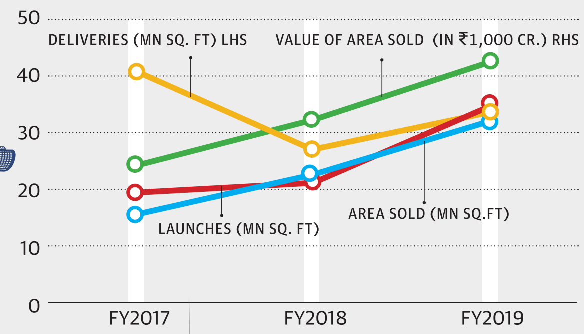
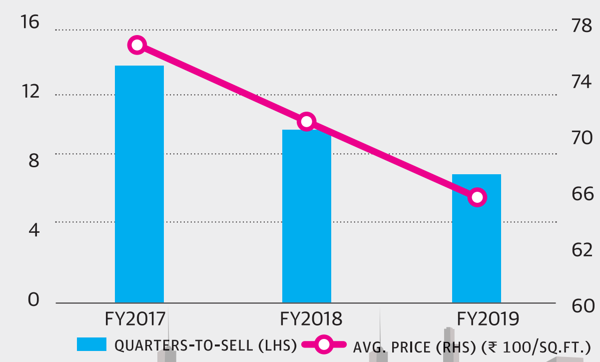
CHARTING THE BOUNCEBACK

Major real estate companies registered a 33% jump in area sold and a 62% rise in project launches in FY2019 compared to the previous year. Most of these companies are big daddies who dominated the market by attracting customers with cheaper rates and timely deliveries



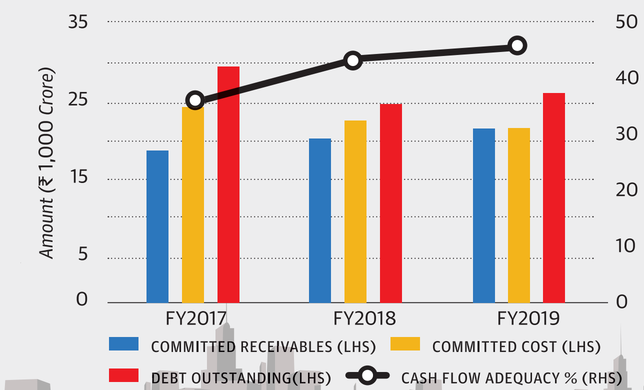
FLYING OFF THE SHELVES

Housing units have sold faster this year due to cheaper rates. The average sale price of big players was ₹6,633/sq. ft in FY19 as compared to ₹7,158 in FY18. The quarters-to-sell (number of quarters required to sell the inventory) has declined over the years



BETTER LIQUIDITY

Cash flow adequacy of the larger players has increased over the past two years. This is the ratio of committed receivables generated from sales, to sum of committed costs for the project and outstanding debt, which is an accurate indicator of overall liquidity



GST's performance versus promise

Buoyancy ratio aside, the revenue picture is creditable given the transitional glitches

V.S. KRISHNAN


The design of GST integrates the entire value chain from raw material to retail for the purpose of indirect taxation. ▪REUTERS

As the Budget draws nearer, the GST revenue picture has assumed great importance. The fiscal projections and the ability to fund welfare schemes hinge on this. Therefore, we have to ask a fundamental question on how GST revenue has done? Has performance lived up to its promise? From the evidence available, the answer would be a qualified 'Yes'.

The widespread perception that the GST revenue growth has not done well is unfair as the GST revenue performance should not be measured against the ambitious targets set, but against the growth of the nominal GDP.

First-year, first show

An assessment was made by Kapil Patidar and Arvind Subramanian in June 2018.

This showed that in the first year of implementation of GST, revenues grew by 11.9% and the buoyancy was 1.2. A buoyancy ratio over 1 shows progressiveness in the revenue growth and opens up the prospect of a rising tax-to-GDP ratio. This is a significant improvement over the pre-GST period when the buoyancy ratios for State value added tax (VAT) and Central indirect taxes like central excise and service tax were less than 1. The revenue performance is especially creditable given the transitional difficulties during implementation and teething technical problems with the GST network (GSTN).

