Anti-portfolios and portfolios

Old India is not exactly ready to deal with the animal spirits of the young India

VANDANA GOMBAR

When Google's Sergey Brin and Larry Page began working out of a garage 20 years ago, Bessemer Venture Partners had a chance to connect with "two really smart Stanford students writing a search engine." David Cowan, a partner at the company, ducked out of an introduction to the duo. "How can I get out of the house without going anywhere near your garage?," he asked his friend who had rented them the garage.

The venture firm describes that as the most important moment ever for its "anti-portfolio" — a list of highly successful companies that it missed investing in for multiple reasons. Bessemer's anti-portfolio includes some of the most successful companies: Holiday home rental provider Airbnb, Apple, Ebay, Facebook and Tesla, among others.

As India's startup space bubbles with activity — new, young players are tapping into opportunities opening up — there are local anti-portfolio stories circulating about investors missing opportunities in 'unicorns', or companies that have reached valuation of $1 billion.

Global mobility disruptors like Bird, Lime, Skip and Spin — providers of shared electric scooters, and more — have their match in India with companies like Bounce and Vogo providing bikes on rent. Both are based in Bengaluru, and both are going electric. The young team at Ather Energy designed two models of electric scooters "from scratch" and is selling them in Bengaluru and Chennai, with plans to expand to other cities. The company's backers include Tiger Global, Hero MotoCorp and InnoVen Capital.

There are startups like Magenta Power rolling out charging stations for electric vehicles, and they started even before the government's incentive scheme, or even standards for charging infrastructure, were finalised. Skylark Drones offers services to developers of solar power, right from gathering intelligence on a prospective site for the plant to tracking an under-construction project or mapping panels that are not generating as well as they should.

Blu Smart offers only electric taxis on its app-based ride-hailing service recently launched in Delhi. It is backed by the World Business Council for Sustainable Development. The International Finance Corporation has invested in the Bengaluru-based Lithium Urban Technologies, an electric-mobility service provider to companies like Google in Bengaluru. It has a fleet of over 1,000 electric cars running across eight cities, and plans to expand its service to electric buses and electric trucks. Shuttl is trying to establish an electric bus fleet, and is one of the 50 companies globally that have committed to expand its electric vehicle footprint as part of the EV100 initiative.

Companies like Cleanmax Solar have been turning rooftops into power houses for almost a decade. Again, it is a company headquartered in Bengaluru. The Gurugram-headquartered Yellow Tropus is an engineering firm helping design and install floating solar panels on dams and lakes — a huge new market.

Many believe the best is yet to come.

Old India is, however, not exactly ready to deal with the animal spirits of this young India. Though startups find 17 mentions in the Budget speech (2019) of the finance minister, and have been promised tax exemptions, the reality is that only 2 per cent of the 4,648 applications received from startups for income tax exemption had been approved as of February 2019, according to an answer to a Parliament question.

Globally, startups serving utilities or the intelligent mobility space have been finding favour with investors, according to data tracked by BloombergNEF. For instance, eSmart Systems, a company developing predictive maintenance software for transmission and distribution utilities, secured funds from Innogy Ventures and Energy Impact Partners in June 2019.

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RECENT GLOBAL VENTURE CAPITAL/PRIVATE EQUITY INVESTMENTS

- **Sense Photonics:** Flash lidar for autonomous vehicles, drones, robotics & advanced manufacturing
  Investor: Samsung Ventures, Shell Ventures, Congruent Ventures, Prelude Ventures
- **Clir Renewables:** AI based analytics for wind farms
  Investor: Active Impact Investments
- **Evolve Energy:** Software that shifts energy consumption to non-peak hours
  Investor: Urban-X
- **Opus One Solutions:** Grid Software for distributed energy management & trading
  Investor: Export Development Canada, Renewal Funds, MKB
- **eSmart Systems:** Predictive maintenance software for transmission & distribution utilities
  Investor: Energy Impact Partners, Innogy Ventures
- **Probus Smart Things*:** IoT sensors & software analytics for smart grid
  Investor: Seedstars World

*headquartered in India; Note: This list is not exhaustive

Source: BloombergNEF Technology Radar

CHINESE WHISPERS

Identity crisis

The Rajya Sabha has two electronic displays that show the name of the MP speaking, her party affiliation, time allowed for the speech, time taken and time elapsed. Until now, the Lok Sabha did not have such displays, but did have big screens that showed the proceedings live. This week on, these screens also show the names of the MPs and the time they have taken for their speech, but not always with happy results for the chair. On Tuesday during the debate on the Jammu and Kashmir Reorganisation Bill, Apna Dal's Anupriya Patel *(pictured)* protested when she was asked to wrap up her speech in four minutes. Patel said Speaker Om Birla was being unfair to her as he had given over eight minutes to her preceding speaker, Sukhbir Singh Badal of the Shiromani Akali Dal, whose party also has two MPs, as does her party. Birla said Patel was challenging his decision, and warned her not to do that in the future. Initially, Patel was identified on the screen as Nalin Kateel of the BJP.

