Fly with caution

With growth hitting a new low, the Indian aviation sector needs to tread carefully

OUT OF THE BLUE

ANJULI BHARGAVA

Jet Airways' abrupt closure may have left many former employees of the airline jobless and many passengers, Jet loyalists and industry observers sad but for India's aviation sector it has been a blessing in disguise whichever way one looks at it.

Had the airline not downed shutters, I shudder to think what would have happened to the sector as growth in the first half of this year fell to single digit. CAPA has just revised its traffic forecast for the year and expects the year on year traffic growth to be less than 5 per cent. This too is based on an assumption of higher growth in the third and fourth quarter of the year than the first two. The slowdown that appears to have gripped India's economy is reflected in aviation too. International traffic growth has been almost flat and could even show a slight fall by the end of the year, according to analysts.

In keeping with the truly peculiar nature of India's aviation industry, the industry is poised to make profits for the first time since 2003, in a year when growth is likely to be among the lowest. CAPA — rather optimistically — estimates an industry profit of $500-700 million if things remain good and $ 250-400 million if things don't remain so good for the financial year ending March 2020.

Jet's closure has sorted out a number of challenges the industry was facing. It made available a total of around 2,100 pilots in an industry that was facing an acute pilot shortage. Almost all the rival airlines have hired Jet commanders (and cabin crew) including those who fly Airbus aircraft like IndiGo and Air Asia India. A type rating training for six months is on for many of the new recruits.

A second major shortage the airlines were facing was a shortage of flying slots at the metro airports -- in particular at Delhi and Mumbai. Jet's exit has freed up 800 weekly slots — most at Mumbai where Jet was based — which have been cornered mostly by the incumbents — SpiceJet, Vistara, Go Air, IndiGo and Air Asia. This has been both a relief and a boon at these highly constrained airports.

In addition, Jet's closure helped check the overcapacity in the market as 35 million seats went out of the system overnight. This has helped improve yields for the remaining players. However, most of the capacity is being replaced with SpiceJet taking the lead followed by Vistara and Air Asia India (which will be adding as many aircraft to its fleet this year as it did in the first five years of operation). Most of the capacity in the domestic market is back on offer although no one has yet stepped in to fill the gap left by Jet on international routes. What has also helped the players so far is that oil has not played truant and the rupee has remained largely stable, even if it hasn't strengthened against the dollar. These two factors can change the economics for all the carriers, both instantly and significantly.

So where do we go from here? As I see it, a lot will depend on the players themselves. If the airlines maintain discipline on fares in the coming quarters, there's a chance (other factors remaining unchanged) that some of the players would end the year with some profit. An all-out fare war — as the airlines often find themselves in — could weaken everyone's balance sheet and leave every player and the industry worse off.

What happens if growth does not recover quickly? Capacity will have risen, costs will remain unchanged and yields will take a hit. The gains made in the quarters following Jet's exit could be reversed rather quickly. In the domestic market, the industry could actually do with more consolidation. Fewer and more efficient players is, in my view, the need of the hour.

But it is the next moves that the players make on the international routes that could be the clincher. The yawning gap in this market left by Jet's exit is tempting to fill. Making hay while the sun shines might seem attractive but is fraught with danger. Air India, which has gained little from Jet's demise, remains the next big variable for the industry. With a total of 145 aircraft (including Air India Express), the buyer of this airline will be best placed to fill the gaps left by Jet's withdrawal from the international sectors.

If I were Vistara or IndiGo in particular, I would chalk out my plans after there's some clarity on where this sale is headed. Treading with caution in a world of uncertainties may eventually be the wisest route.

CHINESE WHISPERS

Resisting demotion

The Communist Party of India (CPI), Trinamool Congress, and Nationalist Congress Party on Monday urged the Election Commission not to take away their "national party" status, saying they should be given a fresh opportunity to improve their electoral performance. They told the Commission they were old parties and had played a key role in national politics. Hence, their status should not be based on recent electoral performance only. The Election Commission had earlier issued them notices, asking why their "national party" status should not be revoked following their performance in the 2019 Lok Sabha elections. The CPI is learnt to have said that after the Congress, it is the oldest party in the country and had been the principal opposition party in the Lok Sabha. The Trinamool is believed to have said that it was given national party status in 2014 and it should be allowed to continue with it till at least 2024. The Bahujan Samaj Party (BSP) escaped the fate of the three after it won 10 Lok Sabha seats and some assembly seats in not just Uttar Pradesh but also Rajasthan, Madhya Pradesh, and some other states.