Some other analyses show that the tax-to-final consumption expenditure also grew from 10.3% in the year before GST (2015-16) to 11.9% (including adjustments for transitional credits) in 2017-18. However, the State-wise picture shows that some States did better than the others. The States that had a high percentage of origin-based taxes in subsumed revenues – Bihar, Chhattisgarh, Himachal Pradesh, Punjab and Odisha – were found to lag behind in subsequent revenue performance. The relative buoyancy of GST revenue compared to the pre-GST period is not surprising. This is a result of two factors.

One, the design of GST integrated the entire value chain from raw material to retail for the purpose of indirect taxation. This design reduced non-compliance in downstream trading, as these entities chose to register to avail of the input tax credit generated upstream.

The GST revenue growth will reach a steady normal rate only when the effect of the transitional credits are extinguished. Here, the trends are promising. This is also indicated by the fact that monthly CGST revenues are slowly inching towards monthly SGST revenues – the utilisation of the transitional credits has a greater impact on the CGST rather than the SGST. It is for this reason that GST revenue buoyancy is likely to do much better in the coming year.

This, however, requires some policy measures going forward. First, the revenue performance of the composition dealer has been disappointing.

Therefore, the imposition of duty on the composition dealers levied on the Reverse Charge Mechanism (RCM) basis could be an important anti-evasion measure going forward. Second, the introduction of the new GST annual return form and matching of invoices will substantially improve compliance.

Third, the GST taxable base must be expanded to include petroleum products (especially aviation turbine fuel and natural gas in the first round), then bring in real estate and electricity. A further surge in GST revenue will happen once land and real estate is brought under the GST net. This will clean up the land market and the revenue gains will be more on the direct tax side as more transactions are reported under GST. Fourth, greater coordination between investigation agencies in the CBDT and CBIC could yield better results.

The I-T department has already incorporated GST registration and turnover information in their return formats. Finally, the policy to improve revenue buoyancy has to be data driven.

Unfortunately, today, detailed sector-wise analysis of revenue is hampered by lack of separate data on the sectoral profile of the new registrants and of separate revenue trends for goods and services. There is a perception in many States that revenue from services has lagged expectations. This can be rectified by a small modification in the format of the GST annual return. This modification would require companies to indicate the HSN (Harmonised System of Nomenclature) code in eight digits in respect of goods supplied by them and accounting codes of each of the services provided.

Duty payment in cash should be indicated code wise for each of the goods and services. In conclusion, one could use the metaphor of the mythological churning of the ocean by the Devas to generate nectar resulting in the poison surfacing first.

The implementation of GST similarly has seen transitional difficulties coming to the forefront in the initial period. Hopefully, in future, we will see the GST yield more of the promised nectar.

(The writer is national leader, Tax and Economic Policy Group, EY India. Views are personal)

Interface between taxpayer, tax collector must reduce

Huge effort needed to clear up cases locked in litigation

R. ANAND

In the backdrop of the election fever, the Indian economy apparently took some beating with sluggish growth rates and disconcerting unemployment numbers.

To add to this confusion, economists and statisticians jumped in the fray, questioning the credibility of these numbers. It is now emerging that some sectors of the economy – notably real estate, infrastructure, auto, banking and NBFCs – need targeted attention to put them back on track.

It is said that there are three ways of doing a job – your way, my way and the correct way. Finance Ministers over the last 71 years have struggled to present a Budget that would satisfy all segments of the population.

Whether it is V.P. Singh's Revolutionary Budget of 1986, Dr. Manmohan Singh's Liberalisation Budget of 1991 or P. Chidambaram's Dream Budget of 1997 – all were well-received, but still left a few dissatisfied.

That has been the inherent fate of Central Budget making in India. There are too many stakeholders and most of the suggestions and representations are by and large self-centric.

Of late, the trend is slowing reversing. It is now nation first, stakeholders second and owners third. Another redeeming feature is that the mystery of secrecy in budget-making is no longer pronounced. This is because most policy decisions are now taken outside the budget-making process.

Tax revenues have shown considerable increase over time, notwithstanding the fact that FY19 revenues have fallen short of target. 42% of taxes collected devolve to the States where the end-use monitoring has to be tightened. More often than not, most development initiatives are State-driven as against Centre-driven. While raising resources is an important ingredient of Budget making, the shift is now clearly towards effective end-use of resources.