New seating arrangement

The Rajya Sabha is set to have a new seating arrangement from the next session of Parliament. Railway Minister Piyush Goyal and Finance Minister Nirmala Sitharaman, both Rajya Sabha members and cabinet ministers, do not occupy front benches in the House. They would, from the next session. Bharatiya Janata Party's (BJP) Suresh Prabhu, who is no longer a minister, is set to lose his front bench seat, as will Y S Chowdary, who recently quit the Telugu Desam Party to join the BJP.

Being cautious

Outside Finance Minister Nirmala Sitharaman's office in North Block, you can now see a row of small lockers. Visitors who meet her are expected to deposit their mobile phones and other electronic devices in one of those lockers and take the keys with them. Once the meeting with the FM is over, they must retrieve their belongings and leave the keys in the lockers for the next person.

Shakeout brewing in coffee chain market

With multiple players now vying for Cafe Coffee Day, competition is expected to heat up...

VIVEAT SUSAN PINTO

India's coffee chain market is set for exciting times. With the board of Coffee Day Enterprises, the holding company of Cafe Coffee Day, indicating last week that it would "deleverage" its assets to pare debt following the death of its founder V G Siddhartha, the race for the country's largest cafe chain will heat up, retail industry sources say.

The world's largest beverage company Coca-Cola is already in the race for Cafe Coffee Day as it seeks a broader retail footprint in India to push its products. People in the know had told *Business Standard* last week that Jubilant FoodWorks and Tata Global Beverages were also interested, though the two companies did not respond to emails sent to them on the matter.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

While Tata Global has a tie-up with US coffee chain Starbucks since 2012, acquisition of Cafe Coffee Day would give the joint venture company access to more stores, which it needs to expand its presence in the ₹2,500-crore domestic coffee retail market.

Euromonitor data shows that the coffee chain market in India is likely to touch ₹4,537-crore in five years, growing at the rate of 12 per cent annually. Café Coffee Day and Starbucks are leading players, the market research agency said in its report on the cafe market in India. Some other key coffee chains in the country include Barista, McCafe from McDonalds and Costa Coffee.

Though Costa Coffee was acquired globally by Coca-Cola last year in a $5.1 billion deal, the latter has been unable to make much headway here with the brand, since it continues to be run by billionaire-bottler Ravi Jaipuria, the chain's India franchisee partner.

Jaipuria's Devyani International runs around 50 stores of Costa Coffee in the country, unable to work out a deal with Coca-Cola for his exit from the franchise agreement. The move by Coca-Cola, said sources, to begin acquisition talks with Café Coffee Day, was led in part by this stalemate in discussions between it and Jaipuria.

Apart from Costa and Coca-Cola, Nestle too had struck a $7.15 billion global deal with Starbucks last year to sell Starbucks' coffee products outside its cafes, in shops and supermarkets to be precise. Neither Nestle or Starbucks have indicated their plan of action for the India market yet.

Retail industry sources say the interest by Jubilant FoodWorks, meanwhile, stems from the wider play of rivals such as Westlife Development in food and beverages. Westlife runs both McDonalds and McCafe outlets in the west and south of India.

In a recent conversation with *Business Standard*, Westlife's vice-chairman Amit Jatia had said the company continued to add McCafe outlets within McDonald's restaurants and that at the end of the June quarter there were 197 McCafes in the west and south of the country. "We continue to see a market both for burgers and coffee. The growth prospects for both are strong here," he said.

Jatia's point is endorsed by Arvind Singhal, chairman, Technopak. "The coffee retail market has grown in India largely because most chains are positioned as a place to hang out. Kids come to a café to spend time after college. Working professionals organise meetings over a cup of coffee. This has helped maintain the pace of growth of the coffee chain market despite cost of real estate shooting up, some players facing challenging times and a general consumption slowdown in recent quarters."

Euromonitor says what aids the growth of the coffee chain culture in India is the millennial population. "Many products, such as cold brew coffee, are displaying exceptional growth," it said in its report on coffee chains. "There is constant innovation happening to woo the millennial population," it adds.

Experts say the 18-35 age group is among the key target groups of coffee chains in India owing to higher disposable incomes available to this TG, a better standard of living that many are exposed to and the openness to grab a quick meal or drink at a café.

Starbucks, for instance, has been at the forefront of product innovation, aimed at drawing the attention of millennials at its 150 stores in India. The chain, for instance, introduced nitrogen gas-infused coffee last year apart from having brewing techniques that count on heat-resistant glass, special filters and manual espresso machines to deliver smooth and consistent coffee.

