobacco lobbies, such as those that recently went to court challenging Life Insurance Corporation's equity in tobacco companies. It's an area that Deveshwar and his small team handled effectively, with his frequent and long visits in Delhi and continuous engagement with key stakeholders as well as political networking.

Puri also has to manage a somewhat contentious relationship that the top management has historically had with its largest single shareholder, BAT, with 29.5 per cent equity. In Deveshwar's time, the UK tobacco giant had clashed with the Indian management over its plans to up its stake in the company.

This time round, BAT has endorsed Puri's elevation and said it does not want to increase its shareholding. But only last year it defeated a special resolution for the issuance of stock options to ITC employees saying it would dilute their shareholding. And with on-again, off-again news that SUUTI (Specified Undertaking Of The Unit Trust Of India, an administrator for a rump government-owned mutual fund), which holds 7.96 stake in ITC wanting to sell it off, Puri has to keep a close watch on how existing shareholders respond to such a sale. "Puri has to keep BAT at bay even while engaging with them and getting their support for entering non-tobacco areas," an old ITC hand said.

In other words, he'll have to walk the tightrope even as he focuses on turning Deveshwar's grand plan into a reality.

ON THE JOB

Palliatives are no solutions

MAHESH VYAS

Early in his tenure as Prime Minister, Narendra Modi had called the Mahatma Gandhi National Rural Employment Guarantee scheme as a living monument of the failure of the country's effort to tackle poverty. The heavy sarcasm was, of course, directed at the Congress. By the end of his tenure, the Modi government had progressively increased the allocations for MGNREGA and to top it, also announced the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-KSNY) to transfer ₹6,000 per year unilaterally into the accounts of farmers.

This is perhaps, the most eloquent evidence of an admittance of the failure of the Modi government to raise the well-being of rural folk. If MGNREGA was a monument of failure, what is the PM-KSNY on top of a bloated MGNREGA if not band-aid over a festering wound?

NYAY by the Congress raises the bar of support to ₹6,000 per month. And there is a growing argument that the MGNREGA should be extended to urban regions.

One suggestion is that employment may be guaranteed and that it may be guaranteed at living wages, not just minimum wages. This is possibly a better means of achieving the minimum income guarantee that what NYAY seems to suggest.

A mere transfer, that NYAY seems to suggest, would be a bad idea. If the source of household incomes is largely benevolent transfers from government, who will be willing to work? Wouldn't it get a lot more difficult to raise the labour force participation rate if households have fewer reasons to look for jobs? India's labour force participation rate is among the lowest in the world.

Political parties are competing to provide direct transfers to households because they have failed to address the problem of lack of quality jobs. But, competitive unilateral transfers to households is a race to the bottom.

A far more promising and sustainable way of providing quality jobs that may be expected to pay living wages is to spur investments by the private corporate sector.

The Indian private corporate sector has stopped, for all practical purposes, creating new fixed assets. Growth in net fixed assets was at its lowest in 2017-18 and there is no reason to believe that the situation could have improved during 2018-19.

Net fixed assets of the private corporate sector grew by 6.5 per cent in 2017-18 and before that, at 7.2 per cent in 2016-17. These are the two lowest annual growth rates of net fixed assets in the private sector in the past 14 years. Growth in plant and machinery assets was even lower at 7.1 per cent and 5.7 per cent in 2016-17 and 2017-18, respectively.

Let's place these statistics in some perspective. During the first four years of the Modi government, the average annual growth of plant and machinery of the private sector was 9.2 per cent. In UPA II, it was 13 per cent and in UPA I, it was 19.5 per cent.

The impact of the sharp fall in investments on employment by the private corporate sector is direct. The growth in compensation to employees fell from 23 per cent per annum during UPA I to 18.8 per cent per annum in UPA II to 11.4 per cent per annum during the Modi government. The growth in employment in the private corporate sector was worse. This grew at 10.5 per cent per annum during UPA I. It then dropped to 6.5 per cent per annum during UPA II and further to a mere 1.3 per cent per annum during the Modi regime.