Family above all

A couple of appointments the Congress announced on Monday set tongues wagging within the party about how it was oblivious of the public mood about the party being the symbol of dynastic politics. Congress communications department chief Randeep Singh Surjewala issued a statement saying Congress President Sonia Gandhi has approved the appointments of Sharmistha Mukherjee and Anshul Meira Kumar as national spokespersons of the party. Mukherjee is the daughter of former president Pranab Mukherjee. Kumar is the son of Congress leader and former Lok Sabha speaker Meira Kumar. Some leaders, however, defended the party by pointing out that most other national spokespersons in the party were non-dynasts, but agreed that the optics of Monday's announcement could have been better.

Message for Vikram

As the Indian Space Research Organisation (Isro) continued its efforts to establish link with Chandrayaan-2's Vikram lander, now lying on the lunar surface after a hard-landing, social media users found ways to humour the Isro team. A tweet by the Nagpur police on Monday urging 'Vikram' to respond went viral in no time for its light-hearted take on the whole episode. "Dear Vikram, Please respond. We are not going to *challan* (receipt against a fine) you for breaking the signals!" said the Nagpur police through its official Twitter handle. The Isro has said Vikram, which lost communication with ground stations in the early hours of Saturday, was intact and lying tilted on the moon, but not communicating with ground stations.

Low-cost hygiene

There is a social case for price control on hygiene products, but it leaves economic questions for manufacturers working on thin margins

VIVEAT SUSAN PINTO

The government's move to draw up a list of essential hygiene products, on the lines of an existing national list for drugs, could put it at loggerheads with industry. For one, say sources in the know, it signals the Centre's intent to widen its control beyond pharmaceuticals into over-the-counter (OTC) products.

OTC products in India are typically sold like fast moving consumer goods (FMCG), backed by huge marketing budgets and an aggressive distribution push. It is not heavily regulated, say industry experts, the way the pharmaceutical industry is in the country.

TAKE TWO

ANALYSIS BEHIND THE HEADLINES

While some experts say it is precisely this lack of regulation that has pushed the government to consider putting a price cap on hygiene products, industry players say it can hardly work for categories such as theirs. "Segments such as sanitary napkins and diapers are fairly young, having evolved in recent years as disposable incomes and awareness about hygiene products improved. Their adoption also grew after branded players began advertising about their convenience and ease of use," says Kamal Johari, managing director, Nobel Hygiene, which makes adult and baby diapers.

"Over the years, product prices have fallen sharply to improve penetration. Organised players today operate on thin margins. A price cap will not help. Branded players could get squeezed, pushing them to scale down their market activities and initiatives," he says.

Most big brands today manufacture and market sanitary napkins and baby diapers for under ₹50 a pack, though activists such as the Centre for Science and Environment (CSE) argue that accessibility remains poor in rural areas, since people can neither afford branded products nor do these companies reach them through conventional trade channels.

According to the National Family and Health Survey 4, around 48 per cent of the women in rural areas have access to clean sanitary napkins versus 78 per cent in urban areas. Overall, 58 per cent of the Indian women between 15 and 24 years use a hygienic method for protection, which is mostly sanitary napkins. In other words, there are still gaps to be filled when it comes to access to clean and affordable hygiene products. This, says CSE, builds a case for price control, though companies are not in agreement at all.

Procter & Gamble and Johnson & Johnson, two of the country's top hygiene product makers, manufacturing brands such as Whisper and Pampers (both by P&G) and Stayfree (J&J) declined comment for the story.

Unicharm and Kimberly-Clark, also key market players with brands such as MamyPoko Pants and Huggies respectively, were not immediately available for comment. Kimberly-Clark, which until 2017, had a joint venture with Hindustan Unilever, also makes Kotex sanitary napkins.

But a delegation from the Feminine and Infant Hygiene Association (FIHA), a body of the country's top manufacturers, which includes the above companies, had an urgent meeting with the government last week, said sources, to understand the proposed move to draw up a hygiene list.

At the meeting, the government, said persons in the know, assured the delegation that it was only studying the health and hygiene market right now and that a list would come up later. But companies remain wary of price control.

The proposed list could also look at a broader spectrum of hygiene products including soaps, handwash, disinfectants, toothpastes and mouthwash apart from sanitary napkins and diapers, implying that the larger personal and health care market could be regulated in the future.

"In the last few years, hygiene and health care products have been driven aggressively by FMCG companies and price control could slow down initiatives in this market," says Kaustubh Pawaskar, associate vice-president, research, at brokerage Sharekhan.

