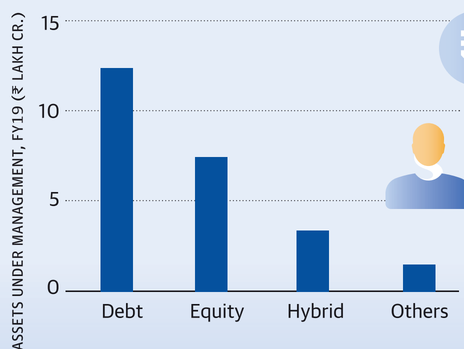
Diversified gain

Assets under management (AUM) for the Indian mutual fund industry rose from ₹23.79 lakh crore in March 2019 to ₹24.78 lakh crore in April. While the growth rate from March is over 4%, it is half of the growth recorded in the corresponding period in the previous year

Note: Data as on April 30, 2019

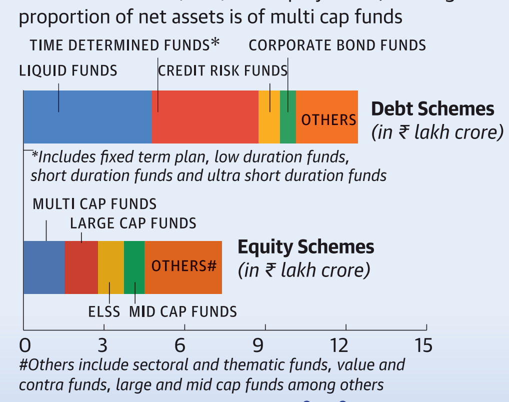
PREFERENCE FOR DEBT

Debt schemes accounted for over half of the total share of the AUMs. Equity schemes were a distant second with a contribution of 29.8%, followed by hybrid schemes at 13.6%



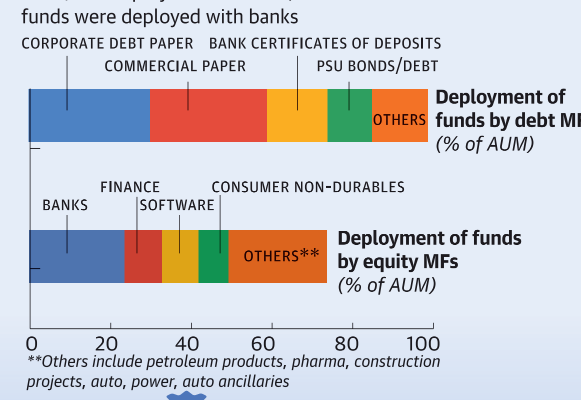
SCHEME SPLIT

With a share of 38%, liquid funds have the largest share of the total net assets of debt funds, followed by time determined funds (32%). For equity funds, the largest proportion of net assets is of multi cap funds



INSTRUMENT AND SECTOR-WISE DEPLOYMENT

Corporate debt papers had the highest share of deployment of funds in debt mutual funds (₹4.2 lakh crore). For equity mutual funds, almost a fourth of the funds were deployed with banks



Source: CARE Ratings, SEBI

INTERVIEW | SHYAM SRINIVASAN

'RBI rate cut impacts only a percentage of bank's cost of funds'

Federal Bank CEO says he believes a 25-50 bps cut is possible this year

OOMMEN A. NINAN

Federal Bank, a leading south Indian bank, envisages to grow from presence to prominence and from prominence to dominance. Its MD and CEO ***Shyam Srinivasan*** *says that the bank plans to grow organically, and inorganically, if something comes up. However, he says its mantra is from prominence to dominance in Kerala and from presence to prominence in the rest of India. The bank plans more branches across the country by offering various ways of servicing client requirements. The CEO believes in high-quality governance to achieve 18-20% growth per year.*

What are your expectations from the forthcoming Union Budget?

■ Fiscal deficit containment, increasing revenue momentum (meaning widening tax basis), which means better administration of existing reforms and selective enablement of sectors of the market that can spiral growth. This is how I would characterise a budget that generates employment. Employment generation should have a focus around exports, because that is what will trigger the country's most immediate requirements.

But we have been talking about exports and employment generation for many years; and even growth rate is tardy...

