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# Business Standard

## COMPANIES P3
## MAHINDRA TO RESCUE FORD'S INDIA BUSINESS

## COMPANIES P2
## SACHIN BANSAL BUYS NBFC IN HIS BIGGEST BET SINCE FLIPKART EXIT

PUBLISHED SIMULTANEOUSLY FROM AHMEDABAD, BENGALURU, BHUBANESWAR, CHANDIGARH, CHENNAI, HYDERABAD, KOCHI, KOLKATA, LUCKNOW, MUMBAI (ALSO PRINTED IN BHOPAL), NEW DELHI AND PUNE

**THE MARKETS ON WEDNESDAY**

| | | Chg# |
|---|---|---|
| Sensex | 38,593.5▼ | 503.6 |
| Nifty | 11,440.2▼ | 148.0 |
| Nifty Futures* | 11,522.0▲ | 81.8 |
| Dollar | ₹71.0 | ₹71.0** |
| Euro | ₹78.1 | ₹78.1** |
| Brent crude ($/bbl)## | 61.6## | 62.0** |
| Gold (10 gm)### | ₹37,954.0▲ | ₹200.0 |

*(Oct.) Premium on Nifty Spot; **Previous close; # Over previous close; ## At 9 pm IST; ### Market rate exclusive of VAT; Source: IBJA

## SENSEX PLUNGES 504 POINTS AMID PROFIT BOOKING

The benchmark indices dropped 1.3 per cent on Monday, mirroring weakness in the global markets, after investors booked profits judging recent gains as excessive. Most global indices also traded weak as investors assessed the potential fallout of an impeachment inquiry of US President Donald Trump. The Sensex ended 504 points, or 1.3 per cent, lower at 38,594, while the Nifty declined 148 points, or 1.3 per cent, to close at 11,440. 10 ▸

ECONOMY & PUBLIC AFFAIRS P4

## Kristalina Georgieva to take over as IMF chief

The International Monetary Fund (IMF) on Wednesday formally selected Kristalina Georgieva of Bulgaria to be only the second woman ever to lead the 189-member institution. The selection had been all but guaranteed after the global crisis lender said earlier this month that Georgieva, a former World Bank CEO, was the sole candidate.

ECONOMY & PUBLIC AFFAIRS P16

## SBI prices home loans at 265 bps over repo rate

The country's largest lender, State Bank of India, on Wednesday came out with its new repo-linked home loan scheme. The bank said that it will charge a 265 basis point (bp) spread over the RBI's repo rate on new home loans from October 1.

REPO RATE-BASED LOANS MAY DELAY SBI'S PROFIT REVIVAL 10 ▸

ECONOMY & PUBLIC AFFAIRS P4

## No cashbacks on credit card payments at petrol pumps

On the advice of oil companies, banks are going to discontinue the cashback feature they offered on their credit cards for fuel purchase. This comes into effect from October 1. "The 0.75 per cent cashback on fuel transactions will be discontinued with effect from October 1," read a message from State Bank of India to its customers.

ECONOMY & PUBLIC AFFAIRS P6

## EAC-PM shuffle: Sajjid Chinoy in, Rathin Roy out

The Centre on Wednesday reconstituted the Economic Advisory Council to the Prime Minister (EAC-PM) for a period of two years. Rathin Roy from the National Institute of Public Finance and Policy, along with Shamika Ravi of Brookings Institution, were dropped as part-time members. Sajjid Chinoy, India economist at JPMorgan, was appointed as part-time member.

BS SPECIAL ON THURSDAY

**STRATEGY:**
**IBM's leap of faith**
How Red Hat opens "new doors" for IBM in India. NEHA ALAWADHI explains 18 ▸

# MCA norms to shield IBC bidders soon

### Move to prevent reopening of claims, protect acquired assets

RUCHIKA CHITRAVANSHI & ISHITA AYAN DUTT
New Delhi/Kolkata, 25 September

The government will soon come up with detailed guidelines for regulators and tax authorities to protect the winning bidders in Insolvency and Bankruptcy Code (IBC) cases against the reopening of claims and threat to the assets acquired by them.

The Ministry of Corporate Affairs (MCA) has received several representations from companies such as JSW Steel and Tata Steel regarding issues that cropped up after the closure of the IBC process.

The ministry is also looking at the best course of action to ensure the assets of companies under probe are not attached.

"Once a company has gone through the IBC process, all claims are extinguished. We will issue comprehensive guidelines to make the intent of the law very clear," a senior government official told *Business Standard*. However, contradictory high court orders have made bidders jittery.

Union Finance Minister Nirmala Sitharaman, in her address to Parliament during the Budget session, had assured that no criminal proceedings would be taken up against the winning applicant, and that only the corporate debtor would be held liable for such proceedings.

The MCA, if required, would seek the Cabinet's nod to finalise procedures it expects other government agencies to follow with respect to the winning bidders, the official added.

Government authorities such as the Directorate General of Foreign Trade and central boards of direct and indirect taxes and customs are expected to fall in line once the government makes it clear in its guidelines.

The guidelines will be in keeping with the recent amendment to the IBC that made a resolution plan binding upon all stakeholders, including the central government, state governments and local authorities, to whom a debt in respect of the payment of the dues may be owed.

IBC cases in sectors such as telecom, mining and real estate have faced hurdles when various government departments insisted on separate approval processes irrespective of whatever is approved under the IBC.

"One important point that appears to have been missed in this amendment is the binding nature of the approved resolution plans over judiciary across the country. If the approved resolution plan also could have been made binding on judiciary or other tribunals, then the inconsistent view on how to deal with 'contingent liabilities' could have been addressed," Anshul Jain, partner, advisory services, PwC, said.

Suharsh Sinha, partner, AZB & Partners, pointed out that the latest IBC amendment took care of tax liabilities and, on the face of it, was broad enough to include investigative agencies. But more clarity was required to indemnify the corporate debtor from criminal proceedings, he said.

Sources close to JSW said that if the corporate debtor got implicated, then it would impact the resolution process and, in turn, the resolution applicant.

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### EASING INSOLVENCY PROCESS

- Corporate affairs ministry has received representations from companies such as JSW Steel and Tata Steel regarding post-resolution issues
- Ministry is also looking at the best course of action to ensure the assets of companies under probe are not attached
- Recent IBC amendment said a resolution plan will be binding upon all stakeholders, including central government, state governments and local authorities
- Legal experts and companies believe more clarity is required

ILLUSTRATION: AJAY MOHANTY

# PM rolls out red carpet for global investors

### Flags democracy, demography, demand and decisiveness

PRESS TRUST OF INDIA
New York, 25 September

Prime Minister (PM) Narendra Modi on Wednesday pitched India as 'the' investment destination for global investors, saying reforms by his government were just the beginning of a long innings. Modi promised to personally act as a bridge for businesses and said India had a government that respected corporates and wealth creators.

"India's growth story has four important factors that are rare to find anywhere else in the world. These factors are democracy, demography, demand, and decisiveness," he said. "Democracy together with political stability, predictable policy and independent judiciary gives confidence of safety and security of investment and of growth," he said, speaking at the *Bloomberg* Global Business Forum here.

The PM said his government's decision to slash corporate tax rates was a "big revolutionary step" for investment, and that the move had been hailed by businesses as historic.

**Prime Minister Narendra Modi being presented the 'Global Goalkeeper Award' by Bill and Melinda Gates Foundation's co-founder Bill Gates for the Swachh Bharat Abhiyan, in New York on Wednesday** PHOTO: PTI

INDO-US TRADE DEAL FACES ICT HURDLE P4

"If you want to invest in a market where there is scale, come to India," Modi said. "If you want to invest in a market where the latest trends and features are appreciated, come to India. If you want to invest in start-ups with a huge market, come to India. If you want to invest in one of the world's largest infrastructure ecosystem, come to India."

India, he said, was waiting for global investors. "India is your only destination. I am waiting to welcome you," he said.

Turn to Page 19 ▸

## PMC Bank has enough assets to honour deposits, says RBI administrator

**Punjab and Maharashtra Co-Operative (PMC) Bank's liquidity profile is good enough and depositors should not to panic,** said Reserve Bank of India-appointed administrator J B Bhoria on Wednesday. Bhoria was appointed administrator of PMC Bank on Monday evening. He is yet to finalise the liquidity profile of the bank as the inspection of its books continues. However, he said depositors should not panic. Even the bank's loans were secured against adequate assets. 6 ▸


EDIT PAGE 9 ▸ STRENGTHEN COOPERATIVE BANKS

PERSONAL FINANCE PAGE 17 ▸ IT'S A LONG ROAD FOR PMC BANK'S DEPOSITORS

# Extending debt instrument maturity is like default: Sebi

### Essel Group announces MFs have granted it more time to repay dues

JASH KRIPLANI
Mumbai, 25 September

Any extension given to a corporate entity by extending the debt instrument's maturity needs to be considered a 'default' for the purpose of valuation, according to the Securities and Exchange Board of India (Sebi). The norm was laid out in a circular issued on Tuesday night, a day before Essel Group announced that lenders had granted it more time to repay its dues.

Earlier, Sebi Chairman Ajay Tyagi had stated that the regulator didn't acknowledge 'standstill' agreements between mutual funds (MFs) and promoters. However, Sebi had not yet formally laid down norms to govern such arrangements.

Sources say the move could impact those fund houses that are giving extensions to the Essel Group promoters and have exposure to debt papers that are maturing in September.

"Valuation agencies will now be required to give pricing in line with these new norms when the maturities of debt instruments are extended," said a debt fund manager, requesting anonymity.

The current norms require MFs to take a markdown of 75 per cent on secured exposures that are downgraded to default grade or 'D'.

"The regulator can decide to give an exception to MFs in Essel's case as fund houses had entered into discussions on another extension with the promoters before the circular was issued by Sebi," said another executive, also asking to remain unidentified.

"MFs holding papers maturing beyond September 30 are unlikely to get impacted by this move," the fund manager added.

MF exposures to Essel Group firms are secured against the pledged shares of the promoters as part of the loan-against-share (LAS) structures.

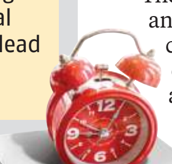
Turn to Page 19 ▸

### IMPACT CHECK

Papers deemed default warrant **75%** markdown on valuation

This may impact MFs holding Essel papers maturing in September

Some MFs feel that giving additional time will lead to better recovery



Earlier, Essel promoters cleared part of the loan-against-shares dues

ESSEL PROMOTERS PLAN TO SELL NON-MEDIA ASSETS P16

# *No room to cut home prices, say developers*

### Recent reduction in corporation tax rates unlikely to be passed on to buyers

RAGHAVENDRA KAMATH
Mumbai, 25 September

Prospective homebuyers are unlikely to reap any benefit from the corporation tax rate cut announced by Finance Minister (FM) Nirmala Sitharaman last Friday as developers are in mood not to cut prices of apartments.

They feel unit prices are already pretty low. Sitharaman had reduced tax on corporate entities from 30 per cent to effectively 25.7 per cent, in a bid to boost the economy reeling from a slowdown.

But property developers will not pass on any benefit to homebuyers in the form of price cuts.

"Prices are already low. They will remain low, as supply will go up after the reduction in tax. Market forces will not allow prices to go up," said Rajeev Talwar, chief executive at DLF, the largest listed developer in the country.

He added that prices had not gone up since 2007 because of an oversupply and delay in completion of projects. "If the economy gets a boost, it will help the real estate sector as well," Talwar said.

J C Sharma, vice-chairman at Bengaluru-based Sobha, said prices were low because of market dynamics. "Developers are absorbing all increase in costs of labour, raw materials and so on. We do not know whether decrease in prices will bring back the demand," he added.

Turn to Page 19 ▸

"WE DO NOT KNOW WHETHER ANY DECREASE IN PRICES WILL BRING BACK DEMAND"

**J C SHARMA,**
Vice chairman & MD, Sobha Ltd

"PRICES ARE ALREADY DOWN AND THEY WILL REMAIN SO AS SUPPLY WILL GO UP AFTER THE REDUCTION IN TAX RATES"

**RAJEEV TALWAR,** CEO, DLF

COMPANIES PAGE 2

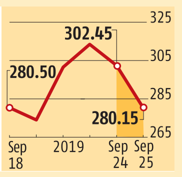
## Maruti cuts prices of its models by up to ₹5,000

The car market leader on Wednesday said it has cut prices by up to ₹5,000. This will boost demand in the festive season when most cars are sold, it said.

The lower prices will be effective immediately on models such as Alto 800, Alto K10, Swift (diesel), Celerio, Baleno (diesel), Ignis, Dzire (diesel), Tour S (diesel), Vitara Brezza and S-Cross. Maruti has been offering benefits of up to ₹1 lakh since the beginning of September. The reduction will be over and above that.

## STOCKS IN THE NEWS

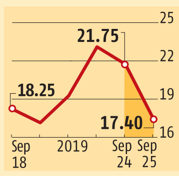
**State Bank of India**




Top loser in the S&P BSE Sensex stocks

₹280.15 CLOSE ▼7.37% DOWN*

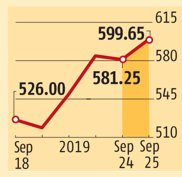
**Morepen Laboratories**




Sebi bans the firm from accessing security market for a year

₹17.40 CLOSE ▼20.00% DOWN*

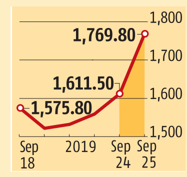
**Container Corporation of India**




Govt seeks Cabinet approval for stake sale

₹599.65 CLOSE ▲3.17% UP*

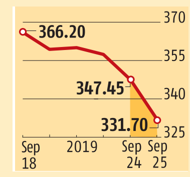
**Fine Organic Industries**




Top gainer in the S&P BSE–500 index

₹1,769.80 CLOSE ▲9.82% UP*

**Strides Pharma Science**




USFDA examining levels of N-Nitrosodimethylamine in ranitidine

₹331.70 CLOSE ▼4.53% DOWN*

* OVER PREVIOUS CLOSE

## IN BRIEF

### Ashish Kumar Guha appointed chairman of CG Power

CG Power and Industrial Solutions on Wednesday said that its board has appointed a non-executive independent director Ashish Kumar Guha as its chairman. "Ashish Kumar Guha, non-executive independent director of the company was appointed as the chairman of the board of directors of the company with effect from September 25, 2019," the company said in a BSE filing after its board meeting. The company also said the board has approved the proposal to set up special situation committee. PTI

### NCLT asks Jet lenders to release lifeline funds within 15 days

The National Company Law Tribunal (NCLT) on Wednesday directed the financial creditors of the grounded Jet Airways to release some interim lifeline funds within 15 days. The lenders had in-principle sanctioned ₹63 crore to the RP and SBI, the lead lender, had reportedly already disbursed its portion of ₹10 crore. However, other lenders like Yes Bank, Punjab National Bank, IDBI Bank, Bank of India, Indian Overseas Bank and Axis Bank are yet to release their portion. PTI

### GVK to spend ₹8.5K cr on Navi Mumbai airport phase-I

The GVK group, which is in the process of developing Navi Mumbai International Airport, will be spending ₹8,500 crore in the first phase to cater to 10 million passengers per annum, chairman of the infra major G V K Reddy said on Wednesday. The airport is a PPP venture, in which the MIAL has a 74 per cent stake with CIDCO, the state's nodal agency for the project, holding the remaining 26 per cent. PTI

### Owner of Mariott, IHG hotels files for IPO to raise ₹11 bn

SAMHI Hotels, the owner of the largest number of Marriott and IHG-operated hotels in India, has filed for an initial public offering to raise up to ₹11 billion ($154.82 million) by issuing new shares. Existing shareholders are also seeking to sell up to 19.1 million shares in the offering, with Blue Chandra and Goldman Sachs Investments Holdings (Asia) looking to offload about 15 million shares in total. REUTERS

## Ongoing global uncertainties dampen M&A activity in Aug

Corporate India's merger and acquisition activity moderated in August with 23 deals worth $845 million, the second-lowest monthly deal volume to date amid ongoing global uncertainties, said a report. According to Grant Thornton's monthly M&A Dealtracker, the prevailing economic uncertainties resulted in August recording 36 per cent decline in terms of number of deals and 49 per cent fall in value terms. In August 2018, there were 36 deals worth $1,660 million. PTI

| | Volume | | | Value ($mn) | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2017 | 2018 | 2019 |
| Domestic | 24 | 27 | 13 | 503 | 393 | 609 |
| Cross-border | 22 | 9 | 10 | 385 | 1,267 | 236 |
| Merger and internal restructuring | 2 | | | 52 | | |
| Total M&A | 48 | 36 | 23 | 940 | 1660 | 845 |
| Private equity | 47 | 67 | 69 | 4,967 | 1,332 | 2,118 |
| Grand total | 95 | 103 | 92 | 5,907 | 2,992 | 2,963 |

**TOP 3 DEALS**

| Acquirer | Target | % stake | $million |
|---|---|---|---|
| Adani Power | GMR Chhattisgarh | 100 | 512 |
| Air Water | Linde India | 100 | 194 |
| Reliance Industrial Investments and Holdings | Shopsense Retail Technologies' Fynd | 88 | 43 |

Source: GrantThornton

# Maruti cuts prices to boost festive demand


SHALLY SETH MOHILE
Mumbai, 25 September

The country's leading carmaker, Maruti Suzuki, on Wednesday said it has cut prices by up to ₹5,000. This will boost demand in the festive season when most cars are sold, it said.

The lower prices will be effective immediately on models such as Alto 800, Alto K10, Swift (diesel), Celerio, Baleno (diesel), Ignis, Dzire (diesel), Tour S (diesel), Vitara Brezza and S-Cross.

Maruti has been offering benefits of up to ₹1 lakh since the beginning of September. The reduction will be over and above that. Analysts said the price cut would wipe out gains to the automaker's bottom line from the reduction in corporation taxes.

"Owing to the reduction in the tax rate, we had estimated a benefit of 5-6 per cent in the company's profit after tax. This is likely to be wiped out now," said Bharat Giani, analyst at Sharekhan. He added that the price cut was unlikely to boost demand in a big way.

R C Bhargava, chairman, Maruti Suzuki India, said, "The money that would have been left over because of the tax cut will now be utilised to meet the reduction in prices."

Finance Minister Nirmala Sitharaman had last Friday slashed corporation taxes from 30 per cent to effectively 25.7 per cent.

Bhargava said he was hopeful the price cut would increase sales. "But it is difficult to say how much the sales will rise," he said, adding: "Overall sentiments and stock markets have improved. The scenario looks rosier than before, but only time will tell whether it will translate into sales."

Auto sales in India have been on a decline for over a year amid tepid economic growth and liquidity issues facing non-banking financial companies. In August, private vehicle (PV) sales touched a 22-year low.

**The lower prices will be effective immediately on models such as Alto 800, Alto K10, Swift (diesel), Celerio, Baleno (diesel), Ignis, Dzire (diesel), Tour S (diesel), Vitara Brezza and S-Cross**

Maruti is the first PV maker to have announced a price cut. Rival Hyundai Motor India said that while it has not cut prices, it has passed on the benefits of the tax rate cut to buyers.

Vikas Jain, national sales head at the firm said the company passed on the benefits on September 21, a day after clarity was provided on the goods and services taxes. The GST Council did not cut taxes on cars despite demand from industry.

Instead of paring prices, the Korean carmaker topped up the ongoing consumer offers. Total benefits for buyers have gone up to ₹110,000 from ₹95,000 earlier.

Jain claimed this has improved demand. "Bookings have soared by up to 50 per cent on some models," he said, adding that many people were hoping for a GST cut before buying a car, but since that did not happen, they have started making purchases anyway.

Some analysts said the price cut was a temporary measure and Maruti was unlikely to hold on to it for very long. This was more so because the company has stretched itself with offers for buyers.

"Once Maruti gets back pricing power, which is weak at the moment, the carmaker might get back to previous levels. There is hardly going to be any impact on earning right away," said Mitul Shah, vice president, research, at Reliance Securities.

Most carmakers have launched aggressive schemes to attract buyers. Their effect will be evident only next month. Spokespersons at Tata Motors and Mahindra said they are yet to take a call on cutting prices. A Honda Cars India spokesperson said it has no plans to do so.

# SpiceJet eyes $10-bn deal with Airbus

RICHARD CLOUGH & ANURAG KOTOKY
New York/ New Delhi, 25 September

SpiceJet is weighing an order for at least 100 Airbus SE planes as Boeing grapples with the fallout over its grounded 737 Max.

The budget carrier, a major global customer for the Max, may buy a 'sizable' number of Airbus A321LR and XLR jets to accommodate a planned expansion, SpiceJet Chairman Ajay Singh said on Tuesday. No decision has been made, he said, and the airline would consider a competing midrange jetliner if Boeing decides to build one.

Airbus has "pushed us hard since the day we started flying Boeing aircraft, and of course with the current problems, they've pushed us harder," Singh said. "They have made us a commercial offer and we are evaluating it." The discussions with Airbus threaten Boeing with a high-profile defection at a time when the US planemaker is enmeshed in one of the biggest crises in its 103-year history. SpiceJet, India's second-largest airline, has 13 Max jets in its fleet and has committed to buy 205 of the single-aisle workhorses as it expands capacity to handle the nation's fast-growing demand for air travel.

While Singh didn't specify the exact size of a potential transaction, he said "any aircraft order that SpiceJet places would at least be 100 aircraft."

An order of that scale could exceed $10 billion based on 2018 sticker prices. Though official prices for the LR and XLR aren't public, the two jets are longer variants of the A321 family of planes, the cheapest of which start at $118 million each. SpiceJet shares rose 3.1 per cent to ₹134.45, their highest level in two weeks. The broader S&P Sensex index was down more than 1 per cent. The Max has been grounded worldwide since March after a pair of crashes killed 346 people. After six months, the timing of the return to service remains unclear as regulators conduct assessments of the jet's airworthiness.

Boeing has told SpiceJet that it expects US regulators to re-certify the plane in early November, Singh said. While Indian regulators plan to conduct their own checks, Singh said he hopes SpiceJet will begin flying its Max planes again in January. "We look forward to the Max aircraft coming back because that's where the biggest pain point for SpiceJet is currently," he said. The carrier is in conversations with Boeing about compensation for the costs incurred from the grounding.

SpiceJet has taken a number of older 737s while the Max remains on the ground, but those jets are more expensive and less efficient to operate, Singh said. BLOOMBERG


### SpiceJet plans IPO for cargo unit amid e-com boom

SpiceJet plans to sell shares in its logistics business in an initial public offering, as the rise of e-commerce drives demand for fast shipping across the region. The cargo division, known as SpiceXpress, could be listed on a stock exchange within 12 months, SpiceJet Chairman Ajay Singh said. The business would continue to be owned by SpiceJet, he said. "We have a country of 1.3 billion people, one of the fastest-growing economies in the world, and we have very few air logistics players," he said. BLOOMBERG

# Sachin Bansal returns to executive position with microfin firm buy

YUVRAJ MALIK
Bengaluru, 25 September

Over a year after exiting Flipkart, billionaire entrepreneur Sachin Bansal is returning to an executive role.

The co-founder of India's most-valued start-up has picked up a majority stake in Chaitanya Rural Intermediation Development Services (CRIDS), which runs a microfinance institution Chaitanya India Fin Credit (CIFCPL), and will be its new chief executive officer (CEO), a statement by his communications manager said.