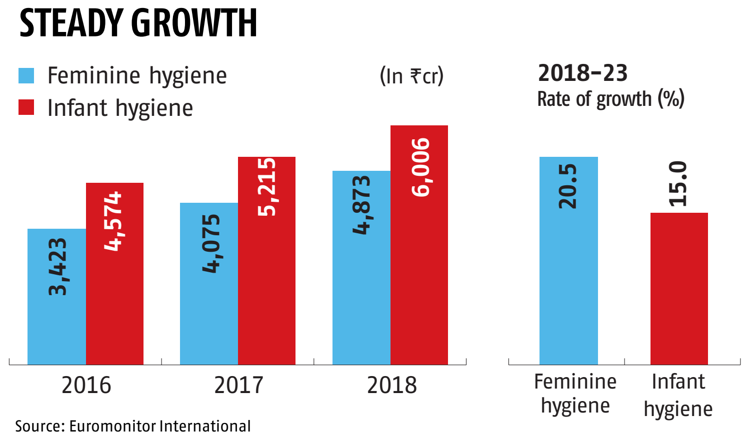
The branded feminine hygiene market in India is pegged at ₹4,873 crore, while the infant hygiene market stands at ₹6,006 crore, according to market research agency Euromonitor International.

Aggressive launches in the last few years across the price pyramid and awareness campaigns have increased the penetration of both these categories of products, especially, feminine hygiene, Euromonitor says. The compounded annual growth rate of feminine hygiene market in India is pegged at 20.5 per cent over the next five years, while that of infant hygiene is pegged at 15 per cent, the research agency says.

"Significant opportunity for category penetration and growth exists for both segments and affordability remains a key factor for companies when looking to capture demand from low-income groups," Euromonitor says.

The government itself is working keenly in the area of feminine hygiene, market experts said. Last week, the Centre reduced the price of biodegradable sanitary napkins to ₹1 per piece from ₹2.50 a pad. The move was aimed at making the product even more accessible to girls, the government said, who were dropping out of school because of the lack of good quality sanitary napkins at an affordable price.

STEADY GROWTH



Source: Euromonitor International

ON THE JOB

Unemployment in Jammu & Kashmir

MAHESH VYAS

A fast-frequency measure based on an all-India sample often faces challenges in execution that cannot be overcome in the finite time span available to cover disruptions caused by externalities. For example, if a region is hit by a severe natural calamity that disrupts the execution of a survey for more than a week, then it is not possible to generate a near-realtime weekly estimate for that region.

Locked in their houses, Kashmiris face no jobs, no income, no freedom but, no unemployment. Not funny

In the recent past we faced several challenges in the execution of the Consumer Pyramids Household Survey. The worst caused by a natural calamity was in Kerala during the 2018 floods. There were challenges in the state this year as well as there were in parts of Maharashtra and Gujarat.

These natural calamities suspend the survey for a few days or even a week or 10 days. And then we cover up the losses during days of slack that is available in the survey execution schedule or by adding resources.

We learned through experience that weekly state-level estimates are too vulnerable to natural calamities in small states. So, we suspended these measures. Now, weekly estimates are available only at the all-India level and at the all-India rural and urban levels. We retained monthly state-level estimates with the belief that no calamity would stall the execution of a household survey for an entire month.

The lockdown in Kashmir since August 5 now challenges this assumption. A manmade affliction has stalled Jammu & Kashmir and in the process it has stalled the household survey execution in the state — now for over a month. We have very little communication with the CPHS survey execution team in Kashmir. The survey depends heavily on GPS-enabled smart phones and internet connectivity. This is a face-to-face survey that requires easy mobility of people from house to house, village to village and city to city. None of this is possible. The survey in Jammu & Kashmir remains totally suspended.

The CPHS has a sample of 2,588 households in Jammu & Kashmir to be surveyed over a period of four months. Of these, 784 were scheduled to be surveyed in August. We could survey only 36 in the month. Past surveys tell us that Jammu & Kashmir has a labour force of about 4.3 million. The labour force participation rate was a little over 42 per cent and the unemployment rate has been mostly around 15-16 per cent.

The labour force is about 1 per cent of India's labour force and the labour force participation rate is similar to that of India, but the unemployment rate is twice as high it is in India. In August 2019, the labour force participation rate rose a bit to 43 per cent and the unemployment rate rose sharply to 22 per cent.

But, all labour statistics estimates related to Jammu & Kashmir for the month of August 2019 are unreliable. They are unreliable because they are based on an extremely small sample of 125 respondents from just 36 households. "Non-response" is of the order of 95 per cent. That is a statistically clinical explanation and it is totally unenlightening, like the estimates.

In reality, the state could be suffering a much shrunken labour force and near zero unemployment rate.

The labour force would have shrunk because when there are no tourists and when movement is highly restricted, when hotels, restaurants, transport enterprises and a host of other enterprises are forced to remain shut, they would effectively lay-off labour. In fact, casual labour is automatically laid off. The shikara-owners and such other self-employed entrepreneurs are all rendered unemployed.