■ It is true, but in part; we are part of a global world. If there is a slowdown worldwide, it will have its impact on domestic markets. The second would be the financial sector related challenges that have happened in the last 3-4 years for a range of reasons. If you take the budget period, rather than looking at the next five years as a whole, the government must look at it in two to three tranches. So, you have to work on certain realities over the next three years with laser-light focus.

Any changes in customer behaviour on repayment of loans?

■ For years, customers were told, as long as you pay even after 100 days or 200 days, we're all here to treat you as a customer, provided you pay one day with interest. So the customer, those with integrity, I mean, was used to one kind of behaviour for many years. I'm not talking about those who have cheated. That is a separate story. Our normal retail SME customers are now managing their cash flows. The fact that on the 91st day, assets turn NPAs, if they fail in repayment [is now on their minds].

The Reserve Bank cuts rates but banks are slow to pass it on to customers. Why?

■ Reserve Bank's commentary also suggests that there is more room for cuts. And I agree [we should] go for more cuts. I think inflation is fairly under control, but growth is still a challenge. It doesn't mean that banks will cut rates. A rate cut by the central bank only impacts a percentage of the bank's cost of funds. I bought very little from the repo. So when the repo comes down, only a percentage of my funding cost comes down, I still pay 4% or three-and-a-half percent or 6%. In some cases, that hasn't changed. I still pay 7%. So, if I had to cut your deposit rate, you will put it in another instrument, post office savings or government small savings certificate in order, which is giving a higher rate. So to keep you with me, I have to pay you this rate. When bankers are told you're not transferring the cost benefit to the customer, I'd agree. But transmission takes time.

Do you believe another rate cut is imminent?

■ The regulator now has many instruments in their hand to do these things. One is signalling by word, secondly rate cut, then they can create other enablers. So the government has increased. I believe 25 to 50 basis points cut is possible in this year.

You are a bank that attracts a lot of remittances. What is the present trend?

■ The last one year, remittances for India has been strong. But the nature of remittances and use of remittances has changed. It is less going into the banking system as savings [and] more going into consumption for regular use because a large part of the remittance that comes from Middle East, after the Kerala floods, has gone into repair and restoration.

Why nuclear when India has an 'ocean' of energy

Though the 'highly harmful' source is regarded as saviour on certain counts, the country has a better option under the seas

M. RAMESH

If it is right that nothing can stop an idea whose time has come, it must be true the other way too – nothing can hold back an idea whose time has passed.

Just blow the dust off, you'll see the writing on the wall: nuclear energy is fast running out of sand, at least in India. And there is something that is waiting to take its place.

India's 6,780 MW of nuclear power plants contributed to less than 3% of the country's electricity generation, which will come down as other sources will generate more.

Perhaps India lost its nuclear game in 1970, when it refused to sign - even if with the best of reasons - the Non Proliferation Treaty, which left the country to bootstrap itself into nuclear energy. Only there never was enough strap in the boot to do so.

In the 1950s, the legendary physicist Dr. Homi Bhabha gave the country a roadmap for the development of nuclear energy.

Three-stage programme

In the now-famous 'three-stage nuclear programme', the roadmap laid out what needs to be done to eventually use the country's almost inexhaustible Thorium resources. The first stage would see the creation of a fleet of 'pressurised heavy water reactors', which use scarce Uranium to produce some Plutonium. The second stage would see the setting up of several 'fast breeder reactors' (FBRs). These FBRs would use a mixture of Plutonium and the reprocessed 'spent Uranium from the first stage, to produce energy and more Plutonium (hence 'breeder'), because the Uranium would transmute into Plutonium. Alongside, the reactors would convert some of the Thorium into Uranium-233, which can also be used to produce energy. After 3-4 decades of operation, the FBRs would have produced enough Plutonium for use in the 'third stage'. In this stage, Uranium-233 would be used in specially-designed reactors to produce energy and convert more Thorium into Uranium-233–you can keep adding Thorium endlessly.

Seventy years down the line, India is still stuck in the first stage. For the second stage, you need the fast breeder reactors. A Prototype Fast Breeder Reactor (PFBR) of 500 MW capacity, construction of which began way back in 2004, is yet to come on stream.