Bansal has put in ₹739 crore, roughly $104 million, of which ₹600 crore is primary infusion in the company. The rest is spent on buying shares from existing shareholders. His exact stake in the company is undisclosed.

The development marks the first major step by Bansal, who cashed out $1 billion from selling his shares during the Flipkart-Walmart deal last year, and confirms his move into financial services. However, little has been disclosed about his plans for CRIDS, the 10-year-old lender which focuses on rural, low-income customers in Karnataka, Bihar, Maharashtra, Jharkhand and Uttar Pradesh.

**Bansal has put in ₹739 cr of which ₹600 cr is primary infusion in the firm**

For a year and a half, Bansal has continued to dabble in the start-up ecosystem. He has made debt investments in a variety of ventures like Vogo, Bounce, and Kisskt and financing firms Altica Capital and Indostar Capital Finance. Some of these investments are from BACQ, a venture started last year with IIT-Delhi batchmate Ankit Agarwal last year.

In the recent past, his biggest bet is Ola, where he committed to invest $100 million in January. A source close to the deal said the equity investment was $25 million, while the rest is structured debt. Ather Energy, the electric scooter start-up, is the other substantial investment where he has put in close to $35 million. He has over a dozen angel investment from his time at Flipkart and beyond.

"This acquisition is our entry into financial services," said Bansal. He added that CRIDS founder Anand Rao and Samit Shetty would continue to be with the firm and spearhead their existing roles.

CRIDS, which started in 2009, focuses on low-income borrowers for vehicle finance, housing loans, small business loans and education loans.

# GSK suspends ranitidine sale

**MARKET VIEW**

| Rank | Brand & company | MAT val Aug 19 (₹ cr) | Mat val growth (%) |
|---|---|---|---|
| 1 | ACILOC Cadila Pharmaceuticals | 244.7 | 15.8 |
| 2 | ZINETAC GlaxoSmithKline Pharma | 209.1 | 9.1 |
| 3 | RANTAC Jb Chemicals and Pharma | 153.1 | 10.1 |
| 4 | R-LOC Zydus Cadila | 28.4 | 3.5 |
| 5 | RANITIN Torrent Pharmaceuticals | 12.4 | 2.8 |

MAT: Moving annual turnover. Source: AIOCD AWACS

SOHINI DAS & SAMREEN AHMAD
Mumbai/Bengaluru, 25 September

A day after the Drug Controller General of India (DCGI) asked the state Food and Drug Administrations (FDAs) to verify the drug and formulation of ranitidine, British multinational drug major GlaxoSmithKline Pharmaceuticals suspended supply of the drug to all markets, including India, as a precautionary measure. Other Indian drugmakers have also started testing their ranitidine products at various laboratories after the USFDA issued an advisory to health care professionals.

One of the most popular ranitidine brands in India is Zinetac, which has an annual sales of ₹209 crore in the country's ₹688-crore ranitidine market.

"GSK has been contacted by regulatory authorities regarding the detection of genotoxic N-Nitrosodimethylamine (NDMA) in ranitidine products. Based on the information received and correspondence with regulatory authorities, GSK made the decision to suspend the release, distribution and supply of all dose forms of ranitidine hydrochloride products to all markets, including India, as a precautionary action pending the outcome of ongoing tests and investigations," a GSK spokesperson said.

GSK manufactures ranitidine hydrochloride tablets 150 mg and 300 mg (Zinetac), using API from Saraca Laboratories and another supplier, SMS Lifesciences India, for supply to the Indian market. Subsequently, Saraca Laboratories was notified by the European Directorate for the Quality of Medicines that its certificate of suitability for ranitidine hydrochloride has been suspended with immediate effect.

"The product manufactured using API from SMS will not be recalled from the market at this point of time. However, all such products will remain on hold and they will not be released to the market while we await the test results," the GSK spokesperson added.

# OlaMoney, Religare launch hospital insurance cover

PEERZADA ABRAR
Bengaluru, 25 September

Ride-hailing firm Ola is rolling out a health insurance offer in partnership with Religare Health Insurance.

It is doing so through its financial services arm, OlaMoney. This is the first time Ola's is entering health insurance. The OlaMoney-Religare Hospicash offer enables policy holders to claim ₹5,000 a day of hospitalisation. Available to all registered Ola users and can be purchased directly through the Ola app. "The financial needs of Indian customers are fast changing, with the myriad of uncertainties that surround us. More and more consumers are forced to use their savings to pay for unplanned hospitalisation expenses," said Nitin Gupta, chief executive of OlaMoney. "With (this) product, we aim to create seamless access to quality health care for millions."

The policy, with a premium as low as ₹3 a day, is available as individual and family plans. It can be purchased monthly or for a year, renewable. Unlike traditional health insurance policies which are accepted only at preferred network hospitals, this can be used to reimburse expenses at "any hospital across India," said the company. The product includes reimbursements by providing proof of hospitalisation and simple enrolment open to all ages between 91 days to 65 years. Annual policy renewal happens through the Ola app; coverage includes hospitalisation for accidents, treatment and critical illness.

"It is a thoughtfully designed product that effectively complements any existing health insurance plan and even competently serves as standalone health coverage," said Anuj Gulati, managing director, Religare Health Insurance. "We believe this is a landmark initiative."

**Uber's offer**

On Wednesday, the Indian arm of Ola's US-based rival, Uber, announced a rider insurance offer at no extra cost, in partnership with Bharti AXA and TATA AIG. This will cover all riders in cars, autos and motos, up to a maximum of ₹500,000. The insurance provides cover for physical injury as a result of any accident that might occur while on a trip with Uber, from the point the rider enters the vehicle until the end of the trip.

Pavan Vaish, head of central operations (rides) for India and South Asia at Uber, said he expected the initiative to be "well-received by the rider community and their families, giving them a greater sense of security and assurance when they take a Uber ride."

# *Phased handset manufacturing policy takes a toll on forex reserves*

SURAJEET DAS GUPTA
New Delhi, 25 September

The government's most-touted phased manufacturing programme (PMP) for mobile handsets has led to an increase in the value of component imports.

This is slated to get worse and may have an adverse impact on the country's foreign exchange reserves (as a result of a higher outflow).

According to industry estimates based on presentations to the NITI Aayog, which has been tasked to find a road map to make India into a mobile handset manufacturing hub, in 2018-19 there was an average value addition of 18 per cent in local mobile handset manufacturing.

But the import bill of components rose to ₹99,816 crore on domestic mobile handset sales of $24.20 billion (₹162,309 crore).

In 2017-18, the country produced $25 billion (₹167,675 crore) worth of domestic mobile handsets but imported between ₹84,000 and ₹98,000 crore components to manufacture them at a much lower value addition of 12-15 per cent.

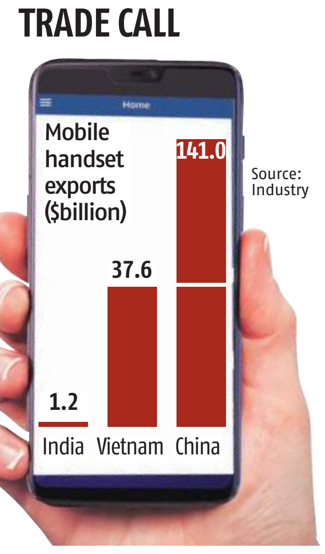
MAIT, an association of the ICT sector, estimates that the National Electronics Policy (NEP) 2019 of the government, which is estimating that India would produce and export $80 billion worth of mobile handsets for exports by 2025, said that it would only increase imports in a big way.

Even assuming that the value addition doubles to 30-35 per cent (more or less in line with that of China currently), the import bill for components is estimated to be a staggering ₹330,000 crore, which is an over threefold increase from the current levels.

MAIT has also pointed out in a discussion with the government that in spite of tariff intervention, the PMP has not been able to trigger largescale shift of component manufacturing in the country and India has a mere 5 per cent share of the global mobile handset market worth $485 billion (handsets).

Since component manufacturing is a matter of scale, the Indian market is not big enough to shift base to India until the market is conducive for exports.

**TRADE CALL**




Leading associations, apart from MAIT, including Internet and Mobile Association of India, the Indian Cellular and Electronics Association of India (ICEA), a body of mobile device manufacturers, and Broadband India Forum have in their communication with Niti Aayog pointed out that apart from deferring the PMP programme till March 2023, the government should shift from an "import substitution policy" to one focused on increasing exports.

The ICEA has admitted that the PMP programme has not met with success and it is mainly riding on the back of printed circuit boards, chargers and battery packs. The glaring misses it says in a letter, are mechanics, camera modules, connectors, speakers and microphones. It is also futile to have a PMP regime when zero duty imports are allowed on the same products from Asean countries, mainly Vietnam, as well as South Korea and Japan.

The industry estimates that India currently exports only $1.2 billion of mobile handsets. However, the NEP 2019 has charted an ambitious target of $110 billion mobile handsets for exports by 2025, a move which will make India a net foreign exchange earner on mobile handsets even at 35 per cent value addition.

# Mahindra to rescue Ford's India business

AGENCIES
New Delhi, 25 September

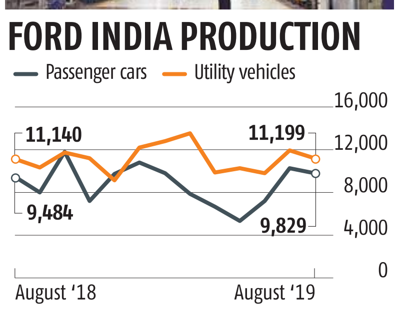
US automobile major Ford on Wednesday said it was engaged with Mahindra & Mahindra (M&M) for strategic cooperation to achieve "commercial, manufacturing and business efficiencies" in India.

Reports have said Ford is all set to transfer some of its key assets, including manufacturing plant in Chennai to a joint venture with M&M as the US auto major struggles to make a mark in India. "Forging a partnership for the future, we remain engaged with Mahindra to develop avenues of strategic cooperation that will help us achieve commercial, manufacturing and business efficiencies," a Ford India spokesperson said.

The spokesperson further said, "We look forward to sharing more information at the appropriate time and cannot comment on ongoing speculations." M&M spokesperson said.

M&M will own 51 per cent of the new entity, sources said. Ford will get equal voting rights and board representation, one of the people said. The venture, to be announced as soon as next week, doesn't include Ford's global business services division or an export-focused engine plant in Sanand.

Ford's compensation is likely to be far below the $2 billion it's poured into India, only to achieve market share of less than 3 per cent. The deal keeps Ford in the heavily populated market while letting it share the financial burden with Mahindra. Ford Chief Executive Officer Jim Hackett is leading an $11 billion restructuring and paring money-losing overseas operations.



Compiled by BS Research Bureau Source: Capitline

Ford is "insulating themselves a little bit," said Deepesh Rathore, an independent automobile analyst based in Bengaluru. "For Mahindra, it makes sense, because they are increasingly looking at the urban market." Global carmakers have had a tough time making inroads into India, which is dominated by Suzuki Motor's cheap, fuel efficient vehicles. General Motors scrapped a $1-billion investment in India two years ago and stopped selling Chevrolet models here. The market as a whole faces challenges, with sales contracting for the past 10 months, forcing the industry to cut production and jobs. A final agreement hasn't been reached and the discussions could still fall apart, the people said. *Reuters* reported some elements of the venture in April.

M&M shares fell as much as 4.3 per cent to ₹535 Wednesday in Mumbai. Ford shares closed 0.6 per cent down on Tuesday.

**Latest foray**

As envisioned, the new entity will hold most of Ford's assets in India, including the two car plants it owns in the country. Ford was one of the first automobile companies to enter India when it liberalised the economy in the early 1990s. Ford first entered India in 1926 but shut down that operation in the 1950s. "Ford remains committed to growing its customer base and product portfolio in the world's fourth-largest automobile market, and will continue to make in India, for India and the world," Lori Arpin, a spokeswoman for the Dearborn, Michigan-based automaker, said in a statement while declining to discuss specifics.

The deal will allow M&M to sell some Ford vehicles in developing markets under its own brand, the people said. Ford and M&M also are jointly developing a mid-sized sport-utility vehicle for India. Back in 2012, Ford had aimed to make the South Asian nation one of its three largest markets by 2020.

# SC sets aside insolvency of Jignesh Shah's firm

AASHISH ARYAN
New Delhi, 25 September

The Supreme Court (SC) on Wednesday set aside an order of the National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT), thereby quashing the insolvency proceedings against Jignesh Shah and Pushpa Shah's La-Fin Financial Services.

A three-judge Bench of the high court said since the winding up petition filed by IL&FS Financial Services was more than three years after the debt had occurred, it had to be struck down since it did not pass the muster of time limitation mentioned in Article 137 of the Limitation Act.

**Apex court says petition moved by IL&FS Financial Services filed after three years, falls outside the limitation period**

The Limitation Act sets deadlines for different cases within which a petitioner must approach the court seeking justice, failing which the case can be stuck down by the court for falling outside limitation period. IL&FS Financial Services Limited, a subsidiary of Infrastructure Leasing & Financial Services (IL&FS), had filed a winding up petition against the La-Fin for failing to honour a Letter of Undertaking (LoU) signed by the latter on behalf of its group company Multi-Commodity Exchange (MCX).

In 2009, IL&FS Financial Services purchased 44.2 million equity shares of MCX Stock Exchange from MCX. After this agreement, La Fin gave a LoU to IL&FS Financial Services that either the former or it nominees "would offer to purchase from IL&FS Financial Services the shares of MCX-SX after a period of one year, but before a period of three years, from the date of investment".

# Apollo Hospitals to join Ayushman Bharat in smaller cities

ANEESH PHADNIS & SOHINI DAS
Mumbai, 25 September


Apollo Hospitals, the country's largest chain in the segment, says it will join the Ayushman Bharat programme in tier-II and tier-III cities.

In metropolitan cities, however, it will continue to stay away till the government programme raises the rates for surgery and treatment.

The scheme, also known as Pradhan Mantri Jan Arogya Yojana, completed its first anniversary last week. Around 4.6 million hospital treatments costing ₹7,000 crore were done under it in these 12 months.

While the scheme is now being implemented in 32 states and Union Territories, large hospital chains have been keeping away. Till earlier this month, when Medanta Hospital signed an agreement to empanel in the project; Apollo has now decided likewise.

Apollo managing director Suneeta Reddy said the chain had allocated allocated five per cent of its bed capacity in hospitals in tier-II and tier-III cities for Ayushman Bharat. Their participation, she clarified, was still in a testing stage; it was underway in states where local health schemes had been subsumed in the central programme.

As for metropolitan cities, where the costs are much higher, they remain out for this reason. Hospital associations, she said, were in a dialogue with the central government on new pricing guidelines for the scheme. Government rates, said Reddy, did not cover the costs for some of the surgeries under the programme.

That apart, Apollo reiterated its focus for an asset-light model for growth, with a focus on retiring its debt after selling stakes in the joint venture insurance firm and pharmacy business. Earlier this month, Suneeta Reddy (part of the promoter family) sold her 3.6 per cent stake in Apollo Hospitals Enterprises for Rs 748 crore. The funds are being used to pay off debt and reduce promoter share pledges.

"We are not desperate to get more investors," said Prathap Reddy, chairman (and the MD's father). The promoters will not be selling further stake in the chain or at the holding company level, after this 3.6 per cent stake sale.

The senior Reddy started with a single cardiology focused hospital in Chennai in 1983. The group now operates 72 hospitals across the country. Margin expansion from new hospitals and improved asset utilisation will be focus areas for the chain, apart from growing its pharmacy business.

It says it is also focusing on preventive health care. And, aims to double the share of patients from abroad to 20 per cent in the next few yearss.

"We have invested over Rs 3,000 crore in expansion in the last 30 months and our intention now is on improving asset utilisation and profitability," said the MD.

## Amazon India claims top slot in mobile phone sales

In the run up to the 'Great Indian Festival' sale, Amazon India has claimed top spot in mobile phone sales.

The firm says that after the festive sales, it would reinforce its position as the top online marketplace to buy mobile phones and accessories. With more than 2,500 mobile phone and accessory brands and as many as eight new launches lined up, the online marketplace major is planning to expand its offerings.

"On Amazon.in, the smartphones category has been growing faster than the industry. It continues to be one of the largest categories. We have the widest selection of mobile phones. We have eight new launches planned for this festive season with marquee brands like Samsung, Xiaomi, and Vivo," said Noor Patel, director — category management, Amazon India.

Amazon is a key strategic partner for Apple as well as OnePlus. According to the company, both these players have witnessed massive traction in sales coming from tier-II, tier-III and rest of India towns for the last several quarters.

KARAN CHOUDHURY

*"Normal life in J&K has not been affected. People are doing their necessary work, a clear sign that work has not been stopped. Those who feel that life has been affected are the ones whose survival depends on terrorism"*

GENERAL BIPIN RAWAT, Army chief

*"There is disappointment in Kashmir and the despair is also prevalent among the people in Jammu province. Except 100 or 200 people of the ruling party (BJP), nobody is happy"*

GHULAM NABI AZAD, Congress leader

*"The ED doesn't fall under the state government's jurisdiction. Those guilty will be punished... No question of action against those who are not guilty"*

DEVENDRA FADNAVIS, Maharashtra CM, on ED action against NCP chief Sharad Pawar

## IN BRIEF

### Strong investor interest for capital raising plans: YES Bank

Private lender YES Bank on Wednesday said it has received strong interest from various investors on its plans to raise capital as the lender approaches the Reserve Bank of India (RBI) for approval to increase the bank's authorised share capital. "The bank has received strong interest from multiple foreign as well as domestic private equity and strategic investors for this capital raise and remains firmly on course to raising growth capital subject to the necessary approvals," it said in a regulatory filing. The lender has got approval from its board to increase its authorised capital from ₹800 crore to ₹1,100 crore. Subsequent to the RBI's nod, the bank will seek approval from its shareholders. Despite this, the bank's shares tanked 4.19 per cent to close at ₹53.7 on the BSE. SUBRATA PANDA

### 1.42 million jobs created in July: ESIC payroll data

Around 1.42 million jobs were created in July, higher than 1.24 million in the previous month, according to a latest payroll data from Employees' State Insurance Corporation. PTI

### MFs told to adopt waterfall approach for valuation

The Sebi has asked fund houses to follow 'waterfall' approach for the valuation of money market and debt securities. As part of this framework, debt securities would be valued on basis of traded yields, subject to identification of outlier trades by valuation agencies. In case of exceptional events on a day, only volume weighted average yield post such event may be considered for valuation. BS REPORTER

### UP student accusing Chinmayanand arrested

The 23-year-old student who accused BJP leader Swami Chinmayanand of rape was arrested on charges of extortion and sent to 14 days judicial custody, police said. She was arrested by the Special Investigation Team of the UP Police amid massive deployment of forces. PTI

### Direct tax code panel wants DDT removal to promote investment

The task force on direct tax code (DTC) has recommended abolishing dividend distribution tax (DDT) with a view to promote investment. The dividend distribution tax is a surrogate tax and it hinders foreign direct investment inflows, sources said. PTI

### Challenge is to grow at 8-9% and sustain it, says Amitabh Kant

The Centre is determined to take India back to a high trajectory growth of 8-9 per cent and the challenge is to sustain that growth, said NITI Aayog CEO Amitabh Kant. PTI

### Correction

The report — SC admits EOW's appeal against 63 Moons order — published on Sept 25 had wrongly mentioned that the SC has admitted Maharashtra state's (Mumbai police) appeal against the Bombay HC order freeing attachment of properties of 63 moons in the NSEL default case. 63 moons has clarified the SC has not admitted the appeal but only issued notices to all parties to decide on admitting the special leave petition and will hear the matter on November 27. The error is regretted.

# Centre considers body to regulate medical devices

VEENA MANI & SANJEEB MUKHERJEE
New Delhi, 25 September

The government is planning to set up a Medical Devices Authority (MDA) for the entire spectrum in the medical devices sector — gauges, weighing machines, orthopaedic implants, etc.

It will, however, not have powers on pricing. That will continue to be vested with National Pharmaceutical Pricing Authority (NPPA), senior officials said.

The proposed body will be separate from the Central Drugs Standard Control Organisation (CDSCO), which will continue to be the regulator for drugs.

The Bureau of Indian Standards (BIS) will still frame guidelines but these would be regulated by MDA. The arrangement would be on the lines of food items, where BIS designs the standards but these are enforced by the Food Safety and Standards Authority of India. BIS itself doesn't have implementing powers, said a senior government official who is working on the proposed MDA.

**Makers say they are not comfortable with the idea of BIS framing a law. They want CDSCO to do it**

He said the body would comprise representatives from the industry, policy makers and active medical practitioners. It will get its role, powers and objectives from a Medical Devices Act, whose provisions are being framed.

"Government agencies, along with BIS, are formulating the Act. The draft has been made and BIS has already made 1,325 standards for more than 1,000 product lines," added the official. NITI Aayog is also involved in the process.

The plan is to stop using norms borrowed from the American regulator, the Food and Drug Administration (FDA), for procurement by state and central governments once MDA is put in place.

Currently, medical devices are the responsibility of the central drug regulator. As many as 22 medical devices have been categorised as drugs and are the only ones that are regulated. The rest are sold in the market without any particular standards governing these.

Imported medical devices are given approval in India if they have USFDA approval or from the European Union. Medical device makers say they are not very comfortable with the idea of BIS framing a law. They feel CDSCO should be doing it.

Meanwhile, the government is also working on rules for rationalising the trade margins for medical devices that have been categorised as drugs. This includes intraocular lenses. The government has already capped the prices of cardiac stents and orthopaedic knee implants.

The NITI Aayog and the department of pharmaceuticals are together working on a formula to cap the prices of other medical devices that are considered drugs. Devices not characterised as drugs cannot be brought under price caps by the NPPA, using the Drug Price Control Order.

### REMEDY IN SIGHT

- The proposed body will be separate from the Central Drugs Control Standard Organisation
- It would have representatives from the industry, apart from policy makers and medical practitioners
- The plan is to stop using norms borrowed from USFDA
- Govt also working on rules to rationalise trade margins for medical devices that have been categorised as drugs

# Kristalina Georgieva IMF chief from Oct 1

*"It is a huge responsibility to be at the helm of the IMF at a time when global economic growth continues to disappoint"*

KRISTALINA GEORGIEVA

The International Monetary Fund on Wednesday formally selected Kristalina Georgieva of Bulgaria as the second woman ever to lead the 189-member institution. The selection had been all but guaranteed after the global crisis lender said earlier this month that Georgieva, a former World Bank CEO, was the sole candidate.

In acknowledging her selection, Georgieva spoke of tempestuous times for the global economy. "It is a huge responsibility to be at the helm of the IMF at a time when global economic growth continues to disappoint, trade tensions persist, and debt is at historically high levels," she said. "This means also dealing with issues like inequalities, climate risks and rapid technological change."

She is to take up her position as managing director on October 1, replacing Christine Lagarde, who is set to take over the European Central Bank later this year. Georgieva's rise perpetuates Europe's long-standing control over the designation of the fund's leadership. She inherits the helm of an institution buffeted by the rise of populism in advanced economies and escalating trade conflicts — the largest of which has been driven by the United States, the fund's single biggest shareholder.

Georgieva, who was championed by Paris, overcame a challenge within the divided European Union from Germany which had backed former Dutch Finance Minister Jeroen Dijsselbloem.