The American coffee chain is expected to add around 25-30 stores this year organically as it eyes the 180-mark in terms of outlets by the end of FY20, experts tracking the market said. In FY19, the company opened 30 stores, touching a top line of ₹450 crore, a year-on-year growth of 30 per cent.

Coffee Day Enterprises, which runs 1,752 stores of Café Coffee Day in the country, reported a retail revenue of ₹1,468 crore in FY19, a year-on-year growth of 8 per cent. Same-store sales growth, which measures top line growth in stores one year and above, was nearly 10 per cent for FY19, higher than the 7.23 per cent reported in FY18.

While Coffee Day Enterprises has delayed release of its June quarter numbers, which was expected on August 8, following the death of Siddhartha last week, rivals and analysts will be tracking the company closely to figure out its growth prospects for the future.

MARKET SIZE: COFFEE RETAIL

(Figures in ₹ cr)

2016	2017	2018	2023*
1,993	2,282	2,569	4,537

*Estimated figure Source: Euromonitor International

INSIGHT

Reviving investment. But how?

Time to take a leaf out of Atal Bihari Vajpayee-led Chief Ministers' conferences to develop a national consensus for structural reforms

RAHUL KHULLAR & AMIT KAPUR

The engines of growth are sputtering: consumption is sharply down, investment lies dormant, and exports have flatlined. The Economic Survey and Budget rightly emphasise the need to revive investment. Capital formation has dropped from the heady days of 2009-10. Small wonder that growth has decelerated and growth prospects appear dismal.

The Budget identifies infrastructure as providing the lead to the revival of overall investment. The reason: complementarity of public and private investment, public expenditure on infrastructure will create jobs fuelling consumption, and, growth in consumption will spur investment. Ergo, the virtuous cycle. The Budget also mentioned PPP as a major instrumentality to significantly increase infrastructure investment.

The questions then are: Do we have the resources to finance large public investment in infrastructure? Can PPP do the trick? Does the private sector have the will and the inclination to invest in infrastructure? What does the government need to do to induce private investment in infrastructure?

Budgetary resources are going to be tight. Revenue targets for 2019-20 are widely accepted as overambitious. There seems little possibility of cutbacks in the largest subsidies — on food and fertilisers. Revenue expenditures on security, defence, administration and interest on public debt are committed spends with limited funds available for several claimants for large capital outlays — broke banks, railways, ports, roads, power, to mention but a few. There is little room for fiscal manoeuvre. In short, do not expect a huge hike in publicly funded infrastructure expenditure.

Past experience with PPP investment in infrastructure has not been encouraging. First, the PPP mode does not have all infrastructure in its ambit; most PPP projects were in the transport sector — highways and airports. Second, many PPP projects encountered implementation problems: delays in obtaining consents (land acquisition, forest/environmental clearances, licences), unresolved structural issues impacting commercial viability compounded by counter-intuitive policy, regulatory and judicial decisions. The outcome: stranded or abandoned projects, twin balance-sheet problems and the private sector's burnt fingers. Third, over the past five years PPP projects have been all but shelved. Roads and highways have been mostly built using EPC contracts; there has been no partnership as envisaged in PPP. No major airport modernisation has been undertaken even though this was a fairly successful venture in some metros (dating to 2005-06). Fourth, a Committee on Revisiting and Revitalising the PPP model was set up in 2015 to address the problems identified. Its report has languished in the Department of Economic Affairs for four years, key PPP problems remaining unaddressed. Now, the Budget announces the formation of another Committee whose recommendations are expected to clear the undergrowth.

To sum up: budgetary resources are severely constrained, balance sheets for banks and the private sector are stressed, the risk-reward allocation in the extant PPP model has no takers, commercial viability is the major concern, and many infrastructure sectors remain outside the ambit of the PPP model.

It is possible to attract private investment in infrastructure outside the PPP model. But, all private investment is profit-driven. In many sectors such investment has all but dried up because of stranded assets and large commercial losses.

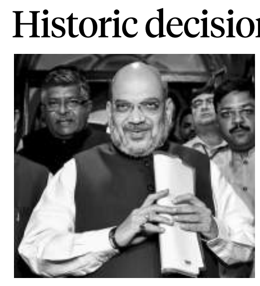
In such sectors, major reforms are necessary to induce private capital. For example, the power sector continues to be in a mess. UDAY did not work. State procurers are routinely dragging their feet on paying their dues in a timely manner including contractually agreed compensation for impact of changes in law. Some states are reneging on their contractual commitments — cancelling signed contracts, refusing to award contracts to successful bidders and seeking to renegotiate of contracts under the Damocles' sword of threat of termination. Until the distribution end of the system is fixed, there can be no economically viable investment in generation and transmission. Consider this: why should regulatory bodies routinely create "regulatory assets" instead of making the consumer pay what is a reasonable charge? True, the deferred dues have to be paid later, but in the interim all these "assets" do is stress the sector in the present and kick the can down the road. And this when regulators are instructed by a binding policy framework to not defer dues of an ordinary nature. Regulators are expected to look after consumers; but they are also expected to ensure that the industry remains financially sound. Take another sector: coal. Why should coal remain nationalised 46 years later? India has huge coal resources and yet imports more than 200 million tonnes annually. Unless such issues are tackled frontally it is plain unrealistic to expect flows of private capital into such sectors.