The problem is apparently nervousness about handling liquid Sodium, used as a coolant. If Sodium comes in contact with water it will explode; and the PFBR is being built on the humid coast of Tamil Nadu. The PFBR has always been a project that would go on stream "next year". The PFBR has to come online, then more FBRs would need to be built, they should then operate for 30-40 years, and only then would begin the coveted 'Thorium cycle'! Nor is much capacity coming under the current, 'first stage'. The 6,700 MW of plants under construction would, some day, add to the existing nuclear capacity of 6,780 MW. The government has sanctioned another 9,000 MW and there is no knowing when work on them will begin. These are the home-grown plants. Of course, thanks to the famous 2005 'Indo-U.S. nuclear deal', there are plans for more projects with imported reactors, but a 2010 Indian 'nuclear liability' legislation has scared the foreigners away. With all this, it is difficult to see India's nuclear capacity going beyond 20,000 MW over the next two decades.

Now, the question is, is nuclear energy worth it all?

There have been three arguments in favour of nuclear energy: clean, cheap and can provide electricity 24x7 (base load). Clean it is, assuming that you could take care of the ticklish issue of putting away the highly harmful spent fuel.

But cheap, it no longer is. The average cost of electricity produced by the existing 22 reactors in the country is around ₹2.80 a kWhr, but the new plants, which cost ₹15-20 crore per MW to set up, will produce energy that cannot be sold commercially below at least ₹7 a unit. Nuclear power is pricing itself out of the market.

Nuclear plants can provide the 'base load' – they give a steady stream of electricity day and night, just like coal or gas plants. Wind and solar power plants produce energy much cheaper, but their power supply is irregular. With gas not available and coal on its way out due to reasons of cost and global warming concerns, nuclear is sometimes regarded as the saviour. But we don't need that saviour any more; there is a now a better option.

Ocean energy

The seas are literally throbbing with energy. There are at least several sources of energy in the seas. One is the bobbing motion of the waters, or ocean swells – you can place a flat surface on the waters, with a mechanical arm attached to it, and it becomes a pump that can be used to drive water or compressed air through a turbine to produce electricity. Another is by tapping into tides, which flow during one part of the day and ebb in another. You can generate electricity by channelling the tide and place a series of turbines in its path. One more way is to keep turbines on the sea bed at places where there is a current – a river within the sea. Yet another way is to get the waves dash against pistons in, say, a pipe, so as to compress air at the other end. Sea water is dense and heavy, when it moves it can punch hard – and, it never stops moving.

All these methods have been tried in pilot plants in several parts of the world–Brazil, Denmark, U.K., Korea. There are only two commercial plants in the world–in France and Korea–but then ocean energy has engaged the world's attention.

For sure, ocean energy is costly today.

India's Gujarat State Power Corporation had a tie-up with U.K.'s Atlantic Resources for a 50 MW tidal project in the Gulf of Kutch, but the project was given up after they discovered they could sell the electricity only at ₹13 a kWhr. But then, even solar cost ₹18 a unit in 2009! When technology improves and scale-effect kicks-in, ocean energy will look real friendly.

Initially, ocean energy would need to be incentivised, as solar was. Where do you find the money for the incentives? By paring allocations to the Department of Atomic Energy, which got ₹13,971 crore for 2019-20.

Also, wind and solar now stand on their own legs and those subsidies could now be given to ocean energy.

From baby steps to giant strides, GST gains momentum

The historical tax reform, which marks its second year today, has offered stakeholders a mixed bag thus far

K. VAITHEESWARAN

The historical goods and services tax (GST) which was implemented across the country from July 1, 2017 is now two years old. India was not new to indirect tax levies, but consolidating Central and State levies and achieving uniformity was no joke. Credit is due to the Central Government as well as each and every State Government and officials who participated in this exercise.

What industry got

The industry loves GST for harmonising taxes, elimination of cascading effect of tax, widening the scope of input tax credit and for achieving a uniform tax rate for a product or service across the country. Tangible benefits include faster refunds, less interaction with tax authorities, abolition of checkposts, etc. There are other intangible benefits on account of GST. In the past, a manufacturer in State A would lose a customer in State B if he made a CST supply.