The Indian private sector is the best provider of quality jobs. And to ensure that the private sector does continue to provide quality jobs, it may be a good idea to review the impact of increased contractualisation on quality jobs by the corporate sector.

It is likely that contractualisation has not helped much in growing employment in the private corporate sector. But, even if it has helped a little or substantially, it may not be a good idea. Contractual jobs are not good quality jobs like regular corporate jobs. If the private corporate sector does not provide quality jobs then there would be no quality jobs in India. The government is outsourcing jobs and the private sector is contracting out jobs. If this continues, India may be turned into the sweat shop of the world. This is not the future that we may aspire to.

If labour has to be motivated to gain education and skills, then it needs assurance that the end outcome would be quality jobs.

Employment guarantee and income transfer schemes could be a short-term palliative to extreme distress but these are not a solution to the need for quality jobs.

The author is the MD & CEO of CMIE

LETTERS

Introspect, don't accuse

The much-coveted exit polls predict the return of the National Democratic Alliance (NDA). It is understandable that the parties which find the predictions disappointing remain sceptical about the exit poll predictions. Such parties dismiss the predictions and term the predictions as something which "isn't exact poll". They would like to be optimistic till the official announcement of results. Most of the time exit polls have predicted accurately which way the wind was blowing even if it hasn't been on point when it came to predicting the exact number of seats won by the parties. There are a few isolated cases where exit polls have gone wrong. If these predictions come true, Narendra Modi will be the prime minister for a second term and all the parties that lose the electoral battle will indulge in a drama where they grudgingly concede the defeat first and then pretend to introspect about the results of the defeat. After doing all this, they will start accusing the victorious party of hacking the EVMs and of indulging in electoral malpractices with money and muscle power.

According to exit poll trends, N Chandrababu Naidu is on his way out, losing ground to Y S Jagan Mohan Reddy of the Yuvajana Shramika Raithu Congress (YSRC). Naidu deserves defeat. Naidu joined NDA and left it in 2018 when Modi did not consider his plea for special status to his state. Now the Andhra Pradesh chief minister has warmed up with the parties which he had opposed during his stay in NDA. This only makes him an opportunistic politician who is ideologically bankrupt and people alone can teach a lesson to such politicians.

K V Seetharamaihah Hassan

Proceed with caution

Whether it's about television rating points (TRP) or the love for PM Narendra Modi is the matter of debate but the news channels started declaring the exit poll results within seconds of the last votes polled (6.30pm). The six main pollsters showed that for the second time, Modi's National Democratic Alliance (NDA) will rule, winning anywhere between 287 and 336 seats. What's funny is that the final tally each survey predicted was varied but were uniformly well above the 272 seats needed to form a government. As if to provide some relief to the Opposition, two surveys showed the NDA falling short — by between five and 30 seats. Surprisingly, Vice-President M. Venkaiah Naidu has mocked the exit polls, saying "exit polls do not mean exact polls. We have to understand that. Since 1999, most of the exit polls have gone wrong".

I agree with Naidu and want to mention here that exit polls after the 2004 Lok Sabha polls had given 68 more seats to the NDA than it got. But after the results, we had the Congress-led United Progressive Alliance (UPA) ruling India for the next 10 years. It has also been observed that when forecasters made mistakes in a few states but got the bigger picture right, the error in one state was cancelled out by the error in another; if the NDA or the UPA did not rise to the expectations in one state, it excelled in another. Hence there is nothing wrong with Naidu devaluing exit polls.

Bidyut Kumar Chatterjee Faridabad

Checks and balances

It's good that this impatient nation gets a few days to ponder over the ethos, evolution and the economy of the period that we are passing through now. Nationalism cannot be reduced to gross majoritarianism. Likewise, politics does have its genesis in confrontation but the reverse would be the very antithesis of socio-political evolution .The "us versus them" needs to yield to the notion of "we and the problem".