These persons rendered unemployed by the lockdown will necessarily have to exit the labour force because there are no jobs around to look for.

Shops and offices are closed. Markets are also closed. There is no one to offer jobs to the unemployed. And, there is no business for the entrepreneurs.

In recent surveys we recorded an estimated 650,000 unemployed persons in Jammu & Kashmir. The sample representing these people had stated till July that they were unemployed, were willing to work and were actively looking for jobs. How would they respond now? No one could be actively looking for jobs. Not many would be willing to work under the current conditions. As a result, technically, the recorded unemployment rate would be zero.

Locked in their houses, Kashmiris face no jobs, no income, no freedom but, no unemployment. Not funny.

The writer is the MD & CEO of CMIE

LETTERS

New era in banking

This refers to "Bravo FM, but it's only half the job done" by Tamal Bandyopadhyay (September 9). The article has made a case for freeing up public sector banks from the tradition of directed lending. Examples of government sponsored schemes that failed to kick start the rural economy were enumerated. It should be noted schemes like IRDP, SEEUY, SEPUP were well thought-out and aimed to provide employment opportunities to families and educated youths. If these schemes were implemented in letter and spirit, we would have had a different story to tell. The failure of these schemes was in their implementation at grassroots level.

Under these schemes, the identification of borrowers was done by local government functionaries. Banks were used only for the disbursement of the loans. Village-level corruption was endemic. In most cases, it was not the neediest who were chosen to be financed but the one who had the contacts or who knew how to game the system. There was no pressure on banks to recover the loans. While there were targets for loan disbursements, there was no such targets to recover previous loans. Conscientious bankers who went after defaulting borrowers did not get the requisite support. There were also cases of bank officials being tormented for not granting loans. Most of the managers were posted in locations far away from their roots. With this handicap, it is not surprising managers were not stringent while identifying borrowers or that they did not exert themselves to recover loans.

Let us hope we learn from the past and see the dawn of a new era in banking.

KV Premraj Mumbai

Handle with care

Tamal Bandyopadhyay's insightful article "Bravo FM, but it's only half the job done" (September 9) gives a realistic recap of the progress of the banking sector in India post-nationalisation and gives practical suggestions for making the current phase of banking consolidation purposeful. India might be the only country which has deployed the resources and outreach of banks as an effective tool in the nation's economic development with focus on financial inclusion. The credit goes to the government as the owner of public sector banks and the Reserve Bank of India as the regulator and supervisor of the banking system that whatever has been achieved by financial intermediation across sectors was done without much damage to the institutional system. This was made possible by timely intervention to restructure and reorganise the banking infrastructure, by the reorganisation of existing institutions and the introduction of new players where necessary. The present merger of 10 PSBs to form four is a continuation of such efforts.

So long as banks continue to mobilise resources using the public deposit route, they will not be able to

get away from the responsibility to provide need-based banking services including lending to priority sectors. The government and the RBI will have to ensure that all banks get a level playing field to manage their businesses professionally. For this, not only banks, but all statutory bodies and PSUs need a free hand, subject only to transparent regulatory mandates, to manage their resources, personnel and day-to-day administration.

M G Warrier 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

Business Standard
Volume XXIV Number 20
MUMBAI | TUESDAY, 10 SEPTEMBER 2019

Crunch time on RCEP

India should not risk getting isolated in the region

The Union government is shortly going to have to make a momentous decision about India's economic orientation. The deadline for the conclusion of talks on a proposed free-trade agreement (FTA) known as the Regional Comprehensive Economic Partnership (RCEP) is fast approaching. The FTA, which is envisaged to link the 10 members of the Association of Southeast Asian Nations (Asean) with the People's Republic of China, South Korea, Japan, Australia, New Zealand as well as India, is due to be concluded by the time Asean meets next in November. It has become clear over the past years that the major stumbling block to concluding this agreement is the attitude of New Delhi, which understandably worries that entering into an FTA with China — with which India already runs a substantial trade deficit — might be disruptive for the domestic economy. The attempt has, therefore, been made to postpone lowering tariff barriers against Chinese goods in particular, especially in more sensitive lines of trade. Other members of the RCEP seem to have taken it for granted that almost all tradable goods — nearly 90 per cent — should see the elimination of tariffs in short order. India, if it intends to remain a part of the RCEP process, will clearly have to make some compromises, as has been underlined at the recently concluded ministerial-level RCEP meeting in Bangkok. Some members of the RCEP have reportedly asked India to make up its mind if it wants to stay in the grouping.