In the face of the economic slowdown and slack aggregate demand, there is an unprecedented urgency to introduce structural reforms to revive consumption, investment and exports. The government does not have the resources to fund a huge public investment drive. The private sector sees no incentive to invest — neither in infrastructure nor elsewhere (because of excess capacity). The only way out of this economic thicket is major reform. Further, those reforms have to be front-loaded when political capital is available (at the start of the term of a government). Most importantly, those reforms must be evolved as a bi-partisan national plan. In the past, governments with smaller electoral mandate have brought about major reforms — in 1991, 1996-97 and 2001. Time to take a leaf out of Atal Bihari Vajpayee-led Chief Ministers' conferences to develop a national consensus for structural reforms. Sans large-scale reforms it is difficult to be optimistic about the hopes expressed in the Budget for investment becoming the key pivot of economic revival.

Khullar was an IAS officer of the AGMUT (Delhi) cadre for close to 40 years and Kapur is joint managing partner, J Sagar Associates. Views are personal

LETTERS

Historic decision



The people of India are in a celebratory mood after the decision of the government to scrap Article 370 and 35A in Jammu & Kashmir. However, the role of political parties — such as the Trinamool Congress — who are opposing the move and supporting the controversial Article is questionable.

The people of Kashmir will now be part of India and enjoy all the developments and other benefits with fellow citizens of the country. The tourism sector too will get a boost. The aspirations of the people of Kashmir will be fulfilled with a new vision bringing prosperity for all its citizens. Terrorism too will die down in the absence of patronisation of corrupt politicians and the people of Kashmir will heave a sigh of relief after suffering for decades. Kudos to the government for taking such a historic decision.

Partha Sarathi Mukhopadhyay Nagpur

A better plan

This refers to the editorial "An unnecessary law" (August 6) about the imposition of imprisonment and fine for not meeting the target of spending the specified amount on corporate social responsibility (CSR). According to a study by KPMG India, the expenditure on CSR by India's largest 100 firms stood at ₹7,536. ₹30 crore in the financial year ending 2018, up by 47 per cent from 2014 when the CSR was introduced in 2014. Besides, the number of companies spending less than the mandated CSR funds has dropped from 52 in 2014-15 to 33 now. And close to 99 per cent of these companies implemented their planned CSR policy successfully, up from 55 per cent in 2014-15.

Another study of 224 companies by Prime Database shows that the CSR spends as a percentage of required sums went up from 70.19 in 2014-15 to 91.47 in 2018-19. These companies spend most on education and healthcare activities and thus statutory CSR is a government's way of outsourcing its obligation. Yet such an expenditure is not tax deductible.

In view of all this and despite the fact that Indian companies are by and large averse to philanthropic activities, the above-mentioned penal provisions are ill-advised. A positive alternative would be to make CSR outlay tax deductible for compliance, entitled to further incentive for exceeding the limit and penalise the defaulters by imposing higher tax rate on the unspent part of the required amount.

Y G Chouksey Pune

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HAMBONE

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J&K and its discontents

Govt should elaborate its plan for rapid development

A day after Home Minister Amit Shah announced far-reaching changes to the structure of Jammu and Kashmir (J&K), the government needs to move swiftly to ensure that the process is managed with sense and sensitivity. In his Rajya Sabha speech, Mr Shah said abrogating the provisions of Article 370 of the Constitution, which granted special status to the people of J&K, would ensure the economic development of the state. He was correct to point out that J&K's economic development lags the national average by a significant margin. But in an otherwise detailed speech, he did not explain how the twin moves of scrapping J&K's selective autonomy and creating two Union territories (UTs) would facilitate better development.

Doubts were raised because of the skewed nature of the erstwhile state's resource mobilisation; the Centre already accounts for 71 per cent of the state's resources. Since the Centre has significant fiscal pressures of its own, it would not have been in a position to fund the needs of J&K because it will no longer remain a state and would not be eligible for allocations through the Finance Commission. That problem has been addressed through The Jammu and Kashmir Reorganisation Bill, 2019, which enables the President to make a reference to the Fifteenth Finance Commission to include the UT of J&K in its terms of reference. This will enable the Commission to make allocation to J&K. The President will also make a reference to Union Territories Finance Commission to make a separate award for Ladakh.