R Narayanan Navi Mumbai

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

IT'S TWELVE YEARS OLD, SIR

NOT SELLING VERY WELL, IS IT?

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Cheer in the markets

But caution is warranted about headwinds

The stock markets responded positively to predictions in the exit polls that the incumbent National Democratic Alliance government would easily win re-election. Over the course of trading on Monday, market indices hit new all-time highs and posted their biggest one-day gains in 10 years. The rupee appreciated by 49 paise, the biggest single-day gain in two months, to close at 69.74 against the US dollar. Some exuberance at the prospect of a stable government is understandable. However, it is relevant to ask whether an over-reaction to opinion polls — or even to the final results on May 23 — is a product purely of sentiment or a rational response to the underlying fundamentals. Naturally, markets will react to any new information, such as was delivered by the exit polls. But the possibility of some volatility following the actual results should not be discounted. The markets have already rallied considerably, so investors will know there is scope for a correction.

The fundamentals deserve some attention. Emerging market shares have suffered as a result of renewed trade tension between the United States and China. Corporate India is still in the midst of its quarterly results season for the March quarter, but in spite of mixed results, analysts have pointed towards a trend of constrained demand. Analysts have reported a major shift in tone for the worse on the short-term demand narrative of companies reporting. Emerging from this situation will not be easy. Another brokerage firm reported that 60 per cent of the firms that it covered had reported lower-than-expected earnings. A demand slowdown in the automobile sector has received particular attention; and IT companies continue to struggle with their margins. It is not easy to identify the next big sources of earnings growth. Given that, and given also that the indices are already close to record levels, a certain degree of caution till the political and policy environment stabilises after the election seems warranted.

The question that will be asked on May 23 and after is: What the next government can and will do to support growth and earnings? If the markets are rising on hope, the new government has to deliver to keep that hope going. Once the noise around election results die down, the new government's policy and reform agenda to stimulate demand, boost consumption, revive capex and revive economic growth will thus be closely watched. The experience after the NDA government's assumption of power in 2014 was that there were no immediate big-bang reforms implemented. It is not likely that the first weeks and months would be any different this time even if the government were re-elected as the exit polls suggest. It will take some time to identify the policy priorities of the government, and even longer for those priorities to translate into action on the ground. Thus, any positive policy shock will take time to show up in the fundamentals. Till then, regardless of political volatility, the underlying trends of the market may well continue to be determined by broader, and global, factors. The trade and tariff war between the US and China, the developments in the Gulf and the prospects of a slowdown in the global economy are really as positive for the markets as the news from the exit polls.

Commission & omissions

EC has not upheld the spirit of the law

Whatever the final results for the 2019 Lok Sabha elections, it is fair to say that the Election Commission (EC) has emerged from the 36-day exercise with a marked diminution of its prestige. Having been prodded to consider complaints against gross transgressions by both ruling party and Opposition candidates in one of the least edifying campaigns on record, it now presents the spectacle of internal discord. One of the election commissioners, Ashok Lavasa, has recused himself from attending the EC meetings to discuss violations of the Model Code of Conduct, saying his minority dissenting view had gone unrecorded. Mr Lavasa has been at the centre of a controversy, having opposed five clearances that the EC gave to Prime Minister Narendra Modi and party president Amit Shah for making obvious references to religion in the course of their campaigns and invoking the Balakot strikes. Under EC rules, majority decisions prevail and the Chief Election Commissioner (CEC) has argued that minority decisions do not get recorded because code violations are not quasi-judicial decisions.

This view may hew to the letter of the EC's mandate but not to its spirit. It is an open question, for instance, whether it should have approved the use of government resources to televise the prime minister's visit to Kedarnath at a time when all campaigning had mandatorily ended; this would not have been an issue had the visit occurred during campaigning. It is also worth wondering why it allowed both Mr Modi and Mamata Banerjee a whole day to campaign in Bengal before it shortened the campaigning period over some reprehensible poll violence the day before.