Under an unwritten rule, a European has led the IMF since its creation in the aftermath of World War II while the leader of the fund's sister organization, the World Bank, has been designated by Washington. AFP/PTI

E-ASSESSMENT SYSTEM

# I-T identifies 400,000 cases

SHRIMI CHOUDHARY
New Delhi, 25 September

The income-tax (I-T) department has identified about 400,000 taxpayers who will face scrutiny under the new faceless assessment scheme. Notices were being served to a little over 100,000 assesses, seeking explanation on the returns filed within 15 days, said an official privy to the development. However, about 10,000 such letters were undelivered and, in some cases, bounced back. The deadline for sending scrutiny letters ends on September 30.

The tax department is learnt to have finalised computer-assisted scrutiny selection (CASS) cycle for the current year and has selected about 100 parameters to scrutinise returns under the new system. Sources said some of the parameters, based on which notices were served, included undisclosed foreign income and immovable properties, high-value transactions, misreporting of long-term capital gains, TDS claimed not matching with the tax forms, non-disclosure of investments made in the name of spouse, relatives, filing defective return, tax evasion in earlier years, and so on.

According to the action plan, the e-assessment may not be fully faceless initially, as the jurisdiction assessing officer would be knowing the profile of the assessee and can also view it at the time of serving notices.

"For CASS 2019, the notices shall be generated and issued in a centralised manner by the prescribed tax authority, for cases selected for scrutiny. After the issuance of notices, further assessment proceedings shall be conducted by the jurisdictional assessing officer in a regular manner through Income-tax Business Application (ITBA)," according to the assessment module prepared by the I-T department.

A jurisdictional assessing officer can access the ITBA portal containing profiles of assesses including PAN, ITR, TDS details, and details of order and so on.

An assessing officer is also required to verify the notices issued and whether it has been successfully delivered. In cases where the notices bounced, the officer will take a print out and send out a physical copy to the assessee concerned.

Besides, if the returns are received by assessing officer (AO) who is not the jurisdictional AO, then the assesse permanent account number will be immediately transferred to the jurisdictional AO.

# Indo-US trade deal faces ICT hurdle

SUBHAYAN CHAKRABORTY
New Delhi, 25 September

Differences over reduction in import duties on high-value US smartphones and gadgets have held up efforts by India and the US to finalise a trade package, said officials. However, both sides have continued to discuss issues and trade negotiators are hoping for a breakthrough by Thursday, they added. "Commerce and Industry Minister Piyush Goyal, along with Commerce Secretary Anup Wadhawan and other trade department officials, are in the US," said the officials.

Prime Minister Narendra Modi will have a number of bilateral meetings on Thursday, one of which may see him sit with US President Donald Trump again. Addressing the press on Tuesday, Trump had promised a trade deal with India "very soon", with a larger deal down the line. However, Modi has not commented so far.

**ICT hurdle**

The US wants India to reduce import duties on certain information and communication technology (ICT) products, such as high-end mobile phones and smartwatches, which may make iPhone products cheaper.

While New Delhi had earlier considered the proposal, talks have been made difficult on the quantum of reduction demanded, the officials said.

ICT products make up a minuscule $407 million, out of the $35.54 billion of total inbound shipments from the US, as of now. However, US Commerce Department officials have zeroed in on the category as a prime growth puller.

Major corporations such as Apple have also thrown their weight behind the move, arguing that India is a major market for consumer electronics. The overall import of electrical machines in all forms from the US stood at $1.8 billion in FY19, slightly up from $1.75 billion in the year before.

India has tried to reduce its exposure to foreign products for electronics imports, which, at $52 billion, is the third-largest on the country's import bill. The government's phased manufacturing program has targeted reducing the import of technology products over the next five years.

**FTA or not?**

The US continues to pressurise India on a full-fledged free trade agreement (FTA), since a year, but New Delhi has consistently resisted. Commerce Department officials have argued that India stands to gain little from such a pact, given import duties for goods coming from the US are already among the lowest globally.

India wants a mutually acceptable 'trade package' that provides an amicable solution to major grievances, according to a senior trade negotiator. India may consider dismantling the current price cap regime for coronary stents, with a trade margin policy. It may also lower duties on certain ICT imports.

In return, the US has offered to step back from its aggressive posturing on 'reciprocal taxes'. Trump has repeatedly accused India of being a 'high tariff nation', referring to duties placed on Harley Davidson motorcycles.

The India-US trade talks had run the risk of falling through after the US had, earlier this year, cut off India's duty-free access to the US market under the Generalized System of Preferences (GSP).

Subsequently, India had raised import duties on key high-value imports from the US, mostly on agricultural products such as apples and almonds. The reinstatement of GSP benefits is a key demand from the Indian side, according to people in the know.

# No cashbacks on credit card payments at petrol pumps

BS REPORTER & PTI
Mumbai, 25 September

On the advice of oil companies, banks are going to discontinue the cashback feature they offered on their credit cards for fuel purchase. This comes into effect from October 1.

"The 0.75 per cent cashback on fuel transactions will be discontinued with effect from October 1," read a message from State Bank of India to its customers.

**Discount on debit cards, other digital modes of payments would continue**

American Express card holders received similar messages. After the demonetisation exercise of November 2016, the government had asked oil marketing companies such as Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation to give a discount on card payments to promote digital transactions.

Apart from the discounts, the government had also directed oil companies to bear the burden of card payment charges — called merchant discount rate (MDR) — which is usually paid by the retailer.

An industry official confirmed the oil companies have decided to discontinue the discount on all credit card payments from October 1. However, the discount on debit card and other digital modes of payments would continue, he said.

# *Govt to ease land acquisition, finance for renewables to meet 450 Gw target*

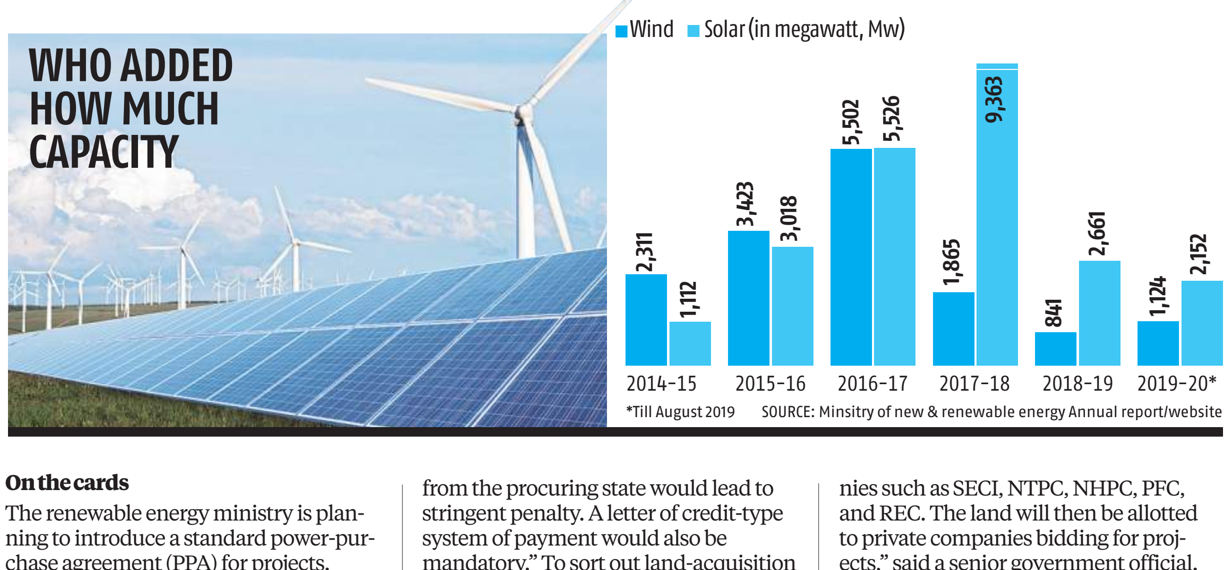
SHREYA JAI
New Delhi, 25 September

The Ministry of New and Renewable Energy has started drafting plans to set up mega capacities and ease investment in renewables to meet the new target set by Prime Minister (PM) Narendra Modi.

At the United Nations Climate Action Summit in New York on Monday, Modi vowed to double India's renewable energy target to 450 gigawatt (Gw) by 2030. This comes at a time when commissioning of projects has slowed and states are raising red flags.

In 2019-20, of the 3 Gw target for wind power, 1.1 Gw has been commissioned. For solar, 2.1 Gw has been commissioned out of 7.5 Gw target.

Slow project allocation and financial stress has halted wind power projects. Solar projects have been facing land crunch and grid connectivity issues. A downward revision of tariffs in Andhra Pradesh could hit renewal projects of nearly 7.5 Gw.




**On the cards**

The renewable energy ministry is planning to introduce a standard power-purchase agreement (PPA) for projects.

"We'll modify the PPA for solar and wind projects. There will be a standard bidding document," said Aanand Kumar, secretary, Ministry of New and Renewable Energy. He added, "The terms of the PPA will ensure any default from the procuring state would lead to stringent penalty. A letter of credit-type system of payment would also be mandatory." To sort out land-acquisition issues, the ministry plans to change the project-award system, switching the "plug-and-play" model.

"The government will acquire the land. Special-purpose vehicles (SPVs) will be formed by state-owned companies such as SECI, NTPC, NHPC, PFC, and REC. The land will then be allotted to private companies bidding for projects," said a senior government official.

The model the ministry is developing will take a leaf out of the books of ultra-mega thermal power projects (UMPP). Of the 16 UMPPs planned, four were awarded to private players and only two are still running.

**Wind losing steam?**

As India expands it renewables portfolio, wind power seem to be losing steam.

Leading domestic wind turbine manufacturers, with more than 80 per cent market share, are staring at a weak order pipeline, financial losses and regulatory niggles. Foreign companies, including some Chinese ones, are increasing footprint in India. This could lead to cost escalation, claim power producers.

Commissioning fors wind power projects has slowed to historic lows. Last financial year, projects of 841 megawatt (Mw) were commissioned. The Centre has tendered projects to the tune of 7,000 Mw in the past two years.

**Dull solar**

In solar, the challenge is low capacity of domestic solar panels and increased influx of imports from China.

"The government should implement stringent anti-dumping duty on a priority to deal with cut-throat competition from international players. As the country is going through slowdown, the industry is witnessing a decline in the adoption of solar," said Sunil Rathi, director, sales and marketing, Waaree Energies, a leading solar panel manufacturer in India.

In order to boost Make in India, the renewable power ministry has asked the Ministry of Finance to impose a Customs duty on solar cells and modules being imported into the country.

The government is taking several steps to curb imports. However, mega tenders for solar manufacturing has been repeatedly ignored by industry players, both domestic and foreign.

Paucity of bids forced the government to extend the deadline for it for the 12th time last week. Ministry officials, however, said the government was in constant discussion with industry and the tender would be a "mega success".

A senior official said several manufacturers had committed to increase their manufacturing capacity many times to meet demand. Leading the manufacturing expansion was Adani Mundra, which is planning to add another 1 Gw capacity followed by Jupiter Solar, Premier Solar and others.

# Brain differences may explain tech behaviours

JULIE JARGON
25 September

Many parents of both boys and girls have witnessed striking differences in the way their kids use technology, with their sons generally gravitating to videogames and their daughters often spending more of their screen time scrolling through social media.

Emerging research indicates that brain differences between males and females help account for the split.

"It is entirely plausible from a neurological perspective that there's an underlying biological component to this difference people are seeing," said Larry Cahill, a professor of neurobiology and behavior at the University of California, Irvine, who has spent two decades researching gender differences in the brain.

In this column I've chronicled the aggression some boys exhibit when they have to shut off videogames and transition to other activities, as well as the problems some young men face when they go to college and have to juggle game time and school work without mom and dad's help.

That led some readers to question why girls don't appear to be having these problems. Of course, girls have issues of their own, such as smuggling "burner" phones to keep up with forbidden social media accounts. It's just that when it comes to videogames, most girls seem to have a better handle on when to stop.

According to a 2017 survey conducted by Pew Research Center, 41% of teenage boys said they spend too much time playing videogames while only 11% of girls said they do.

WSJ SPECIAL

Marc Potenza, a psychiatry professor at Yale University, teamed up with researchers at universities in China to find out why. Using functional MRIs, which measure brain activity by detecting changes in blood flow, the team studied neural responses in young male and female gamers, particularly in the parts of the brain associated with reward processing and craving—a motivating factor in addiction. When the men and women were shown photos of people playing videogames, those parts of the men's brains showed higher levels of activation than those parts of the women's brains.

Brain regions that have been implicated in drug-addiction studies also were shown to be more highly activated in the men after gaming. The researchers said the results suggest men could be more biologically

prone than women to developing internet gaming disorder.

But girls and women aren't free from problems when it comes to digital media. Data from Pew shows that, in general, women use social platforms such as Facebook , Instagram and Pinterest far more than men. Many girls and women are drawn to those photo-sharing sites because they like to form bonds and find similarities, says Rosanna Guadagno, a social psychologist at Stanford University.

Even if women only use those sites more than men because that is where their friends are, many experts and parents say they have found that girls appear to have a greater fear of missing out, which compels them to keep up with what their friends are posting. Some recent studies show that girls feel the ill effects of too much social media use, such as depression and anxiety, more than boys do.

Liz Repking, a cyber safety expert and mother of three in suburban Chicago, has seen the differences in her own sons and daughter. Earlier this summer, her 15-year-old daughter said her phone was driving her crazy. She told her that she felt pressured to follow her friends' Instagram stories and like and comment on their posts, and that it was eating up a lot of her time, Ms. Repking said.

Her sons, 18 and 21, use social media—Snapchat, in particular—mostly to communicate with friends but don't feel compelled to keep up with what people are posting. "There's more peer pressure and validation I see with it for her than for the boys," she said.

In August, Ms. Repking's daughter decided to impose some limits, such as being on her phone no more than three hours a day and checking Instagram less frequently. "When I asked her a week later how that was going, she said, 'I'm only looking at Instagram three times a day but I can't catch up,'" Ms. Repking said.

One might argue that multiplayer videogames are the way boys connect with friends online. But it's different. "Videogames can be social but there's also a physical distance because you don't see photos, and communication is largely through text, which is more consistent with the direct way men tend to communicate with each other," Dr. Guadagno said.

Researchers at the University of Zurich looked at how differences in brain functioning can help explain why women tend to be more prosocial—that is, helpful, generous and cooperative—than men. In the 2017 study, they hypothesized that the areas of women's brains related to reward processing are more active when they share rewards and that those areas in men are more active when receiving selfish rewards. Brain scans conducted on men and women, in which they chose between receiving a monetary reward only for themselves or one that involved sharing money with others, supported their theory.

The Lego Group learned a lot about the prosocial nature of girls more than a decade ago when it conducted research on who buys the brick building kits. At the time, about 90% of the Lego sets purchased in the U.S. were intended for boys. That led the company to conduct more research with girls which revealed, among other things, that girls wanted more role-playing opportunities. Lego created a pastel-colored line called Friends, which sold well but was criticized by some consumer groups—including the Campaign for a Commercial-Free Childhood—for reinforcing gender stereotypes.

Academics who study gender differences also have faced backlash for pointing out that boys and girls aren't the same.

"It's not a debate that there are sex influences throughout the mammalian brain," said Dr. Cahill. "How they all play out is what we should responsibly explore."

Scientists say understanding those differences is critical to parents' ability to help kids navigate the fast-changing world of tech.

Our brains haven't caught up to modern times, says Dr. Guadagno, which is why kids' digital behavior can feel so confusing and overwhelming to parents trying to manage it. "Human brains are wired for survival on the savanna," she said. "They're not wired for social media and videogames."

*Source: The Wall Street Journal*

## Boeing reaches first settlement with Lion Air crash victims

Boeing has reached the first settlements of lawsuits filed by families of Lion Air passengers who died when the 737 Max aircraft crashed in Indonesia late last year. Eleven of 17 clients represented by the Wisner Law Firm in Chicago have settled claims, partner Alexandra M. Wisner said in an interview. She declined to say how much Boeing agreed to pay, citing a confidentiality provision. Reuters earlier reported each family will get at least $1.2 million. A Boeing spokesman declined to comment on the settlements. In July, the company said it was offering $100 million to support the families of victims and others affected by two crashes of its 737 Max jetliner. BLOOMBERG

# Enough assets to honour deposits, says PMC Bank's administrator

ANUP ROY & ABHIJIT LELE
Mumbai, 25 September

Punjab and Maharashtra Co-Operative (PMC) Bank's liquidity profile is good enough and depositors should not to panic, said Reserve Bank of India (RBI)-appointed administrator J B Bhoria on Wednesday.

Bhoria was appointed administrator of PMC Bank on Monday evening. He is yet to finalise the liquidity profile of the bank as the inspection of its books continues. However, he said depositors should not panic. Even the bank's loans were secured against adequate assets. "The bank has 19 per cent SLR (statutory liquidity ratio), 3-4 per cent CRR (cash reserve ratio) and has its own properties. So, on these counts alone, there is enough liquidity," Bhoria said.

The need for deposit insurance scheme of up to ₹1 lakh gets activated only at the time of liquidation of a bank, which is unlikely in the case for PMC Bank, Bhoria said.

SLR is the share of deposits that needs to be invested in government securities. CRR is the share of deposits that needs to be maintained in cash.

These are considered liquid assets that can be utilised to immediately pay back depositors at least ₹2,555 crore for a deposit base of ₹11,617 crore as on March this year.

As for how long before depositors can withdraw their money from the bank, Bhoria said was left to the RBI to decide. It could be well before six months — the period of restriction imposed by the RBI — or it could drag on, depending on the complexity of the case.

Sources said the inspection would be completed in about two weeks. Even as there was widespread criticism of the RBI action, officials said the central bank would have to step in at some point if there were irregularities in a bank. The irregularities in this case mainly pertain to divergence in non-performing assets (NPA) classification.

"Whenever the RBI steps in, an 'all inclusive' direction is issued, which immediately stops all activities in the bank with the purpose of saving depositor's interest," said a senior RBI official.

The only intriguing point here is that generally such instructions come after the inspection of the bank is completed. The bank's inspection for the last financial year has not yet started. The bank's managing director and CEO Joy Thomas told customers in a message that the bank management had pointed out certain irregularities in the bank to the RBI.

However, in an interview with CNBC TV18, he said the RBI action was "harsh". The bank had sought two months' time to rectify the mistake, but RBI decided to freeze even deposit withdrawals, instead of restricting lending activities for example.

PMC Bank is likely having a disproportionately high exposure in the real estate sector, particularly in case of HDIL, which is in bankruptcy. RBI on Tuesday imposed withdrawal limit of just ₹1,000 from each account for the next six months. This has led to chaos outside the bank branches as panic stricken depositors try to withdraw their deposits.

**PMC Bank had a business of ₹20,000 crore, comprising deposits of ₹11,617 crore and advances worth ₹8,383 crore, at the end of March this year**

Bhoria told *Business Standard* that the immediate priority of the bank will be to ensure smooth withdrawal of whatever limit the RBI allows from time to time. But hopefully, the depositors would be paid back considering the assets of the banks.

Thomas told in the television interview that loans were given against 150 per cent of securities. But Thomas also did not deny that it has high exposure to bankrupt real estate firm HDIL. It may not be as high as ₹2,500 crore, as expected, though.

Interestingly, even HDIL was taken to the bankruptcy code by the lenders, PMC bank drew two pay-orders on August 31 totaling ₹96.5 crore for HDIL promoter Sarang R Wadhawan to repay non-convertible debentures of HDIL invested by Bank of India.

Thomas said this was done to safeguard PMC Bank's own interest as HDIL being in the bankruptcy court would mean its assets would be attached by other lenders as well.

PMC Bank had a business of ₹20,000 crore, comprising deposits of ₹11,617 crore and advances worth ₹8,383 crore, at the end of March this year.

Joy Thomas, managing director, PMC Bank, in a message to customer said: "I regret to inform you that your PMC Bank has been put under regulatory restriction by the RBI for a period of six months due to irregularities disclosed to the RBI. As the MD of the bank, I take the responsibility and assure all the depositors that these irregularities will be rectified before the expiry of six months. All efforts are made to remove the restrictions by rectifying the irregularities."

However, the RBI is probing the role of Thomas in the alleged irregularities. The RBI is investigating if there is wrongdoing on the part of anybody. "The administrator will now verify and validate the position of the bank and will take a call as what has to be done," said a source.

The multi-state-cooperative bank had gross NPAs of 3.76 per cent and net NPAs of 2.19 per cent at the end of March this year. It has 137 branches. The RBI said the directions should not be construed as cancellation of the banking licence.

"The bank will continue to undertake banking business with restrictions till further notice/instructions. The RBI may consider modifications of these directions depending upon circumstances," it added.

People wait outside a PMC Bank branch to withdraw their money in Mumbai on Tuesday PHOTO: PTI

## RBI rebuts social media rumours on closure of 9 banks

Rebutting social media rumours, the Reserve Bank of India on Wednesday said no commercial banks are going to be shut. Finance Secretary Rajiv Kumar described such social media messages as "mischievous" saying the government was in process of strengthening public sector banks by infusing capital in them. "Reports appearing in some sections of social media about the RBI closing down certain commercial banks are false," the central bank said. Messages are circulating in various social media platforms that nine banks will be closed down permanently by the RBI and appeals being made to public to withdraw their money from them. PTI

# EAC-PM shuffle: Sajjid Chinoy gets on board

## Rathin Roy, Shamika Ravi dropped from list

ARUP ROYCHOUDHURY
New Delhi, 25 September

The Centre, on Wednesday, reconstituted the Economic Advisory Council (EAC) to the Prime Minister for a period of two years. Rathin Roy from the National Institute of Public Finance and Policy, along with Shamika Ravi of Brookings Institution, were dropped as part-time members. Sajjid Chinoy, India economist at JPMorgan, was appointed as a part-time member.

Another part-time member Ashima Goyal, of the Indira Gandhi Institute of Development Research, along with full-time members Bibek Debroy of NITI Aayog and Ratan Watal, continue in the EAC-PM. Debroy retains his role as chairman, while former Finance Secretary Watal will continue being the member-secretary.

"The Government of India has reconstituted the EAC to the Prime Minister (EAC-PM) for a period of two years, with effect from September 26, 2019," said an official statement. In effect, the strength of the EAC-PM reduces to four, with two full-time members and two part-time members.

No reasons were given for the ouster of Roy and Ravi. Earlier this year, Roy, director of the National Institute of Public Finance and Policy, spoke on a 'silent fiscal crisis' — highlighting the stark difference between the FY19 revised tax revenue estimates and provisional actuals. He also criticised the Centre's plan to issue overseas sovereign bonds and had advised caution on the same.

Ravi had also warned about the state of the economy, saying the country was facing a structural slowdown. She had said on Twitter last month that dealing with the slowdown needed major reforms and not mere tinkering. "Leaving economy to the finance ministry is like leaving the growth of a firm to its accounts department," she had tweeted.

The EAC-PM was revived in September 2017, for a two-year term. It replaced the erstwhile PMEAC, headed by former RBI governor C Rangarajan during former PM Manmohan Singh's two terms.

The council was tasked with analysing issues — economic or otherwise — referred to it by the PM, according to its terms of reference. The body could also take up issues suo motu.

It has submitted three-four papers to the Prime Minister's office on issues such as employment, fiscal situation, economic growth, manufacturing, and infrastructure. None of its work has been made public.