The question is how many compromises New Delhi will permit its negotiators to make, and whether its final position will be acceptable to the other countries. India already has FTAs with Asean, South Korea, and Japan, although these have not been fully implemented in some particulars. The concerns are not just about cheap manufactured goods from China but also, for example, dairy products from Australia and New Zealand. The Union commerce ministry has in recent years complained that FTAs that India has signed have not been productive from the point of view of Indian industry — imports into India from FTA countries have done better than exports from India to those countries. But it is futile to blame this on trade agreements. That is a consequence of an unwillingness to take the important domestic reform steps that would enhance the competitiveness of Indian industry and enable it to take on producers from Asean and elsewhere.

There is little doubt that, in its tariff policy, India has taken a turn towards protectionism and import substitution in recent years. Concern about Chinese imports is also high. In this context, entering into an FTA with countries including China would be a significant deviation from the direction of the current policy. The government thus faces two options. It can continue with its current protectionism, at the cost of both being excluded from the RCEP process and, essentially, being isolated in the region. Or it can use the RCEP as a tool — the way Beijing did with its membership of the World Trade Organization in the initial years of this century — to force through important domestic reform measures. There is no question that the second option would be both better for the Indian economy in the long run and also for New Delhi's international standing. The question is whether the government has the political will to take the hard decisions that are required.

Combating air pollution

Stubble burning requires an economically rewarding solution

The Delhi government's recent announcement about working on a plan to bring down air pollution due to the burning of crop residues in the capital's neighbourhood is a welcome move that should spur similar action by the governments of the adjoining states as well. The drive against torching paddy stubble in north-western states seems to have overcome the initial hiccups and has started to show results. The Indian Council of Agricultural Research recently claimed, on the basis of satellite-based studies, that the incidence of biomass burning had dipped last year by 41 per cent in Haryana, 25 per cent in western Uttar Pradesh, and 15 per cent in Punjab over 2017. This is a small, yet significant, beginning. However, much more needs to be done to ensure enduring results.

A key flaw in the present anti-stubble burning strategy of the Centre and states is that it is focused primarily on promoting the use of Happy Seeder, a tractor-mounted machine that cuts the paddy straw and sows the next wheat crop in a single operation. Regardless of the merits of Happy Seeder, a one-pronged and single appliance-based tactic to tackle this menace cannot be free from downsides. This is an expensive machine, which most farmers cannot buy despite a hefty 50 per cent subsidy. Though a higher concession of 80 per cent is offered to the cooperatives and farmers' producer organisations to procure these machines for custom-hire services, their limited period use — just around three weeks in a year — does not amply justify large investments in them. Besides, this can be operated only with a high horse-power tractor, which most cultivators do not possess. Moreover, many farmers hesitate to spend on managing the stubble — even though the expenses are recompensed later through higher crop yields — when the same can be done free of cost by torching the fields.

Clearly, stubble burning is an economic issue that requires an economically rewarding solution. The need is to add value to paddy leftovers to make them a marketable economic good. The farmers would not mind spending on collecting the residues if they can earn something from them. Unlike wheat straw, which fetches handsome prices because of its use as animal feed, paddy stalks are unfit for this purpose due to high content of indigestible silica. So, other avenues need to be discovered for their gainful use. Luckily, technologies are now emerging to convert paddy biomass into fuel pellets and bricks. It can also generate bio-gas or other forms of bio-energy. Oil companies, such as Indian Oil Corporation and Hindustan Petroleum, are setting up plants in Punjab to produce bio-CNG from paddy wastes. They may need assistance in developing the logistics infrastructure for procuring and transporting the biomass.

This apart, efforts need to be stepped up to find bio-agents for speedy decomposition of crop residues to make valuable composts. Some successes have already been reported in this field, which should promptly be validated and promoted. A fresh opportunity has now emerged for using paddy straws in the packaging sector, which is the largest user of the now banned single-use plastic. Like in the past, paddy straws can serve as the cushion for packing fragile products, replacing thermocol and other plastic material. Such approaches can transform the baneful crop waste into useful wealth.

ILLUSTRATION: AJAY MOHANTY

Why foreign investors are still selling

Policy measures taken to counter the slowdown are not enough

Selling of Indian equities by foreign investors continues unabated. We see a net negative figure between \$100 and \$200 million on a daily basis. India continues to underperform global markets, most of which, unlike India, are solidly in positive territory in terms of performance for the year.

The macro picture for India remains benign. Oil prices seem anchored in a range of \$60-70 per barrel. Nearly \$17 trillion of debt globally is yielding negative interest rates. Any country able to deliver strong growth and have a positive carry should be able to attract disproportionate capital. Central banks around the world are set to embark on another round of easing, and liquidity currently is plentiful.