Given the fierce whataboutery that dominates the public debate in recent years, it is fair to say that previous ECs have not exactly covered themselves in glory either, nor have political establishments in dealing with them. There is the 2009 example of CEC N Gopalaswami recommending the removal of his colleague Navin Chawla for political partisanship (Mr Chawla was considered close to the Congress party). In 2002, Mr Modi, then chief minister of Gujarat, had suggested that then CEC J M Lyngdoh had turned down his request to call early Assembly elections after communal riots in the state because he was Christian. The introduction of the three-member committee in 1989 was the result of the display of some unwarranted independence by then EC R V S Peri Sastri, who is credited with introducing some wide-ranging electoral reforms in his time. This was struck down by the Supreme Court only to be revived in 1993 to rein in T N Seshan, who displayed an inconvenient predilection for independent action that discomfited politicians of all hues. Both Peri Sastri and Mr Seshan set new standards of objectivity for the EC — till then a somewhat pliant institution — that earned it considerable public respect for institutional impartiality. This hard-won reputation has been whittled away since the 2000s. At least part of the weakness lies in the fact that EC appointments are in the hands of the executive that the EC has to govern. In that sense, Mr Lavasa has shown courage in speaking truth to power. It's a pity the EC has chosen to ignore his well-considered view.

ILLUSTRATION: AJAY MOHANTY

A second balance sheet deleveraging

This time round, it is the promoters who are grappling with intense liquidity shock

In India, over the past few years, we have seen an intense balance sheet deleveraging among large corporate houses. The infamous Credit Suisse "House of Debt" reports had chronicled how several large Indian companies had unsustainable capital structures, with no free cash flow, and a desperate need to deleverage. Their debt burden had to come down. This deleveraging has taken place over the past six to seven years, through asset sales, bank write-offs and in certain cases change in control. Both the banking system (with the non-performing assets peaking at near 15 per cent) and the economy have borne the pain of this debt workout. Just when we thought we were coming near the end of this deleveraging cycle, and could look forward to a pickup in private sector investment, we are now faced once again with excess leverage.

AKASH PRAKASH

This excess leverage and balance sheet deleveraging will now be at the promoter level, at their personal balance sheet. This is where there is intense stress today, stress which can damage the credit markets and once again short circuit any potential recovery in private sector investments. All balance sheet deleveraging cycles involve debt pay-downs, which reduce investments and inevitably slow down the economy. If you are scrambling to deliver free cash flow, you will cut investments to the bone.

Post the IL&FS default in September, we have seen intense pressure on all except a handful of Non-banking Financial Companies (NBFCs). They have had their access to long-term funds constrained and costs of funding have risen 100-200 basis points. Many NBFCs have had simply no choice but to sell down assets to meet debt maturities. Most have limited ability to lend as they are unable to raise fresh funding. These same NBFCs were major players in promoter funding and structured credit. With their inability to lend, they are no longer willing to role over maturing promoter funding structures, forcing promoters to scramble to raise the cash needed to pay off their liabilities. This has come as a shock to promoters used to rolling over their liabilities.

A second source of promoter funding has been the debt mutual funds. Through various structures, we have seen funds subscribe to the debt of many promoter holding company entities, collaterised against listed company shares of the promoter. Market scuttlebutt has it that such funding is more ₹1 trillion. This is spooking the markets, as we do not know exactly where this promoter funding is sitting. We also do not know whether it is being marked-to-market accurately. Debt funds have had to take a markdown for their exposure to IL&FS paper, and it seems possible that more such markdowns may happen as more promoter funding structures come to light.

Most investors did not seem to realise the risks being taken by some funds on their behalf. Consequent to this realisation many debt funds are now facing redemption pressures. The regulator also seems to be taking a dim view of this type of lending. It is fair to say that going forward, debt funds will pull back their exposure to such promoter funding structures. There is no question of these structures being rolled over. Once again the promoters are being asked to repay maturing structures, there is no rollover.