### EAC-PM TILL 2021

BIBEK DEBROY

RATAN P WATAL

SAJJID CHINOY

ASHIMA GOYAL

# Bank slippages to remain high: ICRA

BS REPORTER
Mumbai, 25 September

Due to stress emerging from the real estate, micro, small and medium enterprises (MSMEs), the non-banking space and also on the retail front, the gross slippage of the banks in FY20 will be at an elevated level at ₹2.8 trillion to ₹3.2 trillion, rating agency ICRA said in its outlook for banking sector.

"Gross slippages are estimated to remain elevated at 3.2-3.6 per cent of standard advances during FY20 as compared to 3.9 per cent during FY19", said ICRA.

In Q1FY20, fresh gross slippages stood at ₹85,643 crore as compared to ₹77,784 crore in Q4FY19 and ₹94,756 crore in Q1FY19. The rise in slippages in Q1FY20 from last quarter of FY19 was driven by increased slippages in the MSME sector and the seasonal spike witnessed in agricultural segment during Q1.

The rating agency also forecasted weak return on assets (RoA) for public sector banks (PSBs) in FY20 as most of their operating profits will be consumed in provisioning for bad assets, which will leave these PSBs with poor profitability and a meager return on equity (RoE) of less than 1 per cent.

On the other hand, the private banks, due to higher credit cost in FY20, will see muted RoE at 9-10 per cent.

Moreover, after the merger of banks announced by government and the recapitalisation of PSBs, ICRA says, "The net Non Performing Assets (NPAs) levels are expected to be below 6 per cent by March 2020 for all the banks, while keeping their capital levels above the regulatory requirements".

# When the regulator is the violator

Obedience of court rulings vital for ease of doing business

**WITHOUT CONTEMPT**

SOMASEKHAR SUNDARESAN

The Securities Appellate Tribunal has ruled that a minor cannot be held liable for not making an open offer under the takeover regulations. This is not a unique juvenile justice moment in the securities market. The tribunal simply reminded the Securities and Exchange Board of India (Sebi) of the law declared by the Supreme Court in another case involving securities regulation, and reiterated that the Sebi must not act against minors in whose names majors would have engaged in securities transactions and not complied with attendant obligations.

The tragedy in the case is that the Supreme Court ruling had been rendered way back in 2008. The court had ruled that a minor who is incapable under law to contract cannot be held liable for violation of securities regulations governing public issue of securities. Yet, nearly a decade later, in 2017, the Sebi issued a show-cause notice to another minor — this time for alleged violation of the takeover regulations. That tells a story of judicial indiscipline — of not adhering to the law declared by the last court of the land.

Courts in India are liberal when faced with breach of judicial discipline. Judgements tend to use verbiage in being critical and in issuing strictures to scold lower courts and regulatory authorities who violate judicial discipline by not following the precedents and the law declared by higher courts. Rarely does that translate into anything of consequence for a serious disincentive to the authorities below to ignore the law declared by higher courts. Some judges impose costs on state agencies, while other judges tend to promptly admit challenges when a state agency has been visited with costs. In any case, there is no metric to measure insubordination of judicial rulings, in the course of performance appraisal of regulatory officials. In fact, most senior management of regulators do not have performance appraisal at all.

Regulatory authorities — themselves mini-states with legislative, executive and quasi-judicial power all rolled into one — tend to be the worst offenders when it comes to judicial indiscipline. Despite the law being declared by courts, trenchant judicial indiscipline abound. A simple example is the denial of inspection of the record to a person accused of violating the regulations. Courts have time and again ruled that full inspection of the material on record — not just material used to level the accusations but also material that would undermine the allegations — must be provided.

When a regulator accuses you of violating the law, the regulator must not just tell you what it has against you, but must also give you access to all the material so that you are able to use it to undermine the accusations. If one can show that the material available with the regulator would lead no reasonable man to concluding that there is a violation, that is the process by which the truth is arrived at. Yet, in practice, even in this day and age, a clear and fair inspection of the entire record continues to be denied.

On a case by case basis, depending on the degree of aggression or timidity of the person accused of violation, courts have to be approached to get access to the basic material on record during an inspection process. A sweeping rejection of any request for inspection remains par for the course. A stellar exception to the rule is the Competition Commission of India, which has even codified a standard operating procedure for conducting a file inspection. Other regulators, such as the capital market regulator, are known to demonstrate an arbitrary variance in the approach of different officers and different whole-time members in how they would enable inspection.

When courts are approached, the regulator is prone to argue that the investigation material entails a lot of confidential information that cannot be shared. Courts could then direct that the report be provided with "sensitive" portions being blanked out. In one instance it so transpired that the same investigation report was inspected in two parallel proceedings only to find that the report that was provided in one of the proceedings had blanked out every finding of exoneration by the investigation team.

Likewise, despite superior courts having clearly declared the law, the authority below can keep reiterating its stance, blithely arguing that the decision has been appealed against. The Supreme Court has often ruled that such an approach is abhorrent, but with no one having to face any consequence for unleashing such chaos, the rulings remain mere exhortations. When the law is declared by a higher court with its interpretation, society is entitled to arrange its affairs in a manner that is consistent with known compliance. Yet, when regulators violate the interpretation laid down by the superior courts, society gets fearful — not of the law but of the law enforcer.

The Ease of Doing Business rankings can never model for this kind of unease with conduct of business in any jurisdiction. It is only when state agencies see value in the rule of law that they would be able to attract real investment into business without having to tout the rankings that a statistical model throws up.

*The author is an advocate and independent counsel. Tweets @SomasekharS*

## CHINESE WHISPERS

**Ring-fencing Priyanka?**

Given the sad state of its organisational structure in Uttar Pradesh and the evident factionalism, even the most diehard Congressmen seem despondent about the party's chances in the bypolls to the 11 Assembly seats scheduled for next month. Interestingly, senior Congress leaders have already started the process of ring-fencing the party's general secretary in-charge of eastern UP, Priyanka Gandhi Vadra (*pictured*), from any negative publicity following expected poll reverses. They have refuted the possibility of Priyanka campaigning for these polls, saying "national" leaders do not canvass for "local" elections. This, however, stands in contradiction to her spirited sit-in to highlight the Sonbhadra massacre case and her much publicised statement that she would continue to highlight people's issues under the "anti-people" and "anti-poor" Adityanath dispensation.

**War of words**

The Bharatiya Janata Party (BJP) was upbeat after Delhi Chief Minister Arvind Kejriwal on Wednesday said BJP state unit chief Manoj Tiwari will be the first to leave the national capital if the National Register of Citizens (NRC) is implemented in Delhi. Tiwari, a second-term Lok Sabha member from Delhi, hit back saying the remark exposed Kejriwal's "real face" and alleged that the Aam Aadmi Party (AAP) chief wants to evict migrants such as 'purvanchalis'. The term 'purvanchalis' denotes people from eastern Uttar Pradesh and Bihar, and over the last couple of decades they've become a significant part of Delhi's electorate. Tiwari, a Bhojpuri actor and singer, alleged that Kejriwal "wants to remove people from Bengal, Punjab, Madhya Pradesh, Haryana and other states in Delhi". Assembly elections are due in Delhi in February. Meanwhile, the Congress continued to struggle to pick its state unit chief. With Ajay Maken ruling himself out, speculation is former Lok Sabha member Sandeep Dikshit could be in contention. Dikshit, son of Sheila Dikshit, met Congress President Sonia Gandhi on Wednesday.

**Will he, won't he**

The Congress has planned *padyatras* across the country on October 2 to mark the birth anniversary of Mahatma Gandhi. Congress leader Rahul Gandhi, who has kept himself away from political work after the Lok Sabha poll debacle, is likely to be in Maharashtra's Wardha to lead the *padyatra*. The Mahatma set up his ashram in Sevagram, a village in Wardha, in 1936 and remained there until his death. There was apprehension in the Congress that Rahul Gandhi might not campaign for the party at all for the upcoming Assembly polls in Maharashtra and Haryana. However, his decision to lead the *padyatra* has made leaders hopeful that he might decide to begin his election campaign with the *padyatra*.

# External benchmarks: A tough one for banks

The RBI's diktat on retail and MSME loans adds a layer of complexity

JOYDEEP GHOSH

**TAKE TWO**
ANALYSIS BEHIND THE HEADLINES

The Reserve Bank of India's (RBI's) decision to link all floating rate retail loans and micro, small and medium-scale enterprises (MSMEs) from October 1 comes after several attempts in the past — from prime lending rate to marginal cost of funds (MCLR) — to ensure smooth transmission of interest rates cuts failed. Now, all banks have to link the lending rates to one of these four — the RBI policy repo rate, government of India three- or six-month Treasury bill yields or any other benchmark market interest rate published by the Financial Benchmarks India (FBIL). How workable is this proposal?

Says Madan Sabnavis, chief economist, Care Ratings: "From a regulatory perspective it is an ideal way to ensure that transmission of repo rate changes takes place on the lending side. However, there was an anomaly the last time when the RBI lowered the repo rate to 5.4 per cent. One indicator, the 10-year Government Security (G-Sec), if it had been used as a benchmark, would have gone contrary to the direction of the repo rate change as it has increased over the two month period by 20-30 basis points (bps)."

Sabnavi says banks are likely to face a tough time from a commercial banking perspective as they have to benchmark a part of their assets to an anchor while not being allowed to do so on the liabilities' side. Rating agency Moody's Investor Services has already warned that the move would be credit negative for banks, causing volatility in net interest margins (NIMs). "With NIMs rising when interest rates rise and falling when rates fall, the move will translate into volatility in the overall profitability of banks. It is not clear if banks will be able to mitigate this risk by linking the interest rates on current account, savings account (or CASA) deposits to an external benchmark. With interest rates already low on these deposits, a bank is unlikely to want them any lower as it will risk losing customers."

Former RBI Deputy Governor and Chairperson of FBIL, Usha Thorat says: "Currently, banks price loans based largely on the cost of their deposits. CASA constitutes about 40 per cent of their liabilities and are not interest rate sensitive. Fixed deposits constitute about 50-70 per cent. The average maturity of these deposits is between one year and 18 months. Hence, to manage their asset-liability management (ALM), banks prefer to link loan rates to their deposit rates on fixed deposits to keep their NIM stable."

According to Thorat, the one-year deposit rates of banks is closely correlated to some FBIL benchmarks – the 364-day T Bill rate or one-year G-Sec yield or even the one-year OIS (overnight index swap) rate. "Hence, banks could link their floating rate loans to an appropriate one-year benchmark to manage the asset-liability mismatch. The three-month reset specified by the RBI could, however, pose challenges and it may be better to leave the choice of reset to the individual banks. Some banks may have concentration of liabilities in the five-year segment and may prefer to reset their floating rate interests at longer intervals — as, I believe, State Bank of India (SBI) is asking for," Thorat adds.

**The backstory**

In fact, the implementation of this rule has been delayed by a good six months. In December 2018, under former RBI Governor Urjit Patel, it had been mandated that the shift would take place from April 1, 2019. The decision came after a rather damning report by the central bank's internal committee led by Janak Raj. The committee studied four major banks (two public and two private) and found that one major public sector bank decided on the MCLR rate, based on card rates of retail term deposits of seven days to one year. It fully ignored the cheaper resources collected under CASA. In the case of private banks, some even flouted apex bank guidelines by having multiple rates instead of one MCLR across products. This was done by using different operating costs for different loan products.

Patel's abrupt resignation came as a partial relief for banks. In April's Monetary Policy, the central bank stated that "further consultations will be held with stakeholders to work out an effective mechanism for transmission of rates".

Then came the economic slowdown. And the Finance Minister and Prime Minister started asking banks to pass on rate cut benefits. After all, since Shaktikanta Das took over in January, the repo rate had been cut by 110 basis points. But there were not significant cuts from banks. The RBI finally bit the bullet earlier this month.

**The way forward**

One of the key changes that banks may have to make is how they price their deposits. Floating rate deposit rates are ideal, but with rates on some products of National Savings Schemes as high as 8.6 (Sukanya Samridhi Yojana), they fear losing depositors in bank fixed deposits.

The State Bank of India and 14 other public sector banks have already announced products linked to the repo rate. In the SBI's home loan product, the loan amount will be divided equally across the tenure, and the equated monthly instalment will be high initially and reduce as the number of years increase.

But the key would be spreads. "It will be an interesting development for banks as they have to carefully choose their spreads over the chosen benchmark as this cannot change for three years," says Sabnavis.

He offers an example. If on October 1, a bank benchmarks home loans to, say, 200 bps over the repo rate of 5.4 per cent, the basic lending rate would be 7.4 per cent. Now, in the first week of October, if the RBI lowers the rate by 25 bps, the lending rate would automatically come down to 7.15 per cent and there would be a hit on the books. "Therefore, arriving at the right spread to protect the profit and loss account will be critical for banks and they also have to anticipate how many more rate cuts would be there during the year while fixing the same," adds Sabnavis.

In other words, the Indian banking business just got more complex.

**STANDARD DEVIATIONS**

**(Why banks could find external benchmarking a challenge)**

- Contrarian rate fluctuations of benchmarked instruments
- Asset-liability mismatch Competition will force banks not to lower deposit rates
- Volatility in net interest margins
- Three-month reset and three-year benchmark lock-in could restrict banks' flexibility

INSIGHT

# Reform and Modi's gift of timing

DHIRAJ NAYAR

There is a pattern in Prime Minister Narendra Modi, the reformer. And there is a method. Only the truly naïve would believe that economics and not politics would come first for the most talented and successful Indian politician in several decades. The Prime Minister has the right instincts on economics. His long track record in Gujarat and his speeches since he became the prime ministerial candidate of the BJP in 2013 lay out his vision quite clearly: Get the government out of areas where it is a hindrance, in business activity for example and strengthen government in spheres where it needs to deliver, in welfare for example. A vision is not, and cannot be, entirely implemented in one quarter or even four, not in a complex democracy with competing interests. When the history of his rise and tenure in government is written, perhaps what will stand out is Modi's genius in timing.

Those who have observed Modi's track record should not be surprised that he has started his second term in office as PM with two big bangs — the abrogation of Article 370 and a deep cut in corporate tax rates. Contrast these four months with the corresponding four months in 2014. Then, the biggest bang was the announcement to abolish the Planning Commission — not unimportant but not big bang. Like his first full term as CM of Gujarat, Modi's first term as PM of India was about learning and consolidation of political power. It's in the second term that he pushes the accelerator. Hence his description of what has happened so far as only a trailer of the presumably action-packed film to follow.

Cut back to the first term. Modi did take a step towards what could be called big bang reform when he tried to amend UPA's awfully restrictive land acquisition law. He took flak for stepping back when Rahul Gandhi targeted him with the "suit-boot" jibe. A canny politician, Modi would have been acutely aware that one of the reasons for the defeat of the only previous BJP-led government was because the Opposition had successfully painted it as a pro-business and pro-rich government because of its liberal economic policies. Remember also, that in 2014-15, the public perception of India's private sector was dominated by crony capitalism. Politically, the timing was not right for aggressive market reform.

For the rest of his first term, Modi followed a two-pronged approach to economic policy. First, to decisively act against crony capitalism, black money and corruption in order to shore up the legitimacy of a private sector-led economy. And second, to ensure efficient delivery of welfare to the most marginalised so that they became active stakeholders and supporters of his broader vision to change India. The latter is now viewed by conventional wisdom as one of the main reasons he won an even bigger majority in 2019. The former is often criticised for the disruption it caused to the economy (whether demonetisation or GST or the Insolvency and Bankruptcy Code) — and indeed the administrative machinery could have done a much better job of implementation — but without it the deep corporate tax rate cut, which is a fundamental structural reform of the economy, would never have seen the light of day.

Critics of the Modi government are wrong when they say that the economic slowdown has been caused by this government. The truth is that the slowdown began in 2011-12 by when the dividends of the Rao/Vajpayee reforms had greatly diminished and the consequences of a sustained global slowdown became apparent. The lack of substantive reform between 2004 and 2011 was biting and the nasty side effects of almost double-digit growth in the form of corruption and cronyism was causing a fever.

Modi's disruptions did not aid growth — a simpler GST might have — but they played their part in cleansing the economy and changing public perceptions. Now, the jibe of suit-boot will not stick. The bold corporate tax reforms can be followed with other structural reforms like the privatisation of public sector companies. Again, there will be a method. Air India, the sickest PSU may be offloaded first. Some of the more profitable PSUs, like in the oil and resources sector, may be divested by reducing the government's stake to 49 per cent while having a diversified public ownership for the remainder. Land and labour reform will come, but given the politics, it may come in the form of pilot experiments in some BJP-ruled states.

Of course, welfare is not going to disappear. It should not. Market reforms can only succeed if the system is perceived as fair. Modi may yet succeed at doing what no Indian PM has before — subsuming good economics into successful politics but not by textbook and in his own time.

*The author is chief economist, Vedanta*

## LETTERS

### Bold move

Finance Minister Nirmala Sitharaman (*pictured*) deserves to be congratulated for the two significant tax reforms recently. The first one being slashing of corporate tax from 30 per cent to 22 per cent that will enthuse the industrial community to bring in capital investment. The second being the most unique tax reform, never heard of in any economy in the world — that is, any new company desirous of starting a new business after October 1, 2019, and commencing production before March 2023, will pay only 15 per cent corporate tax. This will certainly give a boost to any new entrepreneur to set up a new unit and avail of the tax benefits. This major tax incentive is likely to attract foreign investors to invest in new ventures in India. In fact, Petronet LNG has already evinced interest with a strategic investment of \$2.15 billion in Tellurian US LNG. There has been a significant rise in the share market as well.

The finance minister definitely deserves to be complimented for her bold and innovative tax reforms in the country that will certainly revive the economy and spur growth in the remaining quarters of this fiscal year.

**Satish Murdeshwar** Pune

### Lessons from Britain

The UK Supreme Court has shown that it can rule independent of the interest of the government of the day, something judiciaries in other democracies can emulate. Its unanimous ruling that the prorogation of the British Parliament by Prime Minister Boris Johnson was unlawful, upheld the Parliament's sovereignty and its supremacy over the government.

It was a ruling that is relevant and applicable to our own country as its Parliament is modelled on the British system. The UK top court made it clear that if the ruling vindicated the opposition's stand on the prorogation of the Parliament and benefitted it in the political tussle to get the upper hand, it was only incidental to its establishing the illegality of the prorogation.

The real intent for prorogation was to stymie parliamentary scrutiny at the crucial stage of negotiations of the deal for Brexit. Despite a string of political and legal setbacks like losing parliamentary majority and receiving court strictures for preventing the Parliament from doing its job and attracting the charge of stifling democracy, Johnson declared that the ruling — with which he strongly disagreed and termed a serious mistake — would not deter him from delivering Brexit on the October 31 deadline.

There is now considerable uncertainty over Brexit. The Labour Party's stand is that Johnson has no mandate for a no-deal Brexit and the crisis can be settled only by a general election. London must get an extension from Brussels to avert the risk of its crashing out of EU without a deal.

**G David Milton** Maruthancode

### Competition is good

Your editorial, "The private train mirage" (September 25), does well to point out the pitfalls in the proposal to introduce privately-run trains under the overall scheme of public private partnerships. But permit me to disagree with your thinking that the "idea is fundamentally flawed". I think it is a brilliant idea that deserves serious consideration. Time has come for such out-of-the-box thinking if we want to modernise rail travel in India.

Of course, you have made a crucial point when you talk about the need to reform Indian Railways and the Railway Board. The two will definitely need to be separated, their umbilical cord has to be cut. The Railway Board must assume the role of a regulator and allow both the Indian Railways and the private companies to run trains on a level playing field. That done, there should be no problem allowing private sector entry in this important public mobility sector. Just because of the need for this major reform, let's not throw the baby out with the bath water.

Public and private companies have coexisted in power, telecommunications, mining, aviation and other sectors. Why not in rail travel? Competition will do good to the sector.

**Krishan Kalra** Gurugram

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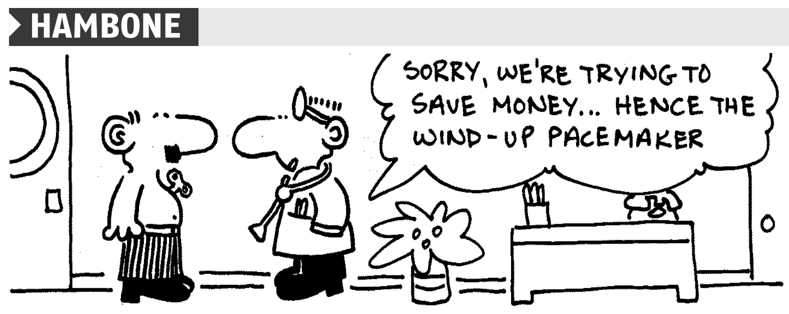
**HAMBONE**



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## Strengthen cooperative banks

### RBI and govt should not waste the PMC crisis

The Reserve Bank of India (RBI) on Tuesday placed the Punjab and Maharashtra Co-operative Bank (PMC) under "directions". Consequently, cash withdrawals have been capped at ₹1,000 per account for six months, and the bank will not be able to extend credit, take fresh deposits or make any payment. Predictably, the decision has resulted in panic among depositors. While the details on why the banking regulator was forced to put such restrictions are still sketchy, the issue is reportedly related to the bank's exposure to Housing Development & Infrastructure (HDIL). The company has been admitted by the National Company Law Tribunal for insolvency proceedings, though it has been challenged by the realty firm. There are differences between the auditor and the regulator in terms of treatment of loans extended to HDIL. There could also be issues related to governance as the bank and HDIL have had links in the past. The collapse of PMC appears to have been sudden and is shrouded in mystery, and things will become clear once the regulator completes the examination. At the end of the last financial year, PMC declared a net profit of about ₹100 crore with deposits over ₹11,000 crore. At the net level, non-performing asset was at a modest 2.19 per cent.

The regulator and the government would do well to re-evaluate the importance of cooperative banks in the current financial landscape to avoid recurrence of such an incident. According to the RBI, at the end of the last financial year, India had a total of 1,542 urban cooperative banks, of which 26 were under directions of the regulator and 46 had a negative net worth. There have been delays in adoption of core banking solution in some cases because of a lack of expertise and capital. Governance is a real issue in many of these banks. It doesn't help that they are regulated by both the RBI and the Registrar of Cooperative Societies of the state concerned. Further, there are issues related to capital. Urban cooperative banks cannot raise capital through a public issue or issue shares at a premium. They also face difficulties in meeting short-term liquidity requirement because not all can directly access RBI's liquidity support. Cooperative banks fail often because of their small capital base — for example, urban cooperative banks can start with a capital base of ₹25 lakh compared to ₹100 crore for small finance banks. Also, such banks are hijacked by vested political interests.

To be sure, cooperative banks played an important role in the past, including in the colonial period, but their relevance has declined with the spread of scheduled commercial banks and adoption of technology in recent years. Given their lack of expertise and capital, it will be difficult for these banks to compete with other financial institutions. Therefore, it is important to carry out a comprehensive review and make changes in the law to give more power to the RBI in terms of regulation, mergers, and conversion of some entities into commercial or small finance banks. This will allow them to raise capital and attract talent. In the absence of policy initiatives, these banks would increasingly become more vulnerable.