However, this will still not solve all the problems. For a state that has been under a security lock-down of unprecedented proportions, it is imperative for the government to elaborate the precise nature and scope of its promise of rapid economic development. Having achieved a key objective of an explicit Hindutva project, it is vital for the government to ensure that the more malign fallout of this move is contained. In the public debate around Article 370, much attention has focused on how the scrapping of Article 35A would now enable Indians outside the state to own land and property in J&K. Ordinarily, this would have been an unexceptionable change. But apprehensions of encirclement and disenfranchisement by mainland Hindus remain a potent source of unrest — Gaza and the West Bank present ominous examples. The government, therefore, should explicitly commit that no attempt will be made to re-engineer the demographic profile of J&K.

The manner in which a state has been converted into two UTs, with New Delhi taking control of police and land, has implications for all states of the Indian Union. It is technically possible to repeat in other states the constitutional coup that has been done in J&K by having President's rule in a state after dismissing the state Assembly, and then having the governor act for the state, and Parliament for the state legislature. Should the Supreme Court find that this action is in order, new constitutional safeguards must be created to prevent repetition. Finally, the failure to engage politically with the state and its political system before Monday's action was a lapse that must be compensated by broad-based discussions to build confidence and trust, as far as possible. In turn, state political leaders must have the wisdom to recognise that a page in history has been turned, and they must focus on what is best for the people of the state in the new arrangements.

Earnings under pressure

High interest outgo and weak demand are worrying

The downward trend in revenue growth and contraction in net profit for corporate India in the first quarter of 2019-20 is not entirely surprising. Although weak demand was expected during the general election as buyers postpone certain purchases, the slump seems to have been more pronounced. Combined net sales for 736 companies that have declared results so far have grown by just 8 per cent, year-on-year (YoY), which is the lowest in about three years. If financials and energy sectors are excluded, revenue growth at 5.8 per cent, is the slowest in last nine quarters. From a longer-term perspective, the bigger worry is that the slowdown in revenue growth, which analysts believe hints at weak aggregate demand in the economy, can worsen in the coming quarters.

The combined net profit for companies excluding financials and energy has declined 2.9 per cent in Q1 — the fourth consecutive quarter of earnings contraction. It is also a quarter of one-offs — earnings have got a boost from a sudden spurt in airlines' profitability due to the grounding of Jet Airways. But if Interglobe Aviation which runs Indigo Airlines is excluded, net profit for the sample is down 5.7 per cent. After including financials and energy, the headline net profit growth is up 21.9 per cent, as banks such as State Bank of India, ICICI Bank, Allahabad Bank and Bank of Maharashtra, among others, have reported substantial profits compared with losses in the same quarter last year. However, banks are also showing signs of slowdown with growth in net interest income hitting a five-quarter low during April-June 2019 quarter.

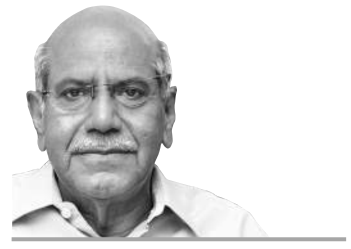
Among individual sectors, auto and auto ancillaries are the worst performers so far because of the sales decline seen across segments. The sector's combined net profit is down 66.5 per cent for the quarter, while net sales have declined by 6.8 per cent. In comparison, fast-moving consumer goods (FMCG) companies have performed relatively better despite a visible slowdown in volume and revenue growth. The sector's combined net profit is up 13.5 per cent, compared with a 19.9 per cent growth registered a year ago. Growth in net sales is 9.8 per cent, the lowest in five quarters, along with weak commentary from managements. Information technology companies, one the biggest contributors to corporate earnings, have also reported lower growth in both top line and net profit. Industry margins remain under pressure as operating costs, especially salary and wages have grown faster than revenues. Metals and mining companies have shown the impact of the US-China trade that has battered metal and ore prices globally.

Earnings have been boosted by benign raw material and energy prices pushing up margins by 80 basis points, with gains most visible in the FMCG sector. However, a growing divergence between operating profit growth and interest liability can spell trouble for companies with debt on their books. Interest costs are up 28.2 per cent for the quarter, outpacing operating profit and revenue by a wide margin. An interest rate cut on Wednesday can help reduce the burden, but things will actually improve when consumer confidence returns.