To prevent the loss, the manufacturer would open a depot in order to effect a local supply in State B. The depot was not a business requirement, but one of tax.

Under GST, a supplier can supply goods from any part of India and tax or input tax credit is no longer an arbitrage in competition.

The customer is now in a position to source from any supplier and the latter is in a position to access markets across India.

Industry gains include elimination or dismantling of structures created under the pre-GST era for tax purposes, supply-chain efficiencies, direct customer access, and a robust transparent trail for the movement of goods. On the flip side, the industry is extremely unhappy with the massive increase in compliance requirements, frequent battles with the GST portal, wastage of manhours in dealing with technical glitches, and facing potential loss of ITC on account of supplier facing similar problems.

The industry is also not happy with frequent changes in law, including scenarios where the portal does not permit what the law permits.

What government got

Monthly revenue from GST has crossed ₹1,00,000 crore, even though the GDP growth is low and the economy is witnessing a slump. GST has resulted in the widening of the tax base. Excellent data mining has resulted in identification of tax evasion at an early stage. E-way bill system has brought in an effective, transparent movement trail.

Higher tax collections even without intervention indicates compliance. As more and more vendors and service providers walk into GST, the formalisation of economy takes place.

As more service providers walk into GST, the economy gets more formalised. ▪ REUTERS

The walk-in is voluntary and sometimes compelled by the bigger player, who prefers only registered compliant suppliers since ITC is linked with vendor compliance.

The natural corollary would be the increase in direct tax collections from these new assessees. Many manufacturing states had anticipated huge losses on account of GST compared to their pre-GST collections.

This has not happened probably due to significant consumption of services in such manufacturing States.

The government, however, is extremely unhappy with the fake invoice racket and rightly so. These players provide a disservice to the economy and also to honest tax payers. While action is welcome, the government should pursue the route of adjudication, prosecution and early conviction instead of the threat of non-bailable arrest provisions which have a potential for misuse.

Unlike many other countries which faced massive inflation on account of introduction of GST, India did not face any inflation. This was probably due to an effective rate of tax policy, as well as timely course correction.

The National Anti-Profiteering Authority had also played a role, but has outlived its objective. There was no necessity for a two-year extension. The consumer has gained the most in GST. From an era of cascading taxes, which had nearly 30% of taxes on goods; dual and multiple levies on services, the consumer is now seeing massive reduction in the rate of tax for goods and services.

In a typical restaurant, where there used to be VAT of 2% or 12.5% and a service tax of 6%, the customer is enjoying a flat 5% which is lower than the VAT rates applicable in many countries in the European Union. Awareness of GST among consumers is at an all-time high, thanks to social media.

However, the downside to this is tax evasion, which is now driven by consumers. In the past, when a customer procured goods or services, he was least bothered about the tax rate since excise duty was invisible. The VAT rate was low and was not a significant deterrent. When the overall indirect tax levy was 30%, it was not reflected in the invoice, but when the rate has declined to 12% and 18%, awareness about GST makes the customer assume it is a new levy which affects his pocket, and the consumer opens the cash channel.

The law

GST law has turned out to be the most complex one on account of design faults and frequent tinkering. The distinction between goods and services manifests itself in GST in multiple segments.

The Advance Ruling mechanism has failed since most rulings are in favour of the revenue and in some cases, against the provisions of the statute. The constitution of the AAR is the issue, since it is not presided by a judicial member and comprises sitting officers of the tax department. The GST Council has played a stellar role in cooperative federalism since 35 meetings have taken place, where resolutions have been passed unanimously despite political differences.

This kind of unanimity is unseen even in flat association meetings. In only two years of existence, 32 amendments to the CGST Act; 31 amendments to the CGST Rules; 87 CGST rate Notifications; 179 CGST non-rate Notifications; 90 IGST rate Notifications; 19 IGST non-rate Notifications; 101 Board Circulars; 10 Removal of Difficulty Orders; matching Notifications from 29 States, do not indicate a simple law.

(The writer is an advocate and tax consultant)