## The balancing act

### Privacy on social media must be protected

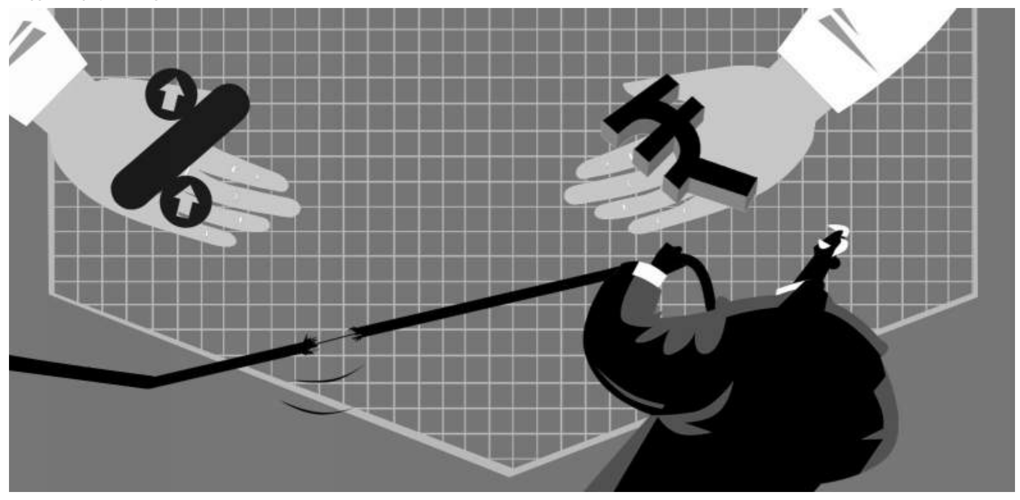
A two-member bench of the Supreme Court on Tuesday asked the Centre to frame rules for the moderation of social media and to file an affidavit detailing the same within three weeks. The observation was in connection with the transfer of various cases pertaining to the linking of Aadhaar with social media accounts. In effect, this would imply that the identity of every Indian social media user would be available to the government. Even otherwise, the government had been attempting to force major social media platforms to provide methods for content to be traced to the originating accounts.

While the court directed the government to maintain a balance between impinging on the privacy of individuals using social media and offering redress to victims of trolling, it is hard to see how this would be possible under the existing technology. If the option of anonymity is removed, so is privacy, since social media content is, by its very nature, public, or at least visible to many people. Social media accounts are indeed often used to troll individuals. These platforms can also be employed for the rapid dissemination of fake news and damaging rumours. The flip-side of the story is that social media is a powerful tool for whistle blowers and it has often been the channel by which criminal activity has been first uncovered, or brought to public notice. Countless individuals, corporations, civil servants and politicians have been embarrassed by revelations of their wrongdoing on social media.

It is also a powerful platform for expressing dissenting political opinions, and coordinating protests against unjust laws. Every mass movement of the last decade, from the first Arab Spring protests in Tunisia, to the recent protests in Hong Kong and the ongoing battle against climate change, has been enabled by the existence of social media. All this would not have been possible without the capacity of social media users to remain anonymous and yet be heard. Indeed, the protests in Hong Kong have featured a fascinating technological battle between protesters striving to maintain anonymity and a regime doing whatever it can to uncover the identity of activists. Every undemocratic regime in the world would like social media to lose its veil of privacy. Many have banned platforms that allow for privacy precisely due to fears that these may be used to express dissent, or throw a light on repressive actions. India, for example, has faced flak for shutting down the Internet in Kashmir, with activists alleging that this gives security forces a free hand to indulge in abuse and excessive use of force.

It may be argued that the benefits to society from protecting the privacy of individuals using social media far exceed the ills that arise from the dissemination of fake news. Moreover, privacy is a fundamental right as the Supreme Court affirmed two years ago. There are legitimate fears that any regulation that the government frames in haste will be flawed, or applied selectively, to harass political opposition. Until specific legislation that defends the fundamental right to privacy is written into law, anything that impinges on that right should not occur. Trolling and the spread of fake news can be contained and committed under existing regulations by the use of sensible policing.

ILLUSTRATION: BINAY SINHA



# Economic shudders & revival strategies

### Discarding attention-grabbing slogans, the government needs to aim for real GDP growth of 8 per cent and higher

The central government ought to be red-faced about the 5 per cent GDP growth rate for the first quarter of 2019-20. In 2014, the Bharatiya Janata Party-led government had inherited public sector banks (PSBs) weighed down with non-performing assets. On the positive side, international oil prices have been at relative lows and domestic inflation has been muted for the past few years. Partisan supporters of the government explain away the slowdown through unsolicited Whatsapp messages, which gush that India's 5 per cent growth is high compared to growth rates in developed countries. Such growth rate comparisons with G7 countries are irrelevant as most Indians do not have access to the social, health and unemployment benefits provided in developed countries.

The stark reality is that rural and urban demand has slumped in India. Among many factors this is due to what I would call a triple balance sheet problem. The twin balance sheet problem (Economic Survey 2016-17) afflicting major private sector borrowers and lenders was caused by irresponsibly high loan disbursals during 2008-12. The third balance sheet belongs to those who purchase cars, scooters, consumer goods and services using their credit/debit cards for payment through equated monthly instalments (EMIs). Many among these demand groups are unwilling to increase their EMI payments because earnings shocks caused by demonetisation and slower than expected disbursal of GST refunds have persisted.

An important factor constraining foreign demand for Indian products has been the significant overvaluation of the rupee. On September 19, 2019, the RBI governor citing a July 2019 IMF report commented that the rupee's real effective exchange rate (REER) is close to its correct value. An RBI report again dated July 2019 mentions that the rupee's REER is overvalued by 24.6 per cent against a basket of six currencies. It is strange that the RBI governor prefers to quote the IMF report on the rupee exchange rate.

Higher lending by Indian banks and non-banking finance companies (NBFCs) would help revive domestic demand. However, Indian financial institutions are hesitant to push up lending. Lenders are circumspect because defaulting borrowers are managing to retain assets pledged as collateral at the time of borrowing, although others have bid for such assets through transparent processes. The February 12, 2018, RBI circular had prescribed that lenders have to recognise default as soon as it happens and borrowers had 180 days to resolve matters with lenders before the latter were obliged to take the matter to a National Company Law Tribunal (NCLT). Borrowers need to be in touch with lenders well before default happens to extend repayment deadlines or look for bridge loans from other sources. In this context, the quashing of the February RBI circular by the Supreme Court on April 2, 2019, was a monumental blunder. The RBI and government should have jointly pleaded in support of this circular. Apologists for recalcitrant borrowers suggest that they be allowed to retain their assets and helped by lenders to recover. Limited liability legislation allows promoters to retain personal wealth and only what was pledged can be attached by lenders.

JAIMINI BHAGWATI

The government seems to have reverted to expecting PSBs to show infinite patience and in practice this often results in collusion with large borrowers. The remedies go back to proposals including one made by the Banks Board Bureau for board members of public sector banks to be chosen for their domain knowledge and unimpeachable integrity. Additionally, speedier resolution of cases pending with NCLT is needed. At this stage it appears as if the Insolvency and Bankruptcy Code and Insolvency and Bankruptcy Board of India may become irrelevant much in the same way as the SARFAESI Act of 2002 and corresponding debt tribunals.

Government could raise resources, from foreign and domestic sources, by reducing its equity holdings in LIC and Coal India to around 60 per cent. Air India, MTNL and BSNL continue to suck up resources and it is high time the government reduced its equity shares in these entities, preferably by attracting foreign investment. If funds are accessed only from domestic sources, financing support could be drawn away from other local investments.

On September 20, 2019, government announced significant reductions in corporate tax rates. This measure could boost demand but with a lag if companies pass on higher retained earnings to employees and reduce prices. Domestic and foreign investments could increase over time if the lower tax rates are competitive in comparison to alternative investment destinations. The downside though is immediate since government may lose up to about ₹1.4 trillion ($20 billion) of revenue during 2019-20, and the centre's fiscal deficit could rise well over 4 per cent of GDP leading to higher interest rates. The GST Council has done its bit to revive "animal spirits" and has reduced GST rates on hotel accommodation and that should have a positive impact on tourism.

In the first four months of 2019-20, about $5.8 billion left India under the liberalised remittance scheme (LRS), and during 2014-19 the total amount remitted abroad amounted to $45 billion. The comparable amount for 2009-14 was much lower at $5.5 billion. By contrast, inward foreign direct investment has risen and amounted to $42 billion in 2018, according to UNCTAD's World Investment Report 2019. However, the sizeable LRS outward remittances should be a matter of concern.

To conclude, there is an unreal air to the way government has harped about a $5 trillion Indian economy by 2024, which diverts attention from the urgent need to raise domestic and foreign demand for Indian goods and services. A few months back a senior Ministry of Finance official demonstrated his lack of understanding by suggesting that if the Indian rupee were to appreciate, India could easily reach the $5 trillion goal. Discarding attention-grabbing slogans government needs to aim for *real* GDP growth of 8 per cent and higher annually in rupee terms, which is a tried and tested way for India to raise employment and reduce poverty.

*The writer is former Ambassador, senior Ministry of Finance official and World Bank Treasury specialist; j.bhagwati@gmail.com*

# Economic recovery will be slow in coming

The cut in the corporate tax rate is seen as the boldest of the barrage of measures unleashed by Finance Minister Nirmala Sitharaman. It has sent the stock market soaring. There are expectations that an internationally competitive corporate tax rate will boost investment in the economy, both foreign and domestic, and lead to a massive creation of jobs and incomes. Such expectations need to be tempered by a dash of realism.

Let's take foreign direct investment (FDI) first. There is little to suggest that FDI has been held back by the higher tax rate that obtained thus far. Gross FDI flows into India rose from $28 billion in 2013 to $42 billion in 2018, according to UNCTAD's World Investment Report, 2019, despite India's tax rate being uncompetitive.

More crucially, the bigger chunk of FDI flows in the world, 63 per cent of the total, tends to be in the form of mergers or acquisitions (brownfield investment) rather than greenfield investment. It's greenfield investment, not the brownfield variety, that can provide a big impetus to jobs and incomes. In India, brownfield investment is even more dominant than in the world as a whole: In 2018, it constituted 78 per cent of total FDI. The idea that, following the tax cut, a wave of FDI will dramatically lift jobs and incomes is rather misplaced.

FINGER ON THE PULSE

T T RAM MOHAN

The cut in the corporate tax rate will enhance domestic corporate savings and could lead on to higher investment. Analysts have pointed out that the accretion to domestic corporate saving will be less dramatic than the headline numbers suggest. In effective terms, the tax rate goes down by only four percentage points.

Even on this account, any increase in investment will happen only over the long run. In the short run, Indian firms are unlikely to step up investment significantly for several reasons. One, private consumption is faltering. Two, banks will be wary of increasing exposure to corporate groups with whom they still have to resolve bad loans. Three, despite announcements of infusion of capital, many public sector banks lack capital to increase lending significantly. At least for a year or two, corporate investment will be clouded by uncertainty.

The one thing that is certain is that the fiscal deficit will end up higher than the target 3.3 per cent for 2019-20 — perhaps closer to 3.8 per cent after factoring in various other effects including the RBI's transfer of surplus. The finance minister has dispelled any expectation that the estimated revenue loss would be offset by a cut in government spending. Analysts who were cheering the government for announcing sector-specific measures while refraining from providing any fiscal stimulus will be disappointed.

The government clearly believes that the slowdown is serious enough to warrant a fiscal stimulus in addition to the ongoing monetary stimulus. The question is whether the cut in the corporate tax rate is the best way of providing a fiscal stimulus at this point. Why not through an increase in government capital expenditure? Perhaps this does not fit in with the government's thinking, reflected in the last Economic Survey, that private investment alone can be the primary driver of growth. The government may also have felt that public capital expenditure would not crowd in private investment in a situation where corporations are constrained by high debt-to-equity ratios.

An increase in the fiscal deficit limits the potential for rate cuts by the RBI in the months ahead. The government may well have reckoned that the cuts in the policy rate have gone far enough. The issue now is one of transmission of policy rates and the creditworthiness of firms. Any increase in government bond yields on account of a higher fiscal deficit could be contained through a modest sovereign bond issue.

The sector-specific measures announced in instalments earlier are a mixed bag. Some of these (such as the mergers of public sector banks) are of little relevance to the present slowdown. Others (such as timely refunds of GST to MSMEs and expediting payments due to them from the government) will help if implemented rigorously. The measures to boost exports are among the most promising. The special fund for last-mile funding for certain categories of housing projects will not make much of a dent on the large number of unfinished housing projects.

The critical issue is the disruption of credit hitherto provided by non-banking finance companies (NBFCs). The government has proposed that public sector banks (PSBs) co-originate loans with NBFCs. One is not sure how this will work on the ground. NBFCs can pass on potential clients to PSBs for a fee. This will ensure flow of credit to particular segments but it does little to improve the financial health of NBFCs. A better option is for PSBs and NBFCs to co-finance loans. This will ensure flow of credit while also improving the health of NBFCs. But PSBs have no incentive to opt for this course except in cases where they have exposures to NBFCs.

Neither the tax cut nor the sector-specific measures will change the near-term growth outlook dramatically. Indian firms, especially small firms, are going through a process of considerable adjustment consequent to demonetisation and the introduction of GST. Bad loans in the banking system declined in 2018-19 but remain at a high level of over 9.3 per cent of advances. Global growth has decelerated. The Seventh Pay Commission booster to consumption tapered off in 2018-19. The substantive effect of the measures announced may well be that it improves business and market sentiment and sets the stage for strong growth further down the road.

*The writer is a professor at IIM Ahmedabad. ttr@iima.ac.in*

# The journalist & the *jihadi* conman

BOOK REVIEW

VIKRAM JOHRI

In the book under review, Shiv Malik, a corporate communications professional and former investigative journalist, recounts the unnerving tale of being conned by a man who claimed to be an Islamist sympathiser with links to terror organisations.

After the 7/7 bombings in London, the British media was keen to probe homegrown terror emanating from Muslims born and brought up in Britain turning to Islamist ideology. Malik, who has worked for a number of British media outlets over the years, was keen to interview Hassan Butt, an Al Qaeda-affiliated radical, who as early as 2002 had claimed that he had recruited British volunteers to fight for the Taliban.

The book brings out the story of their association. In their first meeting, Mr Butt claimed to have met Mohammad Sidique Khan, the leader of the group that planned and executed the July 2005 bombings. Mr Malik visited Mr Butt's house in Manchester, a spartan residence that seemed to agree with the strict Islamist doctrine that he espoused.

The journalist-source relationship changed into something less formal as the meetings progressed. Mr Malik learnt of Butt's family, his strained relationship with his father, and the constant need for financial security. Since both men are South Asian, there were cultural similarities as well.

Six months into their association, Mr Malik received an email from Mr Butt saying that he wished to renounce Islamist ideology. He said that he had developed differences with other ideologues and that he had stopped receiving funds from them. In response, Mr Malik floated to Mr Butt the idea of writing a book that would narrate his disenchantment with Islamism. He agreed.

The turning point in the relationship came when news of the book's writing spread in the media and Mr Butt was attacked by an unidentified assailant who, he claimed, belonged to "the network", that is, Al Qaeda. Mr Malik became increasingly protective of Mr Butt, to the extent that when the police questioned him about the book and his association with Mr Butt, he refused to reveal anything and even went to court to protect his source.

Even as Mr Malik accommodated Mr Butt's increasingly wayward demands, the rest of the story is a cautionary tale of how he felt deeper into the vortex of a fraud that ultimately unravelled in 2008 when the British anti-terror police arrested Mr Butt. On questioning, Mr Butt revealed that he had never had links with Al Qaeda or any other extremist organisation. Furthermore, he had arranged for himself to be stabbed to gain publicity and that the book with Mr Malik was his way of making money.

The question of how Mr Malik was taken in by Mr Butt's duplicity is not an easy one to answer. Towards the book's end, he presents evidence that Mr Butt may have been working for the MI5, Britain's spy agency, all along. The logic for this is offered by Mr Malik thus: Mr Butt and a clutch of other British-born radicals were reared by the MI5 to make clear the threat from homegrown terror.

From here, Mr Malik situates his dilemma in the current political climate and blames his gullibility on the rise of demagoguery. He presents the world today as reflecting a dialectical schism between the innocent and the un-innocent, with the former looking the other way as the state resorts to every means possible to question and tame the latter.

This is a rather disingenuous lesson to draw from the protracted, tragic episode. One, 7/7 was indeed planned and executed by homegrown terror, one in a series of similar attacks that took place in Europe over the years that followed. Two, Mr Butt may have played Mr Malik and others and may have been prompted by MI5 to do so, but the threat of Islamic terror remains a real danger.

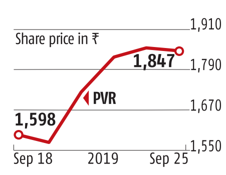
Finally, Mr Malik's own interest in the book project stemmed from his desire to articulate the story of a reformed *jihadi*. A significant part of the book is devoted to how Mr Malik worked with Irshad Manji, the religious reformist, to rehabilitate Mr Butt. The fact that Mr Butt turned out to be a conman does not detract from the very real work being done in this regard and the need for such work to continue, regardless of Mr Malik's views on the invidiousness of the state and its apparatus.

Last year, Mr Butt was sentenced to 13 years in prison for perpetuating a £1 million fraud on unsuspecting eBay customers in 2014, an anticlimactic turn of events for someone who claimed to hobnob with Al Qaeda bigwigs. Meanwhile, Mr Malik has moved on from journalism. *The Messenger* is an engaging and disturbing tale of intellectual credulity that has deeper roots than the book's author would have us believe.

**THE MESSENGER**
Shiv Malik
Penguin Random House
₹599, 321 pages

Business Standard
# The Smart Investor
MUMBAI | THURSDAY, 26 SEPTEMBER 2019
WWW.SMARTINVESTOR.IN FOR INFORMED DECISION MAKING

**QUICK TAKE: EXPANSIONS, PROFIT UPTICK TO AID PVR**




The stock of PVR has gained 17% in the last few sessions on earnings upgrades following the tax rate cut. This, along with its aggressive expansion, increasing penetration in the southern market, and focus on premium formats, is expected to boost its top line

***"We should stop usage of the term DII and instead use DIT. Domestic Institutional Traders"***

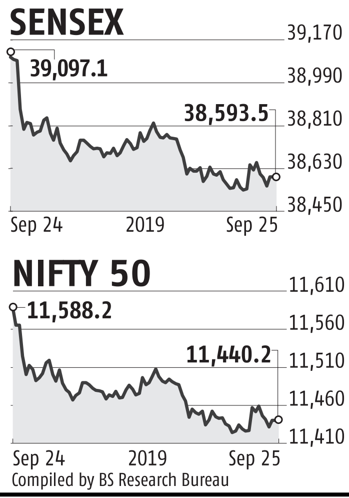
SAMIR ARORA,
Partner and fund manager, Helios Capital

MARKET PLUNGE

# Profit-booking halts winning run

## SBI stock fell over 7% on Wednesday, the biggest single-day decline in four years

SAMIE MODAK
Mumbai, 25 September




The benchmark indices dropped 1.3 per cent on Wednesday — mirroring the weakness in global markets — after investors booked profits judging recent gains as excessive. Most global indices traded weak as investors assessed the potential fallout of an impeachment inquiry of US President Donald Trump. US House Speaker Nancy Pelosi said a formal impeachment inquiry would be opened on Trump.

The benchmark Sensex ended 504 points or 1.3 per cent lower at 38,594, while the Nifty declined 148 points or 1.3 per cent to close at 11,440. In the previous three sessions, the two indices had surged above 8 per cent, buoyed by the reduction in corporation tax rates. Market players said some investors were taking money off the table as the tax cut would boost earnings, but a revival in the economy would take place with a lag.

Most global equities fell by over a per cent, as the political uncertainty in Washington D.C. added a fresh complication for investors grappling with rising tensions between the US and China, and in West Asia.

"Political uncertainty in the US amid impeachment talks pulled indices lower. There was heightened selling witnessed in state-owned banks," said S Ranganathan, head of research at LKP Securities.

The Nifty PSU Bank fell by over 5.6 per cent as the crisis at PMC Bank hurt investor sentiment and raised fresh fears of spiraling of bad assets on account of the pain in the real estate sector. The SBI stock fell 7.7 per cent — the most among Sensex companies — reversing all gains made since the tax cut. Bank of Baroda and Bank of India shares fell 6 per cent each.

Both domestic as well as overseas investors were net sellers on Wednesday, taking out ₹342 crore and ₹763 crore, respectively. In the previous two sessions, institutional investors had been strong buyers after market sentiment changed from bearish to bullish following the Centre's move to lower taxes.

Last week, the Sensex and Nifty had dropped to their lowest levels since February. However, with the stellar gains made in three sessions prior to Wednesday's, the Sensex had come just 3 per cent away from a new all-time high.

"We prefer to remain cautious at higher levels. The indices are trading near peak valuations and sustainability at this level is essential," said Ajit Mishra, vice-president (research), Religare Broking. In a recent note, Edelweiss had said further gains in the market could be modest as the positive impact on the economy could only happen with a lag.

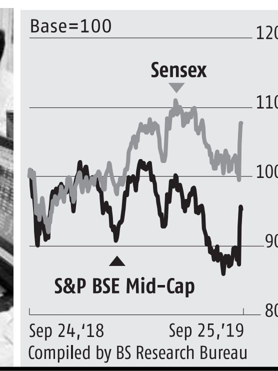
"The economic response in terms of investment and consumption will be a tad lagged even as expectations run upfront," the note said.

### Asian indices fall on move to impeach Trump, trade fears

Asian indices fell on Wednesday, after US Democrats launched formal impeachment proceedings against US President Donald Trump, and on account of renewed trade fears as he adopted a hard line on China. House Democratic leader Nancy Pelosi announced a formal impeachment inquiry after the close of US markets. Democrats accuse Trump of abuse of power in a reported attempt to pressure the new president of Ukraine to open a corruption investigation into Joe Biden — his lead challenger for the White House — and his son Hunter.

Tokyo's Nikkei closed down 0.4 per cent, the Shanghai Composite Index slipped 1 per cent, and Hong Kong's Hang Seng ended 1.3 per cent lower. Seoul's Kospi, too, fell 1.3 per cent and Taiwan's TAIEX gave up 0.4 per cent, while Singapore lost 1.18 per cent. **AFP/PTI**

# BNP rejigs stocks, adds Britannia & Manappuram




NUPUR ACHARYA
Mumbai, 25 September

A surprise cut in the corporation tax rate will lay the groundwork for "second order benefits" to the economy over the next several months or even years, providing a favourable backdrop for broader stock selection at the same time, according to BNP Paribas Securities India.

The brokerage has re-balanced its "quality list" of stocks again, after having made adjustments a day before the government reduced corporation tax rates (September 20).

This time, it added firms ranging from large-cap stocks such as Britannia Industries to smaller names like Manappuram Finance, wrote Abhiram Eleswarapu, head (equity research), BNP Paribas Securities, in a note published on September 24.

"The rally in stocks following the tax rate reduction has provided immediate money in the hands of investors," he said by phone. "It provides confidence that the government is willing to do whatever it takes and will provide equity investors a chance to broaden the basket of stocks."

The surprise tax rate cut came after economic growth in the April-June quarter slumped to its lowest level in six years, hitting the nation's smaller stocks the hardest. While the implied valuations of 10-15 Nifty stocks are still at a premium to historical averages, the mid-cap and small-cap indices are still below their means, according to the BNP Paribas report.