The government has listened to investors, both local and global, and removed the surcharge on capital gains, which had been a real pain point. There also seems to be acceptance that growth has slowed to unacceptable levels, and policy measures are being taken to counter the slowdown.

AKASH PRAKASH

Despite the above, global capital continues to exit. On discussion with investors, who run global or regional fund mandates, the following concerns are repeated.

There is concern as to whether the current slowdown is more structural than cyclical. The relentless grind down in rates globally seems to indicate that nominal growth rates are expected to slow dramatically across the world. Maybe India is now destined for an extended spell of 5-6 per cent real growth instead of the 7-8 per cent everyone expected. With inflation consistently undershooting, that may translate into nominal growth rate of 8-9 per cent. If you extend this line of argument further, nominal growth in single digit implies a similar rate of corporate earnings growth. Most investors, given the extremely low profit share of GDP, had budgeted high double-digit earnings growth for India over the coming five years. This was how they would defend the valuation premium of India compared to the rest of the emerging market. These expectations of high double-digit earnings may not be met. Investors are starting to give up on profit share mean reverting. Maybe there is a new normal here as well. While India will still grow faster than most, the absolute levels may be disappointing. Valuations may need to correct for this.

The concern is also that there is absolutely no space for a countercyclical fiscal response. With slower GDP growth, tax revenues will disappoint, and weak markets mean no upside on divestment either. The only tool policy-makers have is monetary policy. They are pulling on this lever, but a despondent corporate sector, determined to deleverage may not invest despite lower rates. Most expect the global economy to slow as well. Thus, trade and exports cannot be a saviour to address our growth challenges. Many investors argue for a structural slowdown, as the government has limited ability to get us out of this funk.

Another fear is around debt dynamics. The stock of government debt has a yield of about 8.3 per cent. If nominal GDP grows slower than this number, as it did in Q1, debt dynamics can turn ugly, if the slow growth persists.

A second concern is around the goods and services tax (GST). Many investors now believe that it will have to be rejigged. The Centre has guaranteed a tax revenue growth of 14 per cent to the states. With nominal GDP in the single digits, that may be impossible to deliver. The central government will have to fill the hole, further straining its finances. Invoice matching may be the last hope. Once that is implemented, we may see some buoyancy. Without this, the whole architecture of the tax may have to be looked at again. We had all thought that GST would create fiscal space. It seems to have severely cramped fiscal maneuverability instead. Given the slowdown, low nominal GDP and continued implementation challenges, the revenue shortfall this year may be ₹1 trillion.

The third concern is around corporate governance and transparency. There is genuine dismay around the governance standards in corporate India — the CG Power episode being the latest. How can the actual debt be double that reported in the balance sheet? How can a company hide thousands of crores of debt for neither the management nor the board to know? The true nature, size and complexity of the IL&FS default are now apparent. Banks may have to take a 50 per cent haircut. The financial system may lose ₹45,000-50,000 crore. The auditors, rating agencies, management and board seem culpable of fraud or at least incompetence. We seem unable to have professionally run, board managed companies (without a credible promoter) with one or two exceptions. Invariably, the board gets captured by management. Most investors now actually prefer a strong promoter with a track record of good governance with high inside ownership. At least it reduces the agency problem. There is a real trust deficit in financial markets. Poor governance standards will corrode valuation multiples.

Indian equity markets had started narrowing in breadth two years ago. In hindsight, the markets were right, it has paid to stick to the proven leaders in governance. The quality premium was worth paying.

Sentiment among corporate India remains very subdued. Investors meeting companies find it difficult to remain positive. Companies complain of no demand, risk aversion in the financial system, judicial activism, unsympathetic policy-makers/regulators and poor profitability. I have not seen such negative sentiment since the taper tantrum of 2012-13.

Although the government has begun to act and appreciate the contours of the slowdown, not enough has been done yet. There still seems to be a lack of communication between the different arms of the government and between policy-makers and corporate India. We need to rebuild corporate confidence.

Investors want to see this slowdown as an opportunity for genuine reform. India has to be seen as being more hospitable for business.

While I am not as negative as some of the above feedback, one hopes the government puts in place a more ambitious economic reform agenda. I do not think this slowdown is structural. As we reach the anniversary of the NBFC crisis, growth will start to look better as the base turns favourable. Profit share/GDP will rise from today's abysmal levels. The global macro has rarely been better. The next six months may turn out to be a buying opportunity, but more on that in a subsequent article.

The writer is with Amansa Capital

Modi 2.0: Baptism by (economic) fire

You just cannot escape it, no matter how hard you try. The second Narendra Modi government completed its 100 days last week on September 6, and the hosannas haven't stopped. It's not just the government and the Bharatiya Janata Party (BJP) spokespersons who are celebrating what Modi 2.0 has done in this period, but virtually all news channels and newspapers seem to be in competition as to who gives the widest and loudest coverage. By comparison, Prime Minister Modi and the BJP president Amit Shah seem almost muted!