The third source of funding for promoters was the structured credit book of private corporate banks. These banks are under intense pressure from investors to curtail such types of risk exposures. It is unlikely that this source of funding will continue to be extended. The biggest player in this space has serious capital and management challenges. It also seems determined to undergo a business model change, and de-risk its lending book.

There is therefore a severe liquidity shock for promoter balance sheets. Most business families are scrambling to cut their promoter funding exposures given the lack of alternative funding sources.

This promoter balance sheet deleveraging has many unintended consequences.

First of all, in certain cases, markets have hammered the stocks of the companies whose shares have been pledged. In many cases, wherever we see large pledged share exposures, the stocks have been hammered so as to trigger a default event, and create forced selling of the shares pledged as security for the loan. Companies which have no underlying operating issues, have seen their shares fall by 50-60 per cent because of these pledges.

Secondly, we have seen attempts by promoter families to sell large blocks of stocks to raise the cash to reduce their personal debt. These block sales will be much more common and may put pressure on stocks.

Thirdly, this scramble to reduce personal leverage has also driven most promoters to attempt to sell assets. In most cases all this leverage was taken to build infrastructure businesses or assets in their personal capacity. Once again, we have a buyer's market for assets, as numerous infrastructure and real estate assets are put up for sale by various promoter families. Given the amount of wealth destruction seen in infrastructure, it is amazing to me that anyone actually expects the private sector to invest again in greenfield assets in this space.

With this new balance sheet deleveraging cycle, just like the one we have just gone through, it will take time to repair balance sheets, and rebuild risk appetite. It will take time for the financial intermediaries to get comfortable. For the majority of Indian promoters, there is no chance they will invest in a hurry.

We are unfortunately back to where we were seven years ago. The government will have to drive and front-load investments in the economy, and the financial intermediaries in the system will take time to regain confidence. One can only hope that this workout gets completed faster. We cannot afford another seven years of single digit earnings growth. The private sector has to rebound faster than the first balance sheet deleveraging cycle.

The writer is with Amansa Capital

Save wind energy from the doldrums

Public interest in renewable energy in India has picked up only in recent years. But the silhouettes of windmills on the horizon are no novelty to the country, having been around for more than two decades. With an installed capacity of 35.6 gigawatts (GW) and a total potential for over 300 GW at conservative estimates, onshore wind in India can accelerate the country's clean energy ambitions.

However, wind speeds have been slowing in the sector, causing much angst for developers and manufacturers. New capacity addition was less than 2 GW for the last two years. Despite a project pipeline of over 10 GW, the trend in low annual capacity addition is expected to continue this year. Wind turbine manufacturers are operating at unsustainable capacity utilisation rates of less than 20 per cent. According to the Council on Energy, Environment and Water (CEEW), workforce needs in wind project implementation dropped to 1,140 in 2018, 73 per cent lower than in 2016. How can we save our homegrown wind industry before it is too late?

INFLEXION POINTS

ARUNABHA GHOSH & SELNA SAJI

The first signs of trouble appeared soon after the sector shifted to reverse auctions, from the 15-year-old feed-in-tariff (FiT) regime. With an aggressive bid within the first year, the sector achieved the lowest tariff discovered for renewable power in the country, ₹2.43/kWh (in December 2017). After the auction, developers started scrambling to procure land and secure connectivity to evacuation infrastructure. Wind power relies on geographically concentrated resources where getting contiguous land can be arduous. More than 60 per cent of the capacity auctioned in 2017 has not yet been commissioned and is behind schedule owing to land and connectivity issues.

While these challenges seem common to both wind and solar photovoltaic, there are two reasons why the wind sector needs some urgent attention. One, even though there are seven wind-rich states, only two of them have sites with mean wind speeds high enough to provide the expected low tariffs (<₹2.85/kWh), causing stress on existing land and evacuation facilities. Two, unlike solar PV, the wind sector has a globally competitive domestic supply chain in India. Low annual capacity additions are gravely impacting small domestic turbine and parts manufacturers, while bigger (mostly international) players can survive the turbulence.