**The corporation tax rate cut came after economic growth in the April-June quarter slumped to its lowest level in six years, hitting the nation's smaller stocks the hardest**

Since the tax rate cut, mid-cap stocks have jumped 9 per cent, while small-cap names have gained 7 per cent. The benchmark Sensex has had climbed 8.3 per cent in the last three sessions before seeing a slump on Wednesday.

The gains show that the "first round impact" of the tax rate cut on company earnings has been factored in, according to Eleswarapu. **BLOOMBERG**

# Sebi eases norms for registration of FPIs

ASHLEY COUTINHO
Mumbai, 25 September

Markets regulator Sebi has issued a notification for easing the process for on-boarding overseas investors. The notification says foreign portfolio investors (FPIs) are no longer required to meet the 'broad-basing' criteria, under which at least 20 investors were required to establish a fund.

However, in order to ensure the money coming in is clean, the FPI or underlying investors — contributing a minimum of 25 per cent or identified on the basis of control — should not be part of the Sanctions List notified by the UN Security Council, or reside in any country identified in the public statement of the Financial Action Task Force (FATF) as delinquent.

Central banks not members of the Bank for International Settlements (BIS) will be allowed to register as FPIs. This will enable central banks from over 60 countries, including those of Mauritius, Cyprus, and West Asian ones such as Abu Dhabi, Dubai, Kuwait, Oman, and Qatar, to invest as FPIs.

The erstwhile three categories of FPIs have been merged into two. Category I will include central banks, sovereign wealth funds, pension funds, banks, asset management companies, portfolio managers, and entities from FATF member countries.

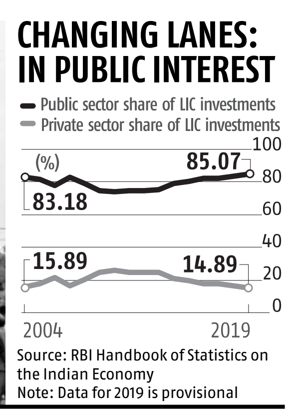
Category III has now been converted into category II, comprising corporate bodies, charitable organisations, family offices, individuals and unregulated funds in the form of limited partnerships and trusts.

Offshore funds floated by Indian fund houses will be permitted to invest in domestic markets under the FPI route, and be required to obtain registration as an FPI within 180 days from the date of notification of the norms.

*More on business-standard.com*

# LIC's private sector portfolio at 16-yr low

SACHIN P MAMPATTA
Mumbai, 25 September




The private sector has a lower share in the portfolio of Life Insurance Corporation of India (LIC) now than at any point since 2003. It accounts for 14.9 per cent of the total investments, according to numbers analysed from the Reserve Bank of India's *Handbook of Statistics on the Indian Economy*.

The LIC has been reportedly helped by a number of public sector divestments, and banks such as IDBI, which may have resulted in a shrinking pool available to the private sector. This is despite the private sector companies outperforming their public sector counterparts.

The BSE PSU index has declined 4.9 per cent in 2019 so far, while the Sensex has risen 8.4 per cent. In fact, the PSU index has underperformed the benchmark in 11 out of 16 years.

The private sector share had last slipped below 15 per cent in 2003, when it was 11.68 per cent. It peaked for the subsequent period in 2010 at 25.72 per cent.

It has since fallen for nine years in a row, to reach its present level. The public sector's share in total investments is at its third-highest level since liberalisation. The 85.07 per cent share in 2019 is higher than any year save 2002 (87.15 per cent) and 2003 (87.22 per cent).

The numbers don't add up to exactly 100 per cent, given that there are investments in the joint and co-operative sectors included. The two account for ₹1,098 crore in total. The overall investment in LIC stands at ₹26.61 trillion.

Of this, ₹26.4 trillion is invested in stock exchange securities. It also has a loan book of ₹24,909 crore. A look at the last available annual report shows the insurer has a majority of its investments in government securities.

"In respect of non-linked business, corporation earned ₹1,55,071.90 crore as interest and ₹9,768.82 crore as dividend, returning a yield of 7.71 per cent for the year. The corporation also earned rent of ₹455.98 crore on investment property, ₹9,576.81 crore by way of interest on policy loans, and ₹20.97 crore as interest on loan on mortgages. A further ₹19,512.94 crore was realised as net profit from the sale of equities, government securities and other securities (including amortisation) taking the total yield to 8.66 per cent," according to the FY18 annual report.

"Typically, LIC has supported the divestment programme of the government from time to time, and in a bigger way since 2014. The investments by LIC do not seem to be driven solely with the target of efficient allocation of capital. It has also been looking at social objectives. With more stake sales on the anvil, unless the government looks at pure strategic divestment, one might well see the private sector's share in LIC's investment falling further," said Deepak Jasani, head of retail research at HDFC Securities.

The size and parentage of LIC may mean there is little impact for policyholders, according to Swapnil Pawar, founder of financial services firm Asqi Advisors.

"Most of the investors go in with an implicit assumption that LIC itself can't possibly fail," he added.

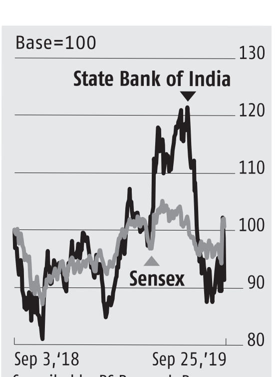
### IRCTC IPO set to launch on Monday

The Indian Railway Catering and Tourism Corporation's (IRCTC) ₹638-crore initial public offering (IPO) will begin on Monday. The price band for the issue is ₹315-320 per share. At the top end, it will be valued at ₹5,120 crore. Through the IPO, the government is looking to divest 12.6 per cent stake as part of its FY20 disinvestment programme. IDBI Capital, SBI Capital Markets and YES Securities are handling the issue. IRCTC is the sole entity authorised by the Railways to provide catering services to the railways, online ticketing, and packaged drinking water at stations. **SAMIE MODAK**

THE COMPASS

# Repo rate-based loans may delay SBI's profit revival

## Profitability may take further hit on policy rate cut of 25-40 bps




HAMSINI KARTHIK

The State Bank of India stock slumped over 7 per cent on concerns over asset quality and the impact on profitability after its move to link all new floating rate loans to the external benchmark, which, in its case, is the repo rate. After the corporation tax cut last week, the Street had brushed aside the impact of SBI's move to link its retail loans to repo rate.

However, as the dust settles and investors assess the actual gains from last Friday's measures, the old problem once again surfaces for banks, explaining why the SBI stock fell so sharply and most of the banking stocks were in the red.

While other banks are yet to make a similar move, analysts expect them to follow the leader to defend market share.

Home loans account for 18 per cent of the public sector bank's loan book. Banks usually prefer a floating rate to fixed rate on this product.

The impact of linking home loans to repo rates could be exacting on SBI's profitability, which was on the road to recovery from the March 2019 quarter.

Based on the current repo rate of 5.4 per cent, the impact on SBI's profitability is compressed to 10 basis points (bps). Home loans offered by the bank now start at 8.1 per cent. However, we are in a declining repo trajectory.

Therefore, if the central bank announces another rate cut anywhere between 25 and 40 bps — in October or later — profitability or net interest margin (NIM) may take a huge knock. At 3 per cent in the June quarter, numbers have just about started firming up and looking better. For analysts at Morgan Stanley who have turned 'equal-weight' from 'overweight' on the SBI stock, asset quality concerns are equally worrisome.

While they expect credit costs (or cost of loans turning bad) to moderate by nearly 90 percentage points to 180 bps in FY20, they say they aren't very confident of these estimates.

"Given SBI's size, it is among the largest lenders to many of these stressed borrowers," Morgan Stanley points out, with respect to fresh bad loan accretion.

The brokerage is also concerned that if SBI were asked to help any of the challenged lenders when they face distress, it could compound the asset quality pressure further.

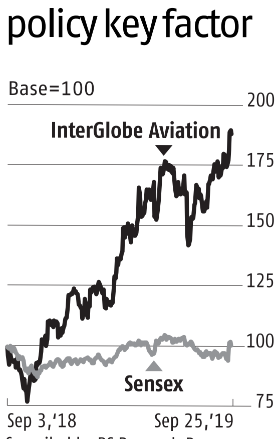
"We view a re-rating as unlikely, unless the macro situation were to stabilise or improve," they noted.

Further, the lender has ₹16,000 crore stuck in the recovery process, the receipt of which is extremely important to strengthen its books.

With these concerns taking centre-stage, analysts feel that even if the SBI stock trades at its FY20 book value, investors should wait for all the uncertainties to settle before taking fresh exposure to the stock.

# Tax cuts, lower costs may take IndiGo out of air bubble

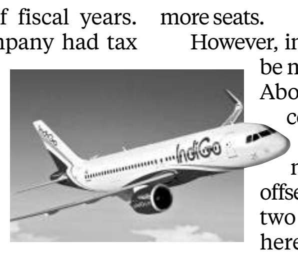
## Change in board structure positive; consensus on RPT policy key factor




RAM PRASAD SAHU

The stock of InterGlobe Aviation (IndiGo) has gained close to 8 per cent over the last three trading sessions, following a boost to net profit from the recent corporation tax rate cut, as well as lower costs from newer plane inductions. The other trigger is the expansion of the board and inclusion of an independent director, which could be the first step in resolving the differences between the two founder-promoters.

Among the gains for the company is the cut in corporation tax rate announced last week. Brokerages had factored in a tax rate of 29 per cent for FY20 and FY21, while the effective rate after the reduction would be 25.2 per cent. This, according to analysts, would help increase the bottom line by 5-6 per cent each over the next couple of fiscal years. While the company had tax credits in FY19, its tax rate in FY18 was 28 per cent. Lower costs is another positive that stands out vis-à-vis rivals.



Deepika Mundra of JPMorgan believes IndiGo's cost advantages will be structural, while rivals faces 737-Max delays, lower scale, or high interim costs for fleet ramp-up after Jet's exit.

About 55 per cent of IndiGo's fleet of over 235 planes are A320Ceo aircraft. These are to be replaced with Neos that burn lower fuel and have more seats.

However, investors should be mindful of risks. About 65-70 per cent of costs are dollar-denominated that could offset the gains. The two moving parts here are rising crude oil prices and a weak rupee — both of which aggravate the cost situation. Though crude oil prices have gone up, they are still lower than last year.

Analysts at SBICAP Securities say aviation turbine fuel has dropped 9 per cent year-on-year in the September quarter.

This is running lower than the average ₹68/litre for FY19. However, any sharp increase from these levels will be detrimental to carriers such as IndiGo.

The other risk that has been an overhang is the tussle between the promoters, especially on the issue of related-party activities. However, Ansuman Deb of ICICI Securities believes the consensus between promoters on the 'related-party transaction' policy, board composition, and eventual on-boarding of an independent woman director are sentiment-positive steps. Investors could check in to the stock on dips.

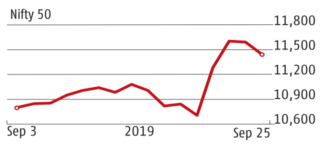
## TODAY'S PICKS

BY DEVANGSHU DATTA

### Nifty

Current: **11,440 (11,461)**

Target: **NA**

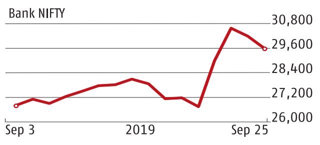



Stop long positions at 11,375. Stop short positions at 11,530. Big moves could go till 11,600, 11,300. A long Oct 3, 11,400p (75), short 11,300p (58) could gain 15-20 if the reaction continues through settlement.

### Bank Nifty

Current: **29,586 (29,616)**

Target: **NA**

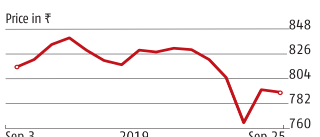



Stop long positions at 29,425. Stop short positions at 29,800. Big moves could go till 30,000, 29,200. Trend may stay negative.

### Infosys

Current: **₹792**

Target: **₹775**

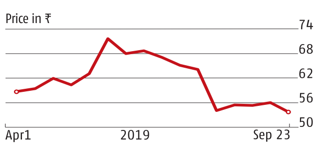



Keep a stop at 800 and go short. Add to the position between 780-783. Book profits at 775.

### YES Bank

Current: **₹53.7**

Target: **₹55.25**

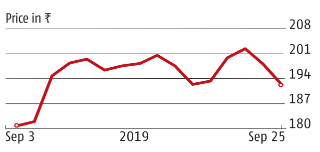



Keep a stop at 52 and go long. Add to the position between 54.5-55. Book profits at 55.25.

### Coal India

Current: **₹192.5**

Target: **₹188**




Keep a stop at 194.5 and go short. Add to the position between 189-190. Book profits at 188.

Target prices, projected movements in terms of next session, unless otherwise stated

# RIL set to gather steam in H2 on improving outlook

UJJVAL JAUHARI

Mumbai, 25 September

The Reliance Industries (RIL) stock continues to gain on the bourses and has risen above 8 per cent since the corporation tax rate was cut late last week. The stock has gained more than 3 per cent in the last two sessions, even as the broader markets have been weak following the initial euphoria.

While the corporation tax cut will benefit RIL, it is the improving growth outlook that is driving the stock. The tax cuts are likely to lead to a rate reduction of 2-3 per cent at the consolidated level, said analysts at Credit Suisse. On Friday, Finance Minister Nirmala Sitharaman cut the corporation tax rates from 30 per cent to effectively 25.7 per cent. It also cut the minimum alternate tax (MAT) to 15 per cent from 18.5 per cent.

Jio, RIL's telecom arm, pays the MAT and stands to benefit from the reduction. Retail operations are at marginal tax rates and will also gain from the cut in levies.

Analysts, however, see limited benefit for refinery and petrochemical (petchem) operations, as they already gain from exempted income. For them, the tax rate is about 25-27 per cent. The refining and petchem businesses, however, are expected to see improved outlook. The two contributed more than 60 per cent to consolidated operating profits during FY19.

Rising refining margins are expected to boost net profit. Refining margins have continued to be under pressure for some time, and the benchmark Singapore refining margins at $3.5 per barrel during the June 2019 quarter were down from $6 per barrel in the June 2018 quarter. However, as the benchmark is rebounding, analysts expect better refining margins ahead. The same is also likely to be aided by implementations of the International Maritime Organization (IMO) norms.

The IMO will enforce a new 0.5 per cent global sulphur cap on fuel content from January 1, 2020, down from the present 3.5 per cent. This will aid RIL's refining margins, given it has complex refining capacities.

Analysts say that as shippers prepare for IMO, Asian refining margins have risen and diesel, which forms nearly half RIL's refined product output, has seen near-record high margins. Estimates of Macquarie Research suggest the segment's earnings before interest, tax, depreciation, and amortisation (Ebitda) could improve by 71.6 per cent in FY21, compared to FY20.

While the petchem segment, a key contributor to RIL's operating profits is under pressure, analysts feel that soft liquefied natural gas (LNG) prices and slowing capacity additions should boost margins.

It is not surprising then, that Morgan Stanley Research remains overweight on RIL, as it says earnings growth is starting to be de-risked as headwinds of H12019 turn and become key tailwinds in 2020. They expect refining margins to rise with improved demand. Slower capacity growth, cheaper gas costs, and improved margins from a slowdown in petrochemical capacities in 2020 — in particular for polyethylene — support the rise in chemical margins. Morgan Stanley expects RIL's energy earnings to grow 13 per cent annually over FY19-21 and to be among the highest vis-a-vis global integrated oil and Asian peers.

Analysts also remain positive on telecom subscriber additions that remain steady. The firm has launched Jio fiber offering landline, WiFi, DTH and content services. The digital services business Ebitda that was less than tenth of overall in FY19, however is seen growing 76 per cent in FY20 and almost 58 per cent in FY21, according to analysts at Macquarie. Notably, the profit from this segment will contribute above 20 per cent to consolidated operating profit by FY21 and higher than petchem profit contribution of about 18 per cent.

The firm is pursuing a programme to aggressively deleverage its balance sheet and emerge a zero-debt entity in the next 18 months. Analysts expect a re-rating after this move, with other triggers including retail and digital services business growth over the next few years.

### EARNINGS GROWTH TO PICK UP PACE

| In ₹ crore | FY20E | FY21E |
|---|---|---|
| Net sales | 604,000 | 630,200 |
| % change y-o-y | 4 | 4 |
| Ebidta | 88,400 | 118,200 |
| % change y-o-y | 5 | 34 |
| Net profit * | 43,400 | 60,100 |
| % change y-o-y | 10 | 39 |

E: estimates, * adjusted for one-offs, Ebidta: earnings before interest, depreciation, tax and amortisation, Source: Macquarie Research


# PXIL to relaunch 'day-ahead spot' contract in 6 weeks

DILIP KUMAR JHA

Mumbai, 25 September

**POWER PLAY**

- Launched in 2008, PXIL turned unprofitable
- Revived operations and enhanced trading in term-ahead and REC contracts; now a zero-debt firm
- By the end of FY21, it aims for 30% market share in day-ahead spot contracts
- In talks with power generation firms, state utilities, cross-border integrations to expand its horizon

Power Exchange India (PXIL), the electricity trading platform promoted by the National Stock Exchange (NSE) and National Commodity & Derivatives Exchange (NCDEX), is planning to relaunch day-ahead spot contracts in the next six weeks.

A day-ahead contract is a double-side closed auction, in which both buyers and sellers quote their prices daily between 10 am and noon for delivery the next day, depending upon a uniform price auction on a 15-minute time slot basis.

Launched in 2008 with the NSE, NCDEX and several large utilities as shareholders, PXIL subsequently turned unprofitable, with heavy attrition on the exchange. Its net worth turned negative by 2017.

However, it is now a zero-debt company. Over the past two years, PXIL has revived operations and enhanced trading in term-ahead (where participants trade electricity on a term basis) and REC (renewable energy certificate) contracts, with around 50 per cent and 30 per cent market share, respectively. It is now making a profit month-on-month, which has helped its net worth reach ₹21.5 crore without raising of more capital from existing shareholders, or any new ones.

"We have two years to meet our minimum net worth criterion of ₹25 crore, which is achievable. Both our promoter shareholders, the NSE and NCDEX, are confident. We are looking to re-launch day-ahead spot contracts in the next six weeks," said Managing Director Prabhajit Kumar Sarkar.

By the end of FY21, it says the objective is to gain 30 per cent market share in day-ahead spot contracts, on an accelerated turnover basis.

At present, the Indian Energy Exchange enjoys almost 99 per cent market share in this segment.

"We have a membership base in hundreds, with leading power generation and distribution companies enrolled on our platform, either as a member or client. We are continuously making efforts to expand our membership base, without unnecessarily lowering our transaction fees, annual or membership fees. We are in talks with power generation and distribution companies, state utilities and cross-border integrations in Bhutan, Nepal and Bangladesh to expand our horizon," said Sarkar.

At present, there is a regulatory overlap between the Securities and Exchange Board of India (Sebi), and the Central Electricity Regulatory Commission (CERC).

Contracts below T+11 (delivery till 11 days of trading) are regulated by the latter.

The Union ministry of power is understood to have intervened and there are hopes that all physical delivery contracts will be under CERC, with financial contracts in Sebi's domain.

Power Finance Corporation, Gujarat Urja, the state utilities of West Bengal and Madhya Pradesh, JSW Energy, Tata Power Trading and GMR are other shareholders in PXIL.

"We approached members of the energy value chain to convince them about fair price discovery in power trading business. In the absence of fair competition, one single platform creates a virtual monopoly. With an alternate platform available, traders would be able to discover healthy trading opportunity," said Sarkar.

# 'Govt measures don't address slowing consumption demand'

The reduction in the corporation tax will boost earnings, but for sustained growth there needs to be a revival in consumption demand, says **MATT WACHER**, chief investment officer (Asia Pacific), Morningstar's Investment Management Group. In an interview with **Samie Modak**, Wacher says the investment manager is underweight on India. Edited excerpts:

Q&A

**Developed markets have been outperforming emerging markets (EMs). Do you expect this trend to continue?**

Over the past 10 years, EM returns have trailed developed market returns. Indian equities have underperformed US equities, even in local currency terms because of external concerns such as trade wars and rising US interest rates, which impact EMs more than the developed markets.

**Within the EM pack, which countries look most promising and why?**

EM equities have encountered a challenging period, with the trade war denting sentiments for key exporting nations such as China, South Korea and Taiwan.

This has made valuations more favourable compared to the developed markets. Returns can improve as investors become overly pessimistic in their outlook.

We continue to like some EMs. Our order of preference within the EM equities is EM Europe, then EM Asia, with EM Latin America being least preferred.

**How does India compare to other EMs?**

With the EM pack, India features somewhere in the middle. We are underweight on Indian equities, particularly the mid- and small-caps.

We believe investors are unaware of the cash flow generation and the lower return on equity that these firms offer. Rather, investors are relying on the benefits of future growth opportunities to stoke returns.

In our view, this is not good investor behaviour and we refrain from investing in expensive assets hoping for growth to materialise. We look for assets that are priced below their intrinsic value and offer attractive margins of safety.

However, our valuation-driven asset allocation process signals value opportunity in the Indian equity markets after the recent downturn.

Several large and small-cap stocks are now more attractive than they were at the start of the year. With the return profile improving, we have recently reduced our underweight position on India.

We think that corporate earnings growth will improve as domestic consumer demand, export, and government expenditure increase.

This, along with the implementation of better reform measures and the fall in real interest rates, should bode well for the economy.

**How would reduction in the corporation tax rate benefit the economy?**

The Centre is trying to boost private capital investments that have witnessed a slow growth rate over the past few years.

These measures don't directly address the slowing consumption demand for various goods, such as automobile and consumer goods.

It needs to be seen if the corporates will expand in a slowing consumption environment. This measure could boost corporate earnings but durable growth in earnings will require revival in consumption demand.

## COMMODITIES


### PRICE CARD

| As on Sep 25 | International Price | International %Chg# | Domestic Price | Domestic %Chg# |
|---|---|---|---|---|
| **METALS ($/tonne)** | | | | |
| Aluminium | 1,751.5 | -1.4 | 1,984.8 | -1.7 |
| Copper | 5,761.0 | -3.8 | 6,109.2 | -8.1 |
| Zinc | 2,314.0 | -12.5 | 2,576.0 | -12.9 |
| Gold ($/ounce) | 1,527.2* | 7.3 | 1,661.7 | 7.6 |
| Silver ($/ounce) | 18.5* | 20.2 | 20.7 | 21.4 |
| **ENERGY** | | | | |
| Crude Oil ($/bbl) | 61.4* | -5.6 | 63.6 | -0.6 |
| Natural Gas ($/mmBtu) | 2.5* | 7.8 | 2.5 | 8.0 |
| **AGRI COMMODITIES ($/tonne)** | | | | |
| Wheat | 168.4 | -9.5 | 291.4 | 2.9 |
| Sugar | 334.0* | 3.1 | 485.8 | 2.4 |
| Palm oil | 517.5 | 4.5 | 846.4 | 3.8 |
| Rubber | 1,526.0* | -30.2 | 1,773.6 | -18.5 |
| Cotton | 1,307.8 | -4.6 | 1,625.4 | -12.8 |

* As on Sep 25, 1800 hrs IST, # Change Over 3 Months Conversion rate 1 USD = 71.0 & 1 Ounce = 31.1032316 grams.

**Notes:**

1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no.2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.