Why are the first 100 days of an administration special? This landmark was set up in 1933, in the first administration of President Franklin Roosevelt of the United States. Immediately after assuming office on March 14 that year, he set himself a busy agenda. By June 11, the administration had completed 100 days. It had managed to get 15 important economic legislations passed through the Congress, thus boosting public confidence in the administration's ability to cope with a depression-ravaged economy. Roosevelt himself referred to this in his Fireside Chat on the radio, another of his innovations, on July 24.

ET CETERA

SHREEKANT SAMBRANI

The US News and World Report calls the 100-day performance a useful measure to gauge presidential performance because "presidents tend to be most effective when they first take office, when their leadership style seems fresh and new, when the aura of victory is still powerful." While Mr Modi's aura of the second victory is undoubtedly most powerful, his leadership style has been known for five years. So whether the 100-day criterion is relevant for the second term is a matter of detail, inconvenient as details usually are. Let that be.

Modi 2.0 certainly matched Roosevelt's despatch in managing legislative affairs in its early days. Its feats of abrogation of Articles 370 and 35A, the reorganisation of Jammu and Kashmir, the triple talaq law and passing of a host of other measures have been lauded. But references are rather rare to that elephant in the room, the economy, stupid (the mantra of James Carville, strategist for Bill Clinton's successful campaign for the US presidency in 1992). We hear instead exhortations to achieve a \$5 trillion economy (by 2024/25) and low inflation. Mr Modi talks effusively of Chandrayaan and India's manifest destiny in space, but seldom about the more down-to-earth economic issues.

The immediate reaction to Roosevelt's 100-day economic campaign was, according to economic historian William L Silber, a "remarkable turnaround in the public's confidence." Within two weeks people returned more than half of the cash they had been hoarding, and the first stock-trading day after the bank holiday marked the largest-ever one-day percentage price increase.

In India, the Bombay Stock Exchange Sensex crossed 40,000 for the first time on May 23, the day of the election results, but it has since been subject to rather severe ups and downs, languishing between 36,000 and 37,000. Foreign investors have taken out more than \$10 billion in June and July. The rupee has slid from about ₹69 to the dollar in May to nearly ₹72 now. All of these hardly indicate confidence of investors, domestic and foreign.

As to the general public, I have to narrate some anecdotal evidence. A pharmacist with a robust business and the local sole distributor of our leading dairy brand both said that they had experienced a downturn in their volumes for the first time. Mind you, food and pharmaceuticals are generally considered immune to cyclical swings of demand. Their experience also mirrored that of those infallible weathervanes, the wholesale fruit and vegetable traders. If the economic headwinds turns to a gale, these straws will blindingly multiply.

The good ship Indian economy today is caught between the Scylla of the need to inject significant stimuli and the Charybdis of resource squeeze caused by the economic downturn. The Reserve Bank windfall payment of ₹1.7 trillion for the year may not be adequate to ensure a safe passage to calmer waters, nor the proposed public sector bank amalgamation. Export markets offer no quick fixes either. The activities which will rebound fastest, according to Arvind Subramanian, are clothes and shoes. But India will have to strive hard to reclaim the lost ground here. The government and especially its economic bureaucracy would do well to dust off the former chief economic adviser's Economic Survey 2016-17 to devise an eminently practicable strategy.

Mr Modi has espoused Roosevelt's 100-day measure and Fireside Chats (*Mann ki baat*), even if it is sheer happenstance. *The New York Times* had observed in 1933 that Roosevelt "considers the President …the instrument by which profound and necessary changes in the American system are to be effected." Mr Modi will wholeheartedly agree that the prime minister has an identical role to play in India. His discharging that task successfully depends largely on how well the economy is handled now, not through fire-fighting, but through a nuanced strategy. He should realise that his favourite preoccupation of India's standing in the comity of nations depends more on its economic destiny rather than aggressive diplomacy. His choice is between Roosevelt who pulled the US out of depression and his would-have-been rival in 1936 (referred to in this column last month), the populist Senator Huey Long of Louisiana.

The writer is an economist

Learning from start-up failure

BOOK REVIEW

NIVEDITA MOOKERJI

Coming from the co-founder of Webchutney, a leading digital agency, *How I Almost Blew It* is a collection of start-up stories that is both authoritative and convincing. As the title suggests, Siddharth Rao's first book is about how successful entrepreneurs have so often been near the end and how they have come out of it either through their decision-making or sheer luck. In all 17 stories, whether it's Sanjeev Bikchandani or Ajit Balakrishnan, Deep Kalra or Deepinder Goyal, the fiascos have proved to be critical life lessons.