The national Budget may help raise resources, but the shift is now clearly towards effective end-use of resources. ▪REUTERS

This is where an agile and effective Citizen Monitoring Group at various locations in States needs to be created to ensure accountability of resource utilisation. Tax rates have reached resting point at 35.88% for resident individuals and 34.94% for resident corporates. There is a need to reduce tax rates by 5% to stimulate growth and consumption.

Glitches need attention

The first stage of filing returns and refunds using technology is working satisfactorily. There are some glitches on the ground that need to be sorted out and with focussed attention, can be resolved.

The next stage is to graduate from returns filing to handling assessments online. Reducing the interface between the taxpayer and the tax gatherer is a dream that has to fructify sooner or later.

While stability in tax rates is welcome, certainty in implementation is more important. The success rate of the tax department at the Income Tax Appellate Tribunal (ITAT) to Supreme Court level hovers at a mere 13-27% in direct tax matters and at 11-12% in indirect tax matters. In fact, 88% of the litigation at ITAT and the SC is initiated by the department.

A massive clean-up is required to settle existing cases locked up in litigation and collecting arrears. International taxation is still saddled with a host of interpretation issues and unnecessary litigation. The advance ruling mechanisms have helped partially, but have still not solved the problem of uncertainty. Similarly, high value domestic transactions/restructuring exercises need clarity and certainty in tax treatment.

A dedicated cell for advance-cum-settlement rulings in major cities catering to such complex cases with a time-bound framework will help in concluding such transactions without further litigation. The crying need of a businessman now is to know the exact tax cost of any transaction before embarking on the same.

Taxes are the price we pay for civilisation. Over the last two decades, the developments in infrastructure have provided the confidence to taxpayers that the money contributed to the exchequer is put to productive use.

(The writer is a chartered accountant)

INTERVIEW | ANIL YENDLURI

'We are a new generation port, old rules do not hold for us'

We have changed the model from port-centric to port-user centric. Everything we designed was customer- and cargo-specific, says the Krishnapatnam Port CEO

LALATENDU MISHRA

Private sector Krishnapatnam Port in Andhra Pradesh, possibly the fastest growing port of India, has created a niche for itself due to its customer centric approach and meticulous planning to ensure faster evacuation of cargo. Having achieved annual cargo handling volume of 54.5 million tonnes in 10 years of its existence, the port has started harbouring the ambition to become the 'JNPT of the east coast and India's transshipment hub, said **Anil Yendluri**, *director and chief executive officer, Krishnapatnam Port Company Ltd. (KPCL). Excerpts from an interview:*

What differentiates your port from the rest on the east coast?

▪ We are a new generation port where all the old rules do not hold us. So, when we were building the port, we had kept the customer at the centre.

Whatever infrastructure we had planned and developed, and the systems we designed, everything was customer-specific and cargo-specific.

As a result, customers get what they want, and cargo gets the required infrastructure.

That is how we have changed the entire model from port-centric infrastructure to port-user centric infrastructure.

On the east coast, there are over half-a-dozen ports; how are you beating the competition?

▪ India is a big country growing at 7% in GDP. It needs to import and export a lot. Earlier, ports, mostly government-owned, were going slow to meet the needs of the country. We understood that there was so much potential.

When we started everybody thought we will take some cargo from Chennai, but Chennai cargo has remained the same at 50 or 55 million tonnes. We have created another 55 million tonnes. That means, we have not taken away someone's business. Cargo gets generated when a new port comes up.

There is enough potential in the country which has not been harnessed.

So, having understood that this area needs another port with state-of-the-art technology, infrastructure facilities and new orientation towards importers and exporters, we started working on that and started creating infrastructure.

If you remember, in the past, vessels used to wait for 10 days causing a lot of loss to the country. Here, at our port, berths will be waiting for the vessels. Productivity, cost reduction, ease of doing business and customer service are our prime concern.