Source: Bloomberg Compiled by BS Research Bureau

# Onion prices unlikely to bring relief anytime soon

## Centre issues warning, says will impose stock limits

RAJESH BHAYANI

Mumbai, 25 September

Consumers will have to live with high onion prices for the time being. This is because of low availability in the market.

Several measures by the government have, so far, not yielded the desired results.

On Tuesday, Union Minister for Food and Consumer Affairs Ram Vilas Paswan had threatened to take action to impose stock limit on onions.

The series of measures in phases in the last 10 days by the central government follows a sharp increase in prices in the past one month from ₹13 a kg in the beginning of August to ₹40 now in the largest onion *mandi* of Lasalgaon in Maharashtra. This price has touched a three-year high. Maharashtra produces one-third of the country's onions.

On Tuesday, Paswan had said: "There is sufficient stock of onion in Maharashtra to meet the current demand. However, supplies are seemingly being restrained to increase prices. The government is taking all measures to improve these supplies from the central buffer to mitigate any such shortfall in the availability. It will also consider imposing stock limit if prices do not moderate on account of speculative behaviour of traders." This follows several measures to restrict exports and release buffer stock, among others.

The Centre also said on Tuesday: "The reported export below the minimum export price to Bangladesh and Sri Lanka will be immediately stopped and strict action will be initiated against those who are found to be violating this decision of the government."

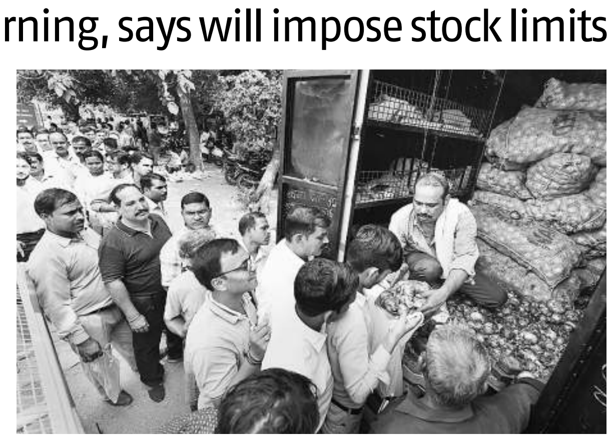
Experts, however, don't see prices coming down any time soon despite the action. A senior government official said that, ahead of the rabi season sowing, prices of onion in January fell to ₹5 and below. This has resulted in some farmers shifting to other crops. But more importantly, this season, late rains followed by heavy showers in Maharashtra and Karnataka (which together produce half of the country's onions) led to crop damage.

Karnataka's crop arrives early in August and September which feeds Maharashtra till the local crop starts coming in October-November. However, heavy rain resulted in supplies getting damaged, causing prices to spiral, according to official quoted earlier.

A trader said that some farmers and traders have stored onion and are releasing it slowly in the market. This is because they had incurred losses due to sharp fall in prices. The country produces close to 23 million tonnes of onion.

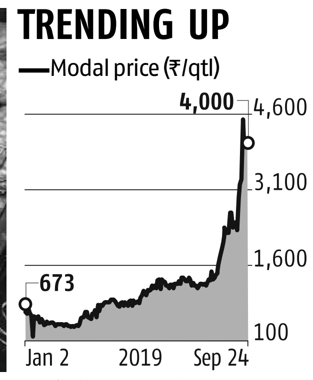
Owing to the high prices this season, which is ₹60 per kg in the Mumbai market, consumption has been impacted with several restaurants reducing or stopping to serve onion.

Globally, "countries like China, Egypt, Turkey and Russia have enough onions and Indian traders can import and sell around ₹35 per kg. However, these traders are worried that if any procedural issues hold up clearance of their imported onions in customs like in 2017, then they may end up incurring losses," said Ajit Shah, president, Horticulture Exporters Association.



**People queue up to purchase onions at subsidised rates at Krishi Bhawan. Prices have soared over the past month** PTI

### TRENDING UP




Compiled by *BS* Research Bureau
Source: National Horicultural Research & Development Foundation

# Govt stimulus, price surge bring respite to sugar industry

VIRENDRA SINGH RAWAT & T E NARASIMHAN

Lucknow/Chennai, 25 September

The recent surge in sugar prices, following the announcements by the Centre to support the beleaguered industry, has provided the much needed buoyancy to the sector in the near term. This is even as the next cane crushing season is only a few weeks away.

The expected decline in 2019-20 production, coupled with the announcement on the creation of a buffer stock of 4 million tonnes (mt) and a subsidy on 6 mt of export, has resulted in sugar prices rising to ₹34-34.5 a kg (ex-mill, Uttar Pradesh), according to an ICRA report.

It stands at ₹31.8-32.0 a kg in Maharashtra, against the minimum selling price of ₹31. ICRA says the measures are likely to result in mills' liquidity improving, thus supporting cane payments to farmers.

Domestic production is likely to decline to around 28.2 mt, compared to 32.9 mt in the 2018-19 season, owing to drought-like conditions in the major producing states of Maharashtra and Karnataka. "We expect the closing sugar stock for 2019-20 at 12.0-12.5 mt. Despite a sugar surplus, the government support measures have resulted in increase in prices," said Sabyasachi Majumdar, senior vice-president of ICRA.

Apart from announcing a package in July, the Union Cabinet had approved an export subsidy last month of ₹10.44 a kg, to enable mills to ship six mt in the coming season.

"It is a big relief to the industry. Six mt would translate into sugar value of ₹18,000 crore, even if we sell at ₹30 a kg. It reduces the stock and carrying cost accordingly, while mills get storage space for new sugar," Indian Sugar Mills Association director-general Abinash Verma had earlier told *Business Standard*.

However, in Tamil Nadu, only 14 of 25 private mills are likely to operate, owing to cane shortage and liquidity constraints. The South Indian Sugar Mills Association has requested staggered repayment and restructuring of dues, apart from a special package for the industry. TN's cane planting area has drastically come down, resulting in poor capacity utilisation. A request had been made to the Reserve Bank and banks to consider fresh loans and restructuring of dues.

Capacity utilisation in TN decreased from 99 per cent in 2011-12 to 35 per cent in 2018-19. Production was 2.38 mt in 2011-12 and 0.85 mt in 2018-19.

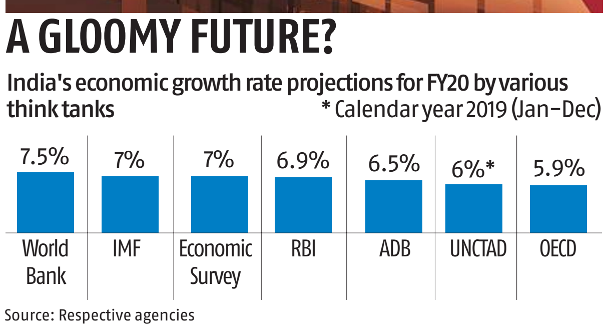
Millers claim with proper relief measures, the industry could recoup in the next 18 months.

MUMBAI | THURSDAY, 26 SEPTEMBER 2019 Business Standard

# ADB cuts India's GDP growth projection to 6.5% from 7%

## Says a cut in corporation tax rate will boost private investments and global competitiveness

INDIVJAL DHASMANA
New Delhi, 25 September




The Asian Development Bank (ADB) on Wednesday cut India's economic growth forecast to 6.5 per cent for the current financial year (FY20), from its earlier estimate of 7 per cent. The move comes even as it said the measures announced by Finance Minister Nirmala Sitharaman on corporation tax rate cuts would boost private investments, including foreign direct investment (FDI) and the country's global competitiveness.

Saying that some industries would relocate to India because of tensions between the US and China, the Manila-based multilateral agency advised policymakers to improve investment climate and liberalise regulations in the country to attract these units.

It kept economic growth rate for the next financial year (FY21) intact at 7.2 per cent because of reform measures along with a pickup in investments and demand. In both these years, India will continue to be the fastest-growing major economy in the world.

In an update to the Asian Development Outlook, 2019, released on Wednesday, the ADB attributed its decision on revising down economic growth projections for FY20 to GDP growth plunging to an over six-year low of 5 per cent in the first quarter of this year.

It also attributed the slow growth in India to global economic slowdown.

The report, however, said significant corporation tax rate cuts, announced by the government last week, will uplift private investment, including FDI, and enhance India's global competitiveness.

Bank recapitalisation, support measures for non-banking financial companies, and reduction in monetary policy rates should improve the health of the financial sector, while increasing the credit flow to industry and infrastructure projects, the update said.

Other measures, such as a direct income support to small farmers, a tax relief for low-income taxpayers, and reduced loan interest rates are expected to boost rural and urban consumption across the country.

Fast-tracking of goods and services tax refunds should provide an important boost to small and medium-sized firms that have been constrained by a shortage of working capital. Implementation of these measures will brighten prospects for India's economy in FY20, it said.

The ADB said proactive policy interventions along with a recovery in domestic demand and investments will likely see the economy pick up in FY21.

"India will remain one of the fastest-growing economies in the world this year and next year as the government continues to implement policy reforms and interventions to strengthen economic fundamentals," said ADB Chief Economist Yasuyuki Sawada.

However, it said risks remain tilted to the downside given the weak global economy and, on the domestic front, the lag between growth-enhancing measures and the impact on demand.

The report said Indian exports are likely to be hit by subdued overseas demand and rising trade tensions, and the current account deficit will be 2.2 per cent in FY20 and 2.5 per cent in the next year.

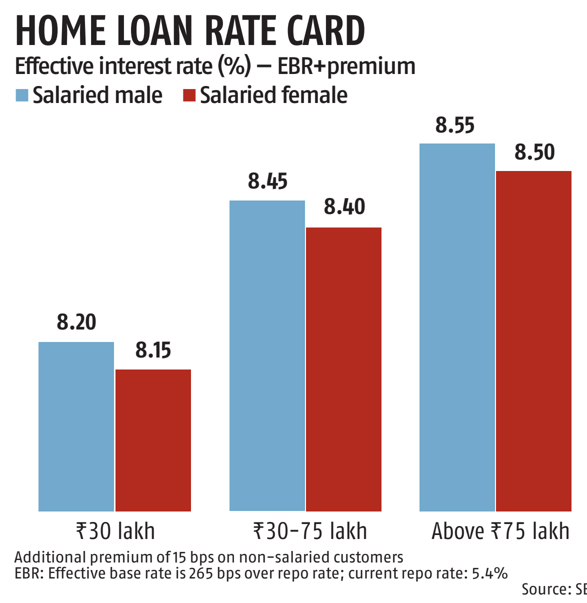
Inflation will be benign for these years at 3.5 per cent and 4 per cent, respectively — both within the central bank target range, as food prices remain stable.

The ADB said economic growth in developing Asia remains robust but prospects have further dimmed and risks to the region's economies are rising as trade and investment weaken.

The report forecast economic growth in the 45 countries of developing Asia at 5.4 per cent this year before nudging up to 5.5 per cent in 2020.

The newly lowered forecasts reflect gloomier prospects for international trade due in part to escalating trade tensions between China and the US, as well as slowing economic growth in China, India, South Korea and Thailand.

# SBI prices home loans at 265 bps over repo rate




SUBRATA PANDA
Mumbai, 25 September

The country's largest lender State Bank of India (SBI), on Wednesday came out with its new repo-linked home loan scheme. The bank said that it will charge a 265 basis point (bp) spread over the Reserve Bank of India's (RBI) repo rate on new home loans from October 1.

The repo rate at 5.4 per cent and the 265 bps spread takes the external benchmark rate (EBR) to 8.05 per cent. On top of this, SBI will charge a premium of 15 bps thereby taking the interest charged on a home loan of up to ₹30 lakh to 8.2 per cent for salaried borrowers.

For home loans between ₹30 lakh and ₹75 lakh, SBI will charge a premium of 40 bps, thereby taking the effective rate for salaried people to 8.45 per cent.

Similarly, for loans above ₹75 lakh, the premium charged by SBI over and above the spread of 265 bps is 50 bps over EBR and the effective rate comes to 8.55 per cent.

SBI also said that a 5 bps concession will be given to women borrowers under each category of loans.

Over and above the effective rate, a 15 bps premium will be charged by the bank for non-salaried customers. The bank will also add a 10 bps premium to the card rate for loans up to ₹30 lakh if the loan to value ratio of the customer is greater than 80 per cent and less than 90 per cent.

The lender also said that if the customer falls in the risk grade of 4 to 6, a premium of 10 bps will be added to the card rate.

SBI, this week, said it will use the repo rate as the external benchmark to price all new floating rate loans for micro, small and medium enterprises (MSMEs), housing and retail loans and medium-size enterprises from October 1, 2019.

SBI had earlier introduced a repo-linked home loan effective July 1, 2019, which was withdrawn. A few modifications have been made in the scheme which will take effect October 1, 2019, to comply with the latest regulatory guidelines.

The country's largest lender said it will voluntarily extend benchmark-based lending to medium enterprises also to boost lending to the MSME sector as a whole.

The RBI has made it mandatory for all banks including small finance banks to link their new floating rate loans to buy homes, vehicles and for personal consumption along with loans micro, small and medium enterprises (MSME), to an external benchmark.

# Essel group promoters plan to sell non-media assets

SURAJEET DAS GUPTA
New Delhi, 25 September

Essel group promoters have decided to concentrate on selling their non-media assets rather than looking for further dilution of their shareholding in Zee Entertainment Enterprises (ZEEL) through a stake Their current shareholding in ZEEL is 24 per cent.

The move comes with the promoters getting the much-needed extension of up to six months to pay their dues from most of the mutual funds. The deadline to return the money ended in September.

The promoters, however, have already paid about half their dues out of the money generated from the sale of promoters equity in ZEEL to private equity fund Oppeheimer.

However, some mutual funds sold pledged shares of the promoters in ZEEL, on the basis of which they got the loan this week to get back their payments, leading to concerns that others may follow suit.

Earlier, the promoters were looking at a twin strategy which included further sale of their shares in ZEEL to another private equity fund or financial investor and also sale of its non-media assets. However, this would have led to further dilution of its holdings from 24 per cent.

Last year, the promoters were ready to bring their shareholding to just above 20 per cent after deciding to sell half their stake in ZEEL which at that time was at 41.62 per cent. The promoters, apart from the wellness centre known as Yo 1 in the US, have put in the block six road projects (they are talking to NIIF), 480 Mw of solar projects and Essel Finance assets, among others.

According to sources, the promoters are expecting to get around ₹6,000 crore through sale of these assets. This is enough to pay back the promoters debt of ₹5,400 crore to mutual funds. The total amount of promoter debt, which was at ₹11,000 crore, reduced to ₹6,776 crore after the promoters sold 11 per cent stake in ZEEL to Oppenheimer.

It went down to ₹5,400 crore after the promoters also struck a deal with the Adanis to sell solar assets of 250 Mw in Essel Green Energy and Essel Infraprojects for ₹1,300 crore. With another 11 per cent stake, Oppenheimer has increased its equity holding in the company to 18 per cent.

# UN body projects 7-yr low GDP growth for India

INDIVJAL DHASMANA
New Delhi, 25 September

The United Nations Conference on Trade and Development (UNCTAD) has pegged India's economic growth rate at a seven-year low of 6 per cent in calendar year (CY) 2019. It also highlighted the pitfalls of shadow banking in countries such as India and China, citing the example of Infrastructure Leasing & Financial Services (IL&FS).

The UN body also pointed towards challenges in meeting sustainable development goals (SDGs) at a time when private debts are rising globally.

India's economy grew 7.4 per cent in CY18. It grew below 6 per cent in 2012 — called the policy paralysis year — under the UPA 2 government.

"Growth projections for India have been marked down because of a sharp fall to 5.8 per cent in the first quarter of CY19 (relative to the corresponding quarter of the previous CY)," said UNCTAD in its trade and development report for 2019.

It should be noted that UNCTAD did not take into account an over 6-year low economic growth rate of 5 per cent that the country recorded during the second quarter of CY19.

Highlighting the risks of shadow banking, it said such institutions were fragile alternatives to public banks and development finance institutions, as the roles of the latter were reduced or done away with, as part of liberalisation.

Quoting a study, UNCTAD said an example of this development was Infrastructure Leasing & Financial Services (IL&FS), which sourced capital using short-term instruments such as commercial papers (CPs) to fund long-term investments.

This maturity mismatch did not prove to be a problem initially, because of the presumption that being a government-sponsored entity, it enjoyed sovereign guarantee.

Owned one-third by state-owned financial entities, IL&FS was one of the largest issuers of CPs and enjoyed a triple-A credit rating.

However, by August 2018, it suffered a series of bond defaults by group entities, leading to a change in management, legal proceedings, and a painful restructuring of the company that is still in progress, UNCTAD said.

UNCTAD highlighted the pitfalls of shadow banking in countries such as India and China, citing the example of Infrastructure Leasing & Financial Services

The report also highlighted concerns over SDGs. It said these concerns were compounded by the dizzying rise in debt levels to a scale similar to those seen before the financial crisis.

"If the routine warnings from financial analysts and at global gatherings are to be believed, the addiction to debt is no longer sustainable," it said.

The report suggested that meeting financing demands of SDGs required rebuilding multilateralism around the idea of a 'Global Green New Deal', and forging, by implication, a different collective financial future.

# Allcargo in talks to acquire stake in Gati

BLOOMBERG
Mumbai, 25 September

Allcargo Logistics is in talks to buy a stake in smaller rival Gati, people with knowledge of the matter said, as India's biggest cargo company attempts to boost its presence across Asia's third-largest economy.

Allcargo is in discussions to acquire Gati, that's 6 per cent owned by Goldman Sachs Group, at an equity valuation of about ₹13 billion ($183 million), one of the people said, asking not to be identified as the talks are private. The purchase will trigger a mandatory offer to buy Gati's outstanding shares, the people said.

India's logistics and warehousing industry is attracting companies from Blackstone Group to Warburg Pincus as they seek to tap into a sector that Gati forecasts will be worth $217 billion by 2020. That's buoyed by demand from e-commerce firms such as Amazon.com and Walmart's India unit to provide last-mile connectivity into cities as well as remote hinterlands across one of the world's largest landmass.

"For Allcargo, which was primarily into foreign trade business, buying stake in Gati is a clear de-risking initiative as the latter is more focused on domestic business," Mathew Antony, managing partner at Mumbai-based advisory firm, Aditya Consulting. "This acquisition will help Allcargo offer total logistics solutions to e-commerce companies."

The board of Allcargo is likely to consider the proposed acquisition in October, the people said. Gati has managed to secure approval for the sale from its Japanese partner Kintetsu Group in its flagship company, Gati-Kintetsu Express, they said.

Allcargo doesn't comment on "market speculations," an external spokesman for the company said, while Gati declined to comment.

Talks are still progressing and contours of the deal may change, one of the people said. Under Indian rules, a purchase of 25% stake in a company triggers an open offer to buy an additional 26% from public shareholders.

Allcargo's biggest revenue generator is shipping and port-based logistics, while Gati moves goods across India and claims to service 99 per cent of the nation's districts.

Allcargo is also building large warehouses in four Indian cities and reworking its existing storage facilities near ports to provide services to e-commerce companies, while Gati has already built a logistics infrastructure helping it to deliver over 6 million small cargo packages a month.

The founders of Gati, led by Mahendra Kumar Agarwal own 14.4 per cent of the company, while overseas investors including Goldman Sachs and Kintetsu World Express, control 17.1 per cent, according to data on BSE's website.

## IRCTC fixes price band of ₹315-320 for IPO

Online ticketing, tourism and the catering arm of railways, Indian Railway Catering and Tourism Corporation (IRCTC) on Wednesday said it is looking to raise up to ₹645 crore through an initial public offering (IPO).

The price band of the IPO is fixed at ₹315 to ₹320 per equity share.

The issue comprises an offer for sale of 2.01 crore shares of the face value of ₹10.

PTI

## Bloomberg offers to help India access global bond indices

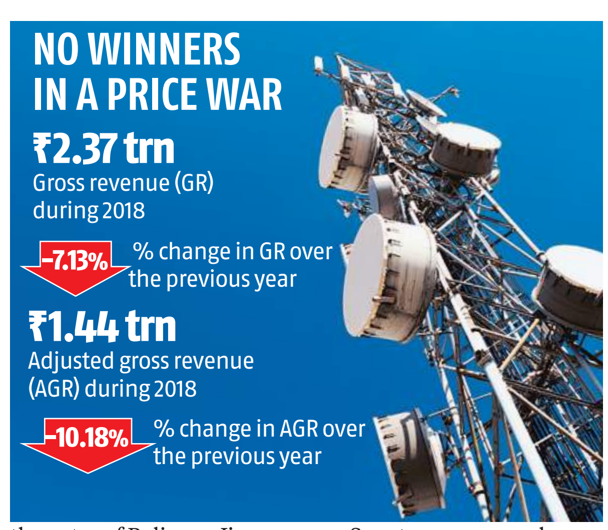
Bloomberg on Wednesday offered to help India gain access to global bond indexes, a move that will help Asia's third-largest economy attract more foreign inflows.

"Bloomberg will help India navigate the process for gaining inclusion in global market benchmark indexes, so international investors can access India's bond market," Founder Michael Bloomberg, who owns Bloomberg Barclay indexes, said in New York at a business forum. Indian Prime Minister Narendra Modi is the key note speaker at the event. The move will "help Indian businesses raise funds, invest and grow and it will help India's government raise funding infrastructure and public service" Bloomberg said.

BLOOMBERG

# Telecom revenue fell 10% in 2018: Trai

MEGHA MANCHANDA
New Delhi, 25 September




The telecom industry's adjusted gross revenue, an indicator of the sector's financial health, was down by 10.18 per cent in 2018 as the incumbent mobile service providers — Bharti Airtel and Vodafone Idea — battled stiff competition from Reliance Jio, according to official data.

The Telecom Regulatory Authority of India (Trai) on Wednesday said gross revenue (GR) declined from ₹2.55 trillion in 2017 to ₹2.37 trillion in 2018, an yearly decline rate of 7.13 per cent. Adjusted gross revenue (AGR) also declined from ₹1.6 trillion in 2017 to ₹1.44 trillion in 2018, a decline rate of 10.18 per cent.

Experts believe that the reason for the fall in AGR is cutthroat competition and a tariff war in the sector after the entry of Reliance Jio.

"When Reliance Jio slashed prices, others (Bharti Airtel and Vodafone Idea) were forced to do it, which led to a significant fall in AGR," independent telecom expert Mahesh Uppal said.

Spectrum usage charges (SUC) yearly declined 17.74 per cent, from ₹5,089 crore in 2017 to ₹4,186 crore in 2018. Licence fee also yearly declined by 10.29 per cent, from ₹12,976 crore to ₹11,641 crore during the same period, said Trai's yearly performance indicators of the telecom sector.

Analysts feel the decline in SUC and licence fee is because of a cut in AGR and since these payments are linked to AGR, there was a reduction in the government's revenue.

Trai on Wednesday released the third edition of the 'Yearly Performance Indicators - Indian Telecom Sector' for the Calendar Year 2018, which provides a broad perspective of telecom services in India.

The report also presents the key parameters and growth trends of telecom services as well as Cable TV, DTH and radio broadcasting services for the period covering January 1, 2018, to December 31, 2018. It is compiled mainly on the basis of the information furnished by the service providers.

According to the data, after merger, Vodafone Idea became the market leader with 34.98 per cent market share of the telephone subscription at the end of December 2018 and Bharti Airtel slipped to the second position with 28.74 per cent market share. Reliance Jio Infocomm added the maximum number of telephone subscribers (120.03 million net addition) during 2018.