How do we solve these issues? Policymakers must choose between two approaches: To distribute the capacity or distribute the energy generated.

Distributing capacity means tapping into wind resources available in medium-to-low wind power density (WPD) regions. While Tamil Nadu and Gujarat have the highest wind speeds and account for 39 per cent of the total wind potential in India, (according to the National Institute of Wind Energy), there is an aggregate potential of 184 GW in other medium-to-low WPD regions. Commissioning wind farms in these states could reduce stress on land and evacuation facilities, potentially reduce the investment required for inter-state transmission infrastructure, and reduce the overall cost of integrating wind power into the grid.

However, lower wind speeds would mean higher levelised cost of electricity. CEEW analysis indicates a 6 to 36 per cent increase from current ceiling tariffs but comparable with the national average power purchase cost for conventional generation. In order to optimise energy production from low-WPD sites, there is need for policy support to give incentives to develop advanced turbine technologies, which could tap low wind speeds.

For the second approach — distributing the energy generated — to work, effective mechanisms are necessary to transfer power from point of generation to the nearest transmission network and to the periphery of offtakers' networks. The Renewable Purchase Obligation (RPO) mechanism is meant to facilitate the inter-state transfer of power. But compliance of distribution companies with RPOs is staggeringly low. Stricter compliance would go a long way to facilitate inter-state power exchange. Strengthening existing market mechanisms, such as power trading and open access, with regulatory and technological means would be another option. Agile power procurement planning by distribution companies, effective open access regulation across states, and developing advanced electricity market are among the measures that could move the needle.

Additionally, inter-state and intra-state transmission networks need rapid expansion to keep pace with renewable energy deployment to pre-empt a real technical constraint in power transmission across the country. Large injections of variable renewable energy within a regional network would also need additional investments in grid balancing technologies.

Regardless of the approach chosen, India has to rethink the way reverse auctions are conducted. In their current form, reverse auctions will not encourage exploration of low-WPD sites. Nor would they ensure smooth commissioning of plants in high-WPD areas. Site-specific auctions with a ceiling tariff estimated for the chosen geography could support optimum wind farm designs — and more realistic tariffs. The procedure for Long-Term Open Access of the transmission network and substation connectivity also needs to be streamlined with the auction process. This would ensure that the timelines for plant commissioning and network expansion are in sync. This reformed approach would facilitate more capacity being commissioned annually, giving the industry a more stable growth path.

India may or may not meet the wind energy target of 60 GW by 2022. But obsession with targets and lowest tariffs, alone, is a bit like tilting at the windmills. Saving wind energy from the doldrums would need accurate assessment of the costs (of generation and transmission), streamlining the auction process (to give incentives for innovation), and far better enforcement of regulations.

Ghosh is CEO and Saji is Research Analyst, Council on Energy, Environment and Water (http://ceew.in). Follow @GhoshArunabha @CEEWIndia

Paean to big business

BOOK REVIEW

MATHEW BISHOP

Anti-business feelings in America now run so strong that even some leading bankers and hedge-fund bosses want capitalism reformed. Socialism (of some kind) is espoused by a growing number of Democratic politicians. A Harvard University study found 51 per cent of 18- to 29-year-old Americans do not support capitalism. The business bashing is not solely from the political left; Donald Trump has tweet-attacked plenty of companies for offending his populist instincts. Voices demanding higher taxes and tougher regulations grow louder. Echoing the vigorous trust busting of the Progressive era, there are calls to break up Facebook and Google, the increasingly dominant tech platforms, while the titans of Silicon Valley are rebranded as 21st-century robber barons.