ILLUSTRATION BY BINAY SINHA

Risky moves in Jammu and Kashmir

Things may not go according to the script, and risks should be evaluated and minimised



SHYAM SARAN

That the Union government was planning some dramatic move concerning Jammu and Kashmir (J&K) had become an open secret in the week preceding the announcements in Parliament on August 5. The deployment of a large number of additional security forces in the Valley, the shutting down of internet services, the house arrest of leaders of mainstream political parties, the suspension of the Amarnath Yatra and the compulsory evacuation, en masse, of non-Kashmiri tourists, students and visitors, were unprecedented moves, presaging that major developments were imminent. The announcements made by the Home Minister in Parliament represented a seismic change in government policy towards J&K. A presidential order scrapped its special status as derived from Article 370 of the Indian Constitution, thereby removing its claim to autonomy which was part of the political compact between the popular political leadership of Kashmir and the central leadership of the Indian Union after the princely state became part of India in 1947. Accession is different from autonomy. The Instrument of Accession signed by Maharaja Hari Singh makes the state an integral part of the Indian Union. Autonomy in certain specified respects, going beyond what was available to most other states, was derived from Article 370. As a result of the presidential order, the additional elements of autonomy are no longer valid. The change is more symbolic than real since over the years the Union government has systematically hollowed out the state's autonomy. It may even be argued that the hand of the Centre hangs more heavily on J&K than other states of India. But the original political compact, tied up with the unique identity of the state, has been unilaterally altered by the Union government.

Parliament has also legislated changes to the status of J&K, eroding its autonomy even further. The state will be bifurcated into two — Jammu and Kashmir and Ladakh, respectively. The truncated state will be downgraded from a full-fledged state into a Union Territory directly ruled from the Centre through a lieutenant governor. This is the first instance in independent India's history of a state becoming a Union Territory and has been justified on security imperatives. It will be seen by the Valley population as demeaning and humiliating even if it is a temporary arrangement. It constitutes an ominous precedent for other states of the Indian Union.

It is not clear how the new arrangements intend to deal with Pakistan-occupied Kashmir (PoK), comprising so-called Azad Kashmir, Gilgit and Baltistan. For example, should Gilgit and Baltistan be declared as Union Territories like Ladakh has been? Do the latest moves imply that we will no longer agree to include J&K on the agenda of a resumed dialogue process with Pakistan? Or shall we argue that J&K can remain on the agenda since we wish to discuss the return of PoK to India?

The extraordinary security measures taken in advance of the announcement and which continue to be in place, testify to the clear awareness within the government that this would be deeply unpopular and may even trigger violent opposition. The contention that the announcements have been welcomed by the ordinary Kashmiris, who have already been deeply alienated by policies pursued by successive governments, is not credible. What is visible is the enthusiastic reception the announcements have received at least through most of northern India. There is a pervasive sentiment that the Kashmiris are pampered, that they are antinational and unpatriotic and need to be dealt with a strong and firm hand, like a wayward and rebellious child. The latest decisions are popular and consolidate the ruling party's political dominance of the Indian heartland. Prime Minister Narendra Modi's approval ratings will soar further. This will also deflect attention from increasingly depressing economic news, though this may not have been the original intention.

The Union government is confident that it can maintain order in the Valley with strong-arm measures even if this results in a sullen and resentful peace. There is an argument that it is Article 370 which by keeping alive the hope of enhanced autonomy prevented the Kashmiri people from becoming part of the Indian mainstream. With its demise, the state will become fully integrated. A more realistic outcome may be the reverse and trigger increased militancy and violence.

Pakistan will exploit the situation. There will likely be an increase in cross-border terrorism and an escalation in cross-Line of Control firing. Pakistan will seek to turn the international spotlight on Kashmir. It is encouraging that so far none of the major powers have made any statements on the announcements beyond issuing advisories against travel to Kashmir. But this may change if the Valley remains disturbed and there is increase in violence.

An increase in India-Pakistan tensions will inevitably draw in major powers such as the US and even China. The US is focused on removing its remaining troops from Afghanistan and continues to regard Pakistan as the key to an Afghan peace settlement. Pakistan has already declared that it may not be able to play that role if India is allowed to get away with the political changes in the status of J&K. Influential sections in the US administration buy the oft-repeated argument that the road to Afghan peace lies through Kashmir. We need to be alert to signs of revived US and Western activism on the issue. Pakistan will seek to mobilise opinion against India among Islamic countries. Expect an Organisation of Islamic Cooperation resolution. India should be able to weather the storm, given its enhanced standing among the major powers. However, India's international clout is partly from its rapidly growing emerging economy and a large and expanding commercial market. If the Indian economy continues to slow and protectionist barriers advance, then our international clout will also diminish. The international fallout from bringing the Valley to heel may be more difficult to handle.

The deed is done and the gauntlet has been thrown in a high-stakes game. Things may not go according to the government script. It would be prudent to assess the risks involved and carefully work on minimising them.

The writer is a former foreign secretary and is currently senior fellow, CPR

Is IBC unfair to operational creditors?