Vodafone Idea is the service provider with highest proportion of rural subscribers (52.67 per cent), followed by Bharti Airtel (48.98 per cent) to their total number of telephone subscribers at the end of December 2018.

Total wireless (GSM+CDMA) subscriber base increased from 1,167.44 million at the end of December 2017 to 1,176.00 million at the end of December 2018, a yearly growth rate of 0.73 per cent.

## NCLAT asks three firms to file claims before Lanco liquidator

PRESS TRUST OF INDIA
New Delhi, 26 September

The NCLAT on Wednesday declined to entertain pleas by three Chinese companies to direct the liquidator of Lanco Infratech to stay invocation of their performance bank guarantees (PBGs).

A two-member National Company Law Appellate Tribunal (NCLAT) bench headed by Chairperson Justice S J Mukhopadhaya asked the three companies to approach the liquidator and file their claims if any amount has been received by Lanco Infratech after invocation of PBGs submitted by them. "This Appellate Tribunal is not inclined to decide the claim and counter claim as made by the parties, but give liberty to the appellants to move before the appropriate forum for appropriate relief," the NCLAT said.

The firms are KSB Shanghai Pump Co, TLT-Tourbo (Sichuan) Co and Beijing Power Equipment Group Co.

## Big digital push needed to reach $5-trn GDP: Study

NEHA ALAWADHI
New Delhi, 25 September

Data governance, cybersecurity, encryption and surveillance along with technologies such as cloud computing, artificial intelligence and Internet of Things are the core areas requiring policy focus for India.

These will help realise the country's target of achieving $5-trillion economy, according to a recent study by industry association Internet and Mobile Association of India (IMAI).

Digitisation of services will be an essential step towards achieving the $5-trillion goal. However, India's regulatory approach should focus on regulating 'core' industry players, and not entities that fall on the 'edge' of the regulatory spectrum. This can be done by drafting clearly articulated outcome-based regulations, the report, titled 'Digital Technology Policy for India's $5 Trillion Economy,' said.

"Participative regulatory models will not only help us address emerging challenges in India's digital economy, but will also allow us to position ourselves as a technology friendly jurisdiction.

In our view, consultative regulatory frameworks comprise clear, transparent and effective dialogue at every stage between the government and all stakeholders. There should be an appetite for innovative structures such as regulatory sandboxes and a willingness to enhance regulatory capacity and measure performance," noted the report, which was prepared by technology focused law firm Ikigai Law.

# It's a long road for PMC Bank's depositors

Park only part of your money with cooperative banks despite higher interest rates

PHOTO: REUTERS

TINESH BHASIN & SANJAY KUMAR SINGH

YOUR MONEY

Depositors would be feeling extremely harassed with the Reserve Bank of India's (RBI's) decision to restrict withdrawal from Punjab & Maharashtra Co-operative Bank or PMC Bank. Many depended on the money parked with the bank for their daily lives and businesses. But there was little that the banking regulator could do after finding severe irregularities at the bank.

For the next six months, depositors can only withdraw ₹1,000 at one time. If there are scheduled payments or equated monthly instalments linked to PMC Bank accounts, they have to be shifted to another bank's account. In interviews with media, the management has said it is hopeful that all depositors would get their money back as the bank has given only collateralised loans. Even if this is true, banking sources say that the final resolutions would take months or even years.

**Uncertain future:** Those who have up to ₹1 lakh or below with the bank are covered by deposit insurance. But they will still have to wait until the time the regulator finds a suitable solution. Those who have over ₹1 lakh, will have to wait and watch. When the regulator imposes restrictions under Section 35A of the Banking Regulation Act, it is an extreme step. "Bank affairs are completely stopped, and depositors can withdraw a limited amount. It means RBI believes that the situation is serious," says RK Bakshi, former executive director, Bank of Baroda. He adds: "Unless RBI completes the total investigations — because there might be other skeletons in the cupboard — there will be no solution."

In recent cases such as Kapol Co-operative Bank, Vasantdada Nagari Sahakari Bank, Padmashree Dr Vitthalrao Vikhe Patil Co-operative Bank and Karad Janata Sahakari Bank, the RBI has extended the restriction a few times. In the past, when the RBI had taken similar action, the outcome had varied depending on the financial health of the bank on which restrictions were put. Bakshi, for example, points out that about a decade back Bank of Baroda took over Memon Cooperative Bank and all the depositors were paid off. The resolution of PMC Bank also depends on the regulator's assessment of its assets and liabilities. There could be a scenario where another bank takes over PMC Bank if the financial health is good. If not, the regulator can keep extending the restrictions like in case of other cooperative banks.

**Cooperative banks are riskier:** Cooperative banks more susceptible to governance issues. In the current financial year, over a dozen cooperative banks have faced restrictions on withdrawal. According to Usha Thorat, former deputy governor of the RBI and chairperson of Financial Benchmark India, there are multiple reasons why cooperative banks face governance issues. "These banks are small, and due to their size they are more susceptible to concentration risk. There is also the risk of connected lending although there is a prohibition on these banks lending to directors or concerns in which directors are interested. They are subjected to dual regulation by RBI and by Registrars of Cooperative Societies, as management issues are under the latter," says Thorat.

Existing customers who do not want to take any risk should move their money out of cooperative banks and put it in a scheduled commercial bank (unless they are absolutely sure about their cooperative bank's position). "In this kind of an environment, you do not know what the chain reaction might be," says Mumbai-based financial planner Arnav Pandya.

Many depositors belonging to lower-income groups are forced to open an account with a cooperative bank because they find it difficult to do so with a scheduled commercial bank. "People who are able to open an account with a scheduled commercial bank should stick to them," says Deepesh Raghaw, founder, PersonalFinancePlan.in, a Sebi-registered investment advisor. Do not go for riskier options like a cooperative bank only for the higher return. On a five-year deposit, State Bank of India offers an interest rate of 6.25 per cent while PMC Bank offers 7.25 per cent, a difference of 100 basis points. Even if you go for them, park only a small portion of your capital there.

Do not put all your money in a single bank. Many cases have come to light of people who had put their entire life's savings in PMC Bank. "Diversification acts as a strong safeguard against these kinds of risks. Spread your deposits across three-four banks," says Ankur Maheshwari, chief executive officer, Equirus Wealth Management.

## DUAL REGULATORS HAVE MADE LIFE DIFFICULT FOR UCBs

On the face of it, it looks like urban cooperative banks (UCBs) are in the pink of health. According to the Reserve Bank of India (RBI) data for FY18, Punjab and Maharashtra Co-operative (PMC) Bank — which now faces restrictions — posted a net profit of about ₹101 crore while its capital adequacy ratio was sound at 12.23 per cent. The bank's deposit base stood at ₹9,938 crore in FY18.

According to experts, the story is not about balance sheets only. The main problem plaguing UCBs is governance, which arises due to dual regulation. The RBI regulates them in accordance with the Banking Regulation Act 1949. In addition, the state government's department of cooperation also regulates them. The latter results in undue political interference.

The top management in these institutions are selected through elections unlike banks where professionals are handpicked for the job. Experts favour singular supervision by the RBI. The apex bank has been trying to streamline UCBs for quite some time after it pursued an active licencing policy during 1993-2004. This led to a sharp increase in their numbers.

Due to their weak financial positions, the RBI took the decision to merge weak UCBs with viable ones and closed unviable ones. At the end of March 2018, there were about 1,551 UCBs, of which about 54 were scheduled UCBs.

COMPILED BY NAMRATA ACHARYA

### NUMBERS OF UCBs COMING DOWN SLOWLY

| | Net profit (₹ cr) | NIM % | Gross NPA% | Number of UCBs | Deposits (₹ cr) | Loans and advances (₹ cr) | Investments (₹ cr) |
|---|---|---|---|---|---|---|---|
| 2017-18 | 4,062 | 2.92 | 7.10 | 1,551 | 4,56,507 | 2,80,501 | 1,49,759 |
| 2016-17 | 3,925 | 2.79 | 7.16 | 1,562 | 4,43,469 | 2,61,202 | 1,42,091 |
| 2015-16 | 3,672 | 2.97 | 6.11 | 1,574 | 3,92,176 | 2,44,936 | 1,20,911 |
| 2014-15 | 3,511 | 2.97 | 6.15 | 1,579 | 3,55,134 | 2,24,302 | 1,23,071 |
| 2013-14 | 2,984 | 3.08 | 5.70 | 1,589 | 3,17,769 | 2,00,352 | 1,15,301 |

### RATING-WISE DISTRIBUTION OF UCBs

(As on March 31, 2018)

| Ratings | No. of UCBs | % share in total | Deposits (₹ billion) | % share in total | Advances (₹ billion) | % share in total |
|---|---|---|---|---|---|---|
| A | 328 | 21.15 | 1,415.36 | 31.00 | 892.57 | 31.82 |
| B | 878 | 56.61 | 2,520.40 | 55.21 | 1,561.83 | 55.68 |
| C | 278 | 17.92 | 517.97 | 11.35 | 303.38 | 10.82 |
| D | 67 | 4.32 | 111.34 | 2.44 | 47.24 | 1.68 |
| Total | 1,551 | 100.00 | 4,565.07 | 100.00 | 2,805.01 | 100.00 |

Note: 1. Data are provisional; 2. Components may not add up to the whole due to rounding off; 3. Ratings are based on the inspection conducted during the financial years 2016-17 to 2018-19; 4. Percentage variation could be slightly different because absolute numbers have been rounded off to rupees billion

Source: RBI

## BUDGET: ₹50 LAKH -₹1 CRORE
## REALTY CHECK

*Business Standard* brings you a snapshot of average current rates and unit sizes in localities that offer property in the price range of ₹50 lakh and ₹1 crore. If you are looking at buying real estate, an idea about prevailing rates would come in handy

| | Avg price (₹/sq ft) | Avg unit size (sq ft) |
|---|---|---|
| **BHOPAL** | | |
| Hoshangabad Road | 3,510 | 1,823 |
| Kolar road | 2,584 | 2,382 |
| Salaiya | 3,571 | 1,804 |
| Ayodhya Bypass | 2,948 | 1,872 |
| Airport Road | 3,583 | 1,615 |
| Bawadiya Kalan | 3,891 | 1,852 |
| Misrod | 3,000 | 1,984 |
| Bagmugaliya | 3,200 | 2,340 |
| **COIMBATORE** | | |
| Trichy Road | 5,029 | 1,486 |
| Saravanampatty | 4,052 | 1,626 |

**Note**

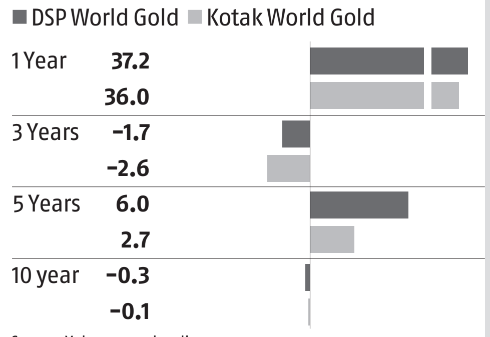
- The ticket price range considered for the above data points is between ₹50 lakh and ₹1 crore
- All the data points discussed in the above table refer to primary market only
- The above residential data set comprises of residential apartments only
- The above residential data is representative of organised real estate developers only
- The top performing micromarkets based on sales during last year (Aug-2018 to Jul-2019) is represented on the above table
- Data points are updated till Jul 2019

Source: PropEquity

## TIPPING POINT

### Should you invest in a world gold fund?

BLOCKBUSTER RETURN OVER PAST YEAR



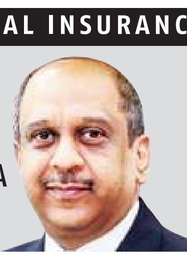

Source: Valueresearchonline.com

While gold exchange-traded funds have given one-year category average return of 23.28 per cent, international gold funds have given returns of above 30 per cent over the same period. Also known as world gold funds, these schemes invest in stocks of mining companies, and not in gold. As gold prices start rising, the stock prices of companies that mine precious metals rise even faster, thereby giving better returns than gold. However, it would be best for investors to stay away from these funds. If gold prices fall, the correction in stock prices of mining companies, and hence in these funds, could be even sharper.

## READER'S CORNER

GENERAL INSURANCE

ROOPAM ASTHANA



**I have a health insurance policy that provides cover for treatment abroad. I am travelling to Europe and have bought a Schengen travel insurance. If I fall sick while travelling, which insurance will come into effect?**

Though you may file for a claim under both the policies, it is advisable that you use the Schengen travel plan for any claims. It will have more comprehensive coverage than your other health insurance plan. Travel insurance is specifically designed to cater to insurance needs while you are travelling abroad, thus offering more extensive benefits.

**I am shifting from Pune to Bangalore. Do I need to apply for a new insurance cover when the car number plate changes? Will it also affect my premium?**

No, you need not apply for new insurance. You can approach your existing insurer for endorsement of the registration number by submitting the required documents. In this case, the premium will not be affected as the zone parameter for own damage (OD) premium does not change from Pune to Bangalore.

**I am a 45-year-old woman residing in Mumbai. Recently, I was diagnosed with breast cancer. I bought my health insurance plan a year back. Will my current policy pay for my treatment, or will I need to buy a new plan?**

Sorry to hear about your illness and wish you a speedy recovery. Usually, cancer, if detected within the policy year, is covered under the policy without any time-bound waiting periods. You don't need to buy a separate policy. You may, however, go through the policy wordings to confirm this. Check the 'general exclusion' section for more clarity.

**I am a 50-year-old widow, and I suffer from arthritis. I do need to undergo treatment through injectable medication every week, which turns out to be very expensive. I want to claim insurance under my current health plan. Is there a limit on the maximum number of claims allowed in a year?**

The treatment specified by you is categorised under outpatient department (OPD) benefits, which are offered only in a few specific plans. I, therefore, suggest that you check whether your health insurance policy comes with OPD benefits. If it does, then you can claim the medical expenses up to the limits specified for OPD.

**I am travelling abroad in a week and want to buy a health plan to cover myself and my family, which includes my spouse and two children aged less than 10. If one of us falls ill and I file for a claim, is there any waiting period for claims under such policies?**

You may go for a family floater plan under an overseas travel insurance policy covering hospitalisation expenses. Many overseas travel policies available in the market cover illness from day one and do not have any waiting period, unless it is a pre-existing illness. Check the mandatory health insurance requirement of the country you are travelling to before buying a travel insurance cover.

**I am not happy with my current health insurance provider. At the same time, I don't want to lose my no-claim benefits. What should I do?**

You need not worry about losing continuity benefits. There is a provision for porting your existing health policy to another insurer, keeping the continuity benefits. For this, you have to approach the other insurer 45 days prior to the expiry date of the ongoing policy.

*The writer is CEO and whole-time director, Liberty General Insurance. The views expressed are his own. Send your queries to yourmoney@bsmail.in*

# Expand your contingency corpus

This money, parked in the most liquid of instruments, will act as a safety cushion in case of a layoff

SANJAY KUMAR SINGH

Vishesh Prasad (name changed on request), 42, who works in Mumbai for a real estate consultancy as a content writer and communications personnel, was recently informed by his boss that he would have to relocate to Delhi, failing which his contract would not be renewed. "My company is on a cost-cutting spree. It has used the oldest trick in the book to get me to quit, knowing fully well that I cannot leave my aged parents behind and relocate," says a disgruntled Prasad. With only three months left before his contract ends, he is frantically searching for a job.

As the economy slows and companies try to pare costs, thousands across the country are finding themselves in a similar predicament. "Automobile, textile, infrastructure and telecom are sectors that have been hit particularly hard by layoffs, though the sentiment runs across others as well," says Prabir Jha, founder and chief executive officer, Prabir Jha People Advisory. Around 46 per cent of Indian respondents in a recent Ipsos survey pointed to joblessness as their main worry.

Experts say getting laid off is not such a rarity in the private sector anymore. "During a career spanning, say, 35 years, you could face at least five episodes of economic slowdown, and could get laid off during any one of them. The risk increases with age and salary," says Avinash Luthria, a Sebi-registered investment adviser and founder, Fiduciaries. Instead of feeling stigmatised, prepare yourself financially for such an eventuality.

**BEFORE A POTENTIAL LAYOFF**

**Build your contingency fund:** As soon as you detect straws in the wind—peers receiving the pink slip, projects getting shelved, etc.—start preparing for the worst. Any financial cushion you have will be your only safeguard. "A candidate with higher financial sustainability can take more time to find the right job," says Rituparna Chakraborty, co-founder and executive vice president, TeamLease Services. A family with a single earning member should have at least 12 months' worth of expenses as contingency fund while six-nine months of expenses may be adequate for a double-income family.

**"After a layoff, a person does not know when his salary flow will resume. This makes him highly risk averse. Any money he receives from his ex-employer should be put in instruments where the principal will not get eroded."**

ANKUR MAHESHWARI,
CEO, Equirus Wealth Management

**Purchase adequate health insurance:** If the only cover you have is the one provided by your employer, get a personal cover for your family. A family floater of ₹5-15 lakh should suffice for most nuclear families. Those in the twenties and thirties may have parents who can still be insured. "Buy a cover for them. If they are dependent on you, your finances could be hit if they have a medical issue," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

**Avoid illiquid instruments:** Do not tie up the bulk of your investment in products from which it is impossible to withdraw money when needed. "Structured products, fractional property investments, and even insurance-cum-investment should be avoided for this reason," says Luthria. The only exceptions to the rule of not investing in illiquid instruments are Public Provident Fund (PPF) and National Pension System (NPS).

**After receiving the pink slip**

**Maximise liquidity:** Assume the worst regarding how long your unemployment could last and make conserving cash your topmost priority. SIPs may have to be stopped (depending on your cash position). You may receive EPF money from your employer. "Fresh capital should only be invested in instruments where the principal will not be eroded," says Ankur Maheshwari, chief executive officer, Equirus Wealth Management. Return to investing according to your normal asset allocation once you have found another job.

Luthria suggests keeping any money received in safe and liquid instruments like savings deposit and fixed deposits of quality scheduled commercial banks. "Avoid taking any risk with this money, such as parking it in a co-operative bank or even a small finance bank," he adds. Since debt funds can see capital erosion, it is better to avoid them.

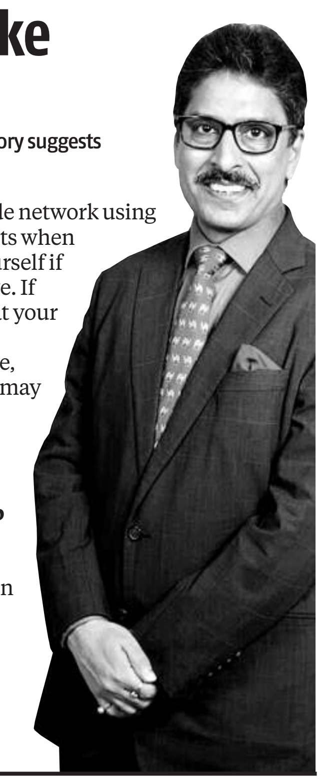
Many people think of starting a business with their PF money. "This decision should depend on the robustness of your business plan, not merely because some capital has become available," says Dhawan.

**Tighten your belt:** Discretionary expenses like vacations, home and car upgrades, etc may have to be deferred. Scope may exist to reduce some of your fixed expenses as well. For instance, you may have rented a house in an expensive locality because of its proximity to your workplace. But now that you don't hold the job, you could consider moving to a less expensive locality.

**Prepay loans?** Repay credit card and other high-cost loans using up to 10-15 per cent of your corpus. However, do not rush to pay off lower-cost loans like home loans. Your most crucial goal at this juncture should be to maintain your liquidity cushion. If it shrinks, you will not have much choice and will be forced into accepting the first job that comes along.

## "Be prepared to take a salary cut"

Prabir Jha, founder & CEO, Prabir Jha People Advisory suggests widening the scope of your job search



**On steps to mitigate risk of layoff:** Build a wide network using your work and reputation. But arbitrary efforts when layoff is imminent can backfire. Also, ask yourself if your current skill sets will allow you to survive. If not, acquire a new generation skill set, even at your own expense.

**On time it takes to find the next job:** In versatile, lower-level, industry-agnostic functions, you may get a new role quickly. But if you are past mid-40s, in a middle to senior level jobs, and have single-industry exposure, it could take months.

**On whether to stay focused or diversify in job search:** My advice would be to stay flexible. Acquire new skills, take pay cuts, explore cross-industry moves, and even a reduction in position.

**On salary cut one should prepare to take:** Depends on your ability to keep your head above water. But I am aware of senior people accepting cuts of almost 50 percent, because the alternative option could be zero.

# IBM's leap of faith

## How Red Hat could open "new doors" for the Big Blue in India

NEHA ALAWADHI

IBM has lagged the overall technology sector for years: The company's revenues for the last four years have been flat; its revenues fell for a fourth straight quarter in April-June, pointing to growing pressures on its legacy products and services. So it's understandable why it believes the Red Hat acquisition could transform the company.

Indeed. The buy-out was the biggest deal in IBM's 108-year history and the world's second-largest technology takeover. The transaction closed in July and the technology giant is banking on it to open new doors in India's cloud market.

According to research firm Gartner, spending on cloud system infrastructure services (IaaS) will grow from \$39.5 billion in 2019 to \$63 billion through 2021 globally, while public cloud services revenue in India is expected to be \$2.4 billion in 2019, an increase of 24.3 per cent from 2018. This means more and more enterprises will shift part of their business to cloud, which in turn would mean the need for different cloud services to "talk" to each other.

This is where open standards play a big role, and that is the capability Red Hat brings to IBM's table. Red Hat specialises in Linux operating systems, the most popular type of open-source software, unlike proprietary software made by Microsoft Corp. It also specialises in Kubernetes, an open source platform, originally built by Google, that helps businesses manage applications and helps them scale up. Overall, IBM-Red Hat looks at banking, financial services and insurance, telecom with a focus on software defined networks; manufacturing and government as key growth areas.

Already Red Hat is working on several large projects in India. An oft-cited customer is the Bombay Stock Exchange, which built its trading system using open source technology from Red Hat. It also has customers in industries such as aviation, government, finance, healthcare and so on.

In 2015, the Indian government announced a policy on adoption of open source software, which makes it mandatory that all software applications and services of the government be built using open source software, so that projects under Digital India "ensure efficiency, transparency and reliability of such services at affordable costs". Several large projects of the Indian government, such as Aadhaar, Goods and Services Tax Network and Government e-Marketplace are built on open source software.

"Red Hat powers the largest Linux installed base in the world, whether it is on a public cloud or in the data centre, we believe that more than 50 per cent of the Linux install base is actually Red Hat," says Vikas Arora, cloud and cognitive software leader, IBM India/South Asia.

So its India strategy fits in perfectly with IBM's global plans. The firm's Chief Executive Officer Ginni Rometty is pretty upbeat about the future of hybrid cloud — which allows companies to spread their data between private and public cloud providers — and has been putting good money to build the firm's expertise in the area. "Hybrid cloud is a trillion dollar market and we will be number one in it," she had said at IBM's Think conference in February. That explains why she was willing to pay a significant premium for Red Hat which dominates the hybrid cloud architecture.

Unlike Google, Amazon or Microsoft, IBM's cloud strategy has been to help its clients work across multiple cloud environments, as more and more services begin to be hosted out of different clouds. For example, an organisation could have an email hosted on one cloud environment, an internal application hosted