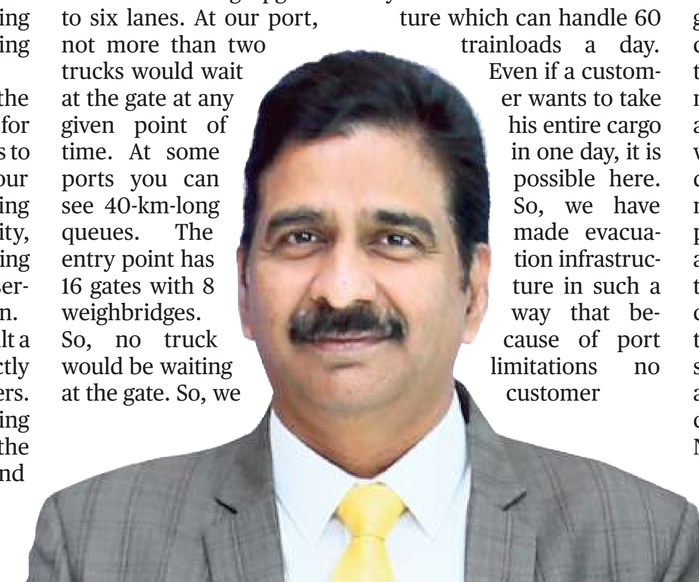
That is how we have built a new-age port which exactly suits the needs of customers. That is why we are growing and we have unleashed the potential of this region and of the country.

Evacuation of cargo is a major problem for most of the Indian ports, what you have done to deal with that?

▪ When we understood that coal import requires particular space and infrastructure, we built a dedicated four-lane road, as we understood the problems faced by other ports. We are providing evacuation directly from the berth to the highway. Now, that road is being upgraded to six lanes. At our port, not more than two trucks would wait at the gate at any given point of time. At some ports you can see 40-km-long queues. The entry point has 16 gates with 8 weighbridges. So, no truck would be waiting at the gate. So, we have built fantastic road infrastructure. Within the port we have 60 km of road infrastructure with separate parking lots. You will not see queues anywhere.

Same is the case with rail infrastructure.

Most of the Indian ports have one-line rail connectivity. From day one, we have had two-lane rail connectivity. We have built infrastructure which can handle 60 trainloads a day. Even if a customer wants to take his entire cargo in one day, it is possible here. So, we have made evacuation infrastructure in such a way that because of port limitations no customer would suffer. We have planned infrastructure in such a manner that in the next 50 years you will not find any congestion in this area. We are planning for 40-50 years down the lane.



You said your ambition is to be the JNPT of the east coast. How will you achieve this?

▪ If you look at container growth, ports on the east coast are growing faster than those in western India. It is not because eastern ports are more efficient. Trade with eastern nations for India is improving and automatically eastern ports are playing a major role. Looking at the eastern ports, most of the existing ports are city-centric, they have limitations to grow, but we don't have such issues. We are currently at 54.5 million tonnes, we can go to 300 million tonnes. No port in India so far has dreamt of that, but we can scale up to that level with efficient infrastructure inside the port.

Port-led development can unlock a lot of value and bring down the logistics costs. What have you done on this front?

▪ Ports, unlike other industries, is not a standalone industry. The port is an ecosystem where a lot of entities converge and work together and grow. Today, we closely work with power producers to meet their coal demand, we have worked with a lot of edible oil importers and today we have the second-largest edible oil importing hub in India with refineries at the port. We are looking at pharma importers and trying to create a pharma cluster here.

We are also looking at other industries which are planning to develop facilities near the port. A lot of people are moving to Krishnapatnam because we are power-surplus, there is adequate water and skilled manpower.

A lot of land is available and we have good law and order situation and support from the State government to encourage trade. We have everything to attract investors from any part of the world and the country to set up a manufacturing base here.

As the port operator, we are supporting them in this ecosystem where they can stay with us and flourish. Apart from industrial infrastructure we are also providing social infrastructure, which is important for all stakeholders and their families.

What is your expectation from the Union Budget?

▪ The government must work closely with shipping lines, mainly container shipping companies, so that they make direct calls to Indian ports rather than doing transshipment in other countries. The port operators and government should work closely to attract them. On the east coast, we are doing the largest transshipment and want to become a new emerging mainland transshipment port for India on the lines of Colombo and Singapore.

(The writer visited Krishnapatnam Port at the invitation of the company)