ANTHONY CASEY & BHARGAVI ZAVERI

A key feature of the Insolvency and Bankruptcy Code (IBC), 2016, is that operational creditors — which include employees, suppliers, and consumers — do not participate in the voting process that determines a debtor corporation's future. The explicit exclusion of this group of creditors from bankruptcy negotiations is unique to Indian law, and has led to concerns about their equal and equitable treatment. These concerns have spawned legislative and regulatory amendments and ad-hoc judicial pronouncements seeking to protect operational creditors. Many worry that without a say in the resolution process, these creditors will get a raw deal. But theory and evidence do not support this.

The exclusion of operational creditors from the decision-making process was partly based on the rationale of minimising specific costs associated with including them. Two in particular loom large.

First, operational creditors are widely dispersed and collecting and admitting their claims can be expensive and time consuming. Similarly, these creditors often have widely disparate interests, making it difficult to deal with them as a single class. For instance, the interests of a supplier who has made a large one-time sale to a debtor will be starkly different from the interests of an employee or a long-term supplier. Similarly, the interests of a home-buyer will be different from the interests of the government, which is also an operational creditor in connection with statutory dues.

Countries that include all creditors in the voting process often do so through elaborate mechanisms of committee representation, claims processing, and debt trading. These mechanisms come at a cost, and the reality is that they often provide little protection. For example, in the US, despite robust mechanisms for unsecured creditors to participate in the decision process, those creditors often recover little or nothing.

Second, operational creditors tend to have a strong anti-liquidation bias, making their vote – when actually coordinated – a threat to efficient decision making. Operational creditors recover near the bottom of the liquidation waterfall and have little to gain in liquidation. At the same time, any project that might produce a future payout – no matter how risky – can increase their payout and continue their valuable relationship with the debtor. This reinforces their bias towards an overall sub-optimal resolution.

What might be the costs of excluding operational creditors? Theoretically, financial creditors, especially secured creditors, may be biased toward liquidation as it offers them a chance to keep their security outside the debtor's estate, and the lack of voice for operational creditors in the process might reduce their recovery rates in bankruptcy. Reduced recoveries could, in turn, lead to higher costs of trade credit for firms nearing distress as vendors charge higher fees or require advance payments at the earliest signs of distress. Reduced recovery could also lead to the collapse of a vital vendor, speeding up the deterioration of the financial health of the distressed debtor.

Every insolvency system in the world struggles to balance these competing forces. Notably, though, the balance is difficult only if operational creditors actually get a raw deal when they are excluded from the voting process. And there is reason to think that this is not the case. For example, operational creditors seem to favour the IBC over other alternatives. They are now the most common group to initiate a resolution process under the IBC. Out of the roughly 1,800 resolution processes that we have seen so far, a little more than half have been initiated at the behest of operational creditors. And, the available data suggests that from January 2017 to March 2019, the number of processes initiated by operational creditors has been increasing by an average of 109 per cent every quarter. The corresponding average for the number of processes initiated by financial creditors is 75 per cent.

Even more tellingly, the Insolvency and Bankruptcy Board of India's (IBBI's) affidavit filed with the National Company Law Appellate Tribunal suggests that recoveries for operational creditors are marginally more than those for financial creditors. The IBBI's published data on recovery rates for 66 completed resolution processes as in December 2018 shows that on an average, operational creditors have recovered 47.45 per cent of their admitted claims. The corresponding number for financial creditors is 45.83 per cent. And, these rates do not take into account the benefit that most operational creditors realise by maintaining their ongoing relationships with reorganised debtors. This further weakens claims of operational creditors being treated unfairly in the resolution process.

These strong recoveries are not as surprising as one might initially think. Financial creditors have strong incentives to treat operational creditors fairly. The best path for financial creditors to maximise recovery is often a reorganisation that keeps the firm alive as a going concern. That requires that the firm's operations run smoothly, which is not possible without ongoing relationships with operational creditors such as vendors, employees, and clients.

Finally, to truly assess the merits of the IBC's voting structure, we have to ask how outcomes would differ under alternate regimes where operational creditors are given a vote. Again, there is reason to think that the IBC is no worse for operational creditors than the alternatives. Even with voting rights, the operational creditors still face coordination problems. And in many cases, it is unlikely that they would have an effective vote in the decision-making processes. Given the current 66 per cent threshold and the structure of the debt market in India, their vote would likely hold little or no sway in most cases.

For operational creditors' vote to really matter, voting rules would likely have to introduce class voting and costly coordination mechanisms. Class voting then requires even more expensive processes for dealing with hold-out classes, such as the cram-down mechanism in the US. And for all the added costs in those systems, the practical results are often the same where the votes of unsecured creditors have no practical effect on the outcome.