Having started Webchutney (later acquired by Dentsu Aegis Network) at age 19 in 1999, Mr Rao has gone through the entrepreneurial grind himself. In his debut book, he has used his own insights to offer a perspective on the variety of experiences the protagonists have gone through.

Zomato's Deepinder Goyal is a case in point. Mr Goyal, who has been in the headlines recently over the company's controversial premium membership plan, Gold, prompting restaurants to threaten logout from the platform, has been through crises before. When the food delivery app, which was initially only a search and discovery business, was on an overseas expansion spree, it failed in many geographies. "Dubai's success gave us the false confidence that we could walk into any market, launch our website and win….We went crazy after perhaps launches in 10 countries in just six months. We failed in half of them and realised that the one-size-fits-all approach doesn't work when you are launching in multiple markets," Mr Goyal told the writer.

From that mistake, Zomato learnt to innovate for individual markets based on local requirements. Most rapidly growing companies including Uber are doing this — customising their products not just according to the countries but also according to the cities where they are launching.

That was not the only challenge for Zomato, which recently laid off 600-odd employees. The food delivery scene was getting red hot with companies such as Swiggy, TinyOwl and Foodpanda attracting marquee investors, Mr Goyal realised Zomato had to get into that space. It did in 2015, but within a year the market dynamics changed completely. "Food tech, the darling of every VC was predicted to reach \$78 billion by 2018, growing at 16 per cent YoY," Mr Rao says, capturing the spirit of that time. The next line is telling. "Of the 105 food tech start-ups launched in India in 2014-15, only 58 were still around by 2016."

Like others, Zomato had begun to struggle. It laid off people and shut operations in many markets. The lesson learnt from that experience, according to the writer, is that it's just a matter of time before everything reboots and bad apples fall away. "But in that moment, it doesn't mean that we can sit tight and not do anything about it. We have to act and move faster. As long as we do that, we will win," Mr Goyal told Mr Rao. According to the writer, Mr Goyal and his team would have none of the foolish chivalry or swashbuckling and that they were not afraid to turn their backs on a fight they knew they could not win. Mr Goyal corroborates: "We are happy to run away from any battle that could potentially kill or drain us in the long term."

MakeMyTrip's Deep Kalra "almost blew it up," too. The first instance was at the peak of the dotcom bubble bust in 2000. Mr Kalra was in Mumbai to collect a second tranche of funds committed by e.Ventures to MakeMyTrip. Instead, Neeraj Bhargava, partner, e.Ventures, asked Mr Kalra to repay the previous tranche and buy back the 70 per cent stake the firm had in MakeMyTrip. Following friends' advice, Mr Kalra offered e.Ventures a "distress valuation". He offered his entire savings at that time — ₹46 lakh — fearing all the while that he would be ridiculed. To his surprise, e.Ventures agreed on that price to sell the 70 per cent stake, taking a massive downgrade on the investment.

Mr Rao points out in the introduction to the book that several success stories — Flipkart, Paytm and Ola Cabs — have not been covered here owing to "several unpredictable factors". He also makes it clear that he hasn't set out to give any formula for success. "My goal is to present stories of a few entrepreneurs and prove there is no framework for success except for determination."

Besides the stories of the entrepreneurs, what keeps the reader engaged is the writer's observations on the start-up world. Take, for example, his comment linking start-ups and unemployment. In the chapter on Jitendra Gupta, co-founder of Citrus Pay, Mr Rao writes, it is fascinating that so many big Indian start-ups were born not out of brilliance but unemployment. Mr Gupta was unemployed for some eight months after he had given up his job as an investment banker. It seems the only thing he was sure about was that people valued his opinion on payments, encouraging him to start a financial technology company.

Mr Rao's take on "start-up pivoting" is interesting too. While on Pradeep Kar, founder, chairman and managing director of Microland, he talks of start-up pivoting as an essential term for changing strategies to make a venture successful. Nokia, he says, is the oldest and the most fascinating example of pivoting. Twitter, he recalls, was born out of a failed podcasting business called Odeo, and Android pivoted out of an operating system for cameras.

Although the author has mentioned entrepreneurs who are not part of this book, who does he think is a class apart? There may not be a clear answer on that, but Mr Rao admits that of all the start-ups stories collected for the book, "I found Delhivery to be the most intimidating business because it is such a daring endeavour in all aspects, from dealing with blue-collar employees to potential frauds and errors."

HOW I ALMOST BLEW IT: Incredible Lessons From India's Most Successful Digital Entrepreneurs
Sidharth Rao
Westland, 298 pages, ₹699