Amid so much criticism, who would dare dispute that there is something rotten about the state of corporate America today? Enter Tyler Cowen, an economics professor who has written a determinedly positive book about business. Mr Cowen did not become one of the world's most-read bloggers on economics without understanding the value of a well-timed contrarian blast. He showed this to great effect in 2011 in a best-selling e-book, *The Great Stagnation*, arguing that the rate of increase in median income had slowed since the early 1970s as a direct consequence of a falling rate of innovation in the American economy, which was thus likely to continue to struggle to grow for the foreseeable future. Now he is back "to speak up for business, to persuade you that it deserves more of your love and less hate."

If you are hoping for a billet-doux to set your heart aflutter, remember that the author is a practitioner of the dismal science; the romance in his love letter is less *Harry Met Sally* than Demand Meets Supply. Still, there is no shortage of passion from Mr Cowen. His beloved is the source of "most of the stuff we enjoy and consume" and gives "most of us jobs." Mr Cowen also argues, persuasively, that America tops the world in the quality of its corporate management — if Chinese firms were managed equally well, they would be up to 50 per cent more productive. American business is also the leading innovator globally in many areas.

Some of his defence of business is less certain than his positive headline message suggests. He devotes a chapter to refuting accusations that Big Tech companies are evil, only to confess to worrying about the threat they pose to personal privacy, which he fears will get dramatically worse as facial recognition and voice-recording technologies become ever more ubiquitous. He argues that business should be trusted more, despite so many high-profile scandals, because it is less prone to lying and cheating than governments or nonprofits. This could be read not as a ringing endorsement but as damning with faint praise.

For Mr Cowen, the real reason business is so unpopular is that we humans tend to anthropomorphise companies, turning corporations "into people in our minds, and also in our hearts" (and even writing love letters to them). Companies play along in this charade, because it pays them to do so, branding themselves with human characteristics like being friendly and listening to our concerns. Inevitably, we feel let down when they turn out instead to be "abstract, sharklike legal entities devoted to commercial profit."

Mr Cowen's explanation is not particularly convincing. Nor is his two-part advice for clearing the current atmosphere of distrust. First, the public should accept that business will always fall short of our unreasonably high expectations, and get over it. Second, rather unexpectedly from a member of the famously libertarian economics faculty at George Mason University, he wants business to try harder at being socially responsible.

In 1970, *The New York Times Magazine* published an extraordinarily controversial article by Milton Friedman, titled "The Social Responsibility of Business Is to Increase Its Profits." At the time, this shocked even much of corporate America, never mind the regular *New York Times* reader. The article was intended to defend business against heavy-handed government regulation, including of prices and wages, that threatened to squeeze dynamism and innovation out of corporate America. Yet over the years, as deregulation spread across America and then the world, Friedman's words were, I believe, twisted into a simplistic justification for doing anything that increased profits regardless of the consequences for society and the planet.

Mr Cowen rejects Friedman's definition, arguing instead that the "social responsibility of business is to come up with the magic of a vision that will help us trust it more, whether as consumers or workers." For Mr Cowen, business at its best is a "fundamentally ethical enterprise" and (preserving his libertarian credentials by citing Ayn Rand in support of it) "can be a vehicle for the achievement of heroic goals."

This would have been a far better book had Mr Cowen focused more on how to overcome the negative consequences of the spread of the Friedman Doctrine, which I believe has helped socially irresponsible, greedy, unheroic business leaders flourish at the expense of the heroic kind.

Happily, a new generation of more socially responsible business leaders is emerging, like Marc Benioff of Salesforce, the Chobani founder Hamdi Ulukaya and Indra Nooyi (until recently at the helm of PepsiCo). If only Mr Cowen had shown less unconditional love for corporate America and instead concentrated on what needs to be done to ensure that being ethical and heroic becomes business as usual. That "love letter" would have left most readers hopeful that there might yet be a Happily Ever After.

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BIG BUSINESS: A Love Letter to an American Anti-Hero
Tyler Cowen
St. Martin's Press; 272 pages, $28.99