In the end, there is much uncertainty. To assess whether the concerns — and the responses to them — are valid, we must first evaluate potential costs and benefits of excluding operational creditors from the decision-making process of the creditors' committee. Any decision to change the system should be based on developed theory and firm evidence. As it stands, the theory and available evidence point in favour of the current system and against popular claims of unfairness towards operational creditors.

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Rewriting the rules of reporting

BOOK REVIEW

DWIGHT GARNER

The best piece of advice I've ever heard about being a journalist is from the investigative reporter Amy Goodman, who has worked in Nigeria and East Timor, among other places. Goodman has said this: "Go to where the silence is and say something."

That sentence hung in my mind while reading *Our Women on the Ground: Essays by Arab Women Reporting From the Arab World*, a stirring, provocative and well-made new anthology edited by the Lebanese-British journalist Zahra Hankir. It's a book that banishes all manner of silences.

Ms Hankir invited 19 Arab and Middle Eastern *sahafiyat* — female journalists — to detail their experiences reporting from some of the most repressive countries in the world. The result is a volume that rewrites the hoary rules of the foreign correspondent playbook, deactivating the old clichés. Each of these women has a story to tell. Each has seen plenty.

Some of these journalists work (or have worked) for establishment media outlets like the BBC, NPR, *The Financial Times*, Bloomberg, Al Jazeera, *The Washington Post* and *The New York Times*. Others are freelance photographers, or small website operators.

They hail from, among other places, Egypt, Syria, Morocco, Yemen, Iraq, Lebanon, Sudan and Libya, though many also have a foot in the Western world. There's a lot of self-scrutiny in this volume. A sub-theme is the guilt many of these reporters feel over their own relative privilege, the fact that their own families are safe while the people they write about tend to live in poverty and in terror.

Our Women on the Ground has many aspects to it — it's about ambition, harassment and misogyny, sex, family, bravery, politics, religion, history, broken lives and double lives — but at bottom it imparts a pervasive sense of fear and loss. There are two harrowing deaths before we are 30 pages in.

The first is that of a young Syrian woman, a philosophy graduate named Ruqia Hasan, who was abducted and killed by ISIS for her outspoken posts on social media. She knew what was coming. She wrote on Facebook: "While they will cut off my head, I'll still have dignity, which is better than living in humiliation." Her story is delivered by Ms Hankir, in her introduction.

The second is that of *The New York Times's* Beirut bureau chief Anthony Shadid, who died at 43 in 2012, apparently of an asthma attack, while reporting in Syria. The author of this powerful and rueful essay is his widow, Nada Bakri, who has also reported for *The Times*.

Ms Bakri, like nearly all the writers in this book, does not hold back. After Shadid's death, she writes, "I quit journalism, left my home in Beirut and moved thousands of miles away from everyone I knew and everything familiar. Along the way, I became someone I don't recognize."

Many of these essays are about trying to work in dangerous circumstances, doubly so for women. As Zaina Erhaim writes in her essay: "I am a Syrian; a woman who lived in the most masculine of spaces; a journalist in a land of warlords; a secularist living among different kinds of extremists." She adds: "I would be a *great* target, someone a fighter would be proud to have killed."

There are accounts here of reporting from war zones and, for example, of being embedded with the United States military during the Iraq War. When these journalists were unable to be on the scene, they became skilled at scanning social media, especially YouTube videos, and gleaning information from those sources. Another kind of silence this book charts is the one that arrives when a source goes dark, because they've been killed or forced out of their homes.

There are places these journalists can go that men cannot: kitchens and hair salons, to name two. In her essay, Hannah Allam, an NPR national security reporter who worked for McClatchy newspapers during the Iraq war, suggests that reporters ignore so-called women's stories at their peril.

There is a good deal of gallows humour in *Our Women on the Ground*. There are high spirits; several romances are recounted. There are many, many stories of frightening and unwanted attention from men. Yet in her essay, Donna Abu-Nasr, Bloomberg's Saudi Arabia bureau chief, catches some of the absurdity that can be in the air, too.

"Often, while I was stuck in traffic, young men would slam Post-its or papers with their mobile phone numbers scribbled on them on the window of my car," she writes. "That was one way to pick up women. Another was to go to the mall and throw the little slips of paper at the feet of women covered head to toe in black."

The optimism that attended the Arab Spring in the early 2010s slowly evaporates in these essays. Things grow worse, not better. About the Syrian crisis that began in 2011, Hwaida Saad, a reporter for *The New York Times*, notes: "Ideas changed, and so did faces — many of which grew beards. On the radio, jihadi songs replaced those of Elissa. Innocence gradually disappeared."

The Palestinian writer and free-press advocate Asmaa al-Ghoul recalls some of the romance that attended the early days of the Arab Spring protests. "We thought that we were going to change the world," she writes. "How I pity the generation that will have to go out to do it all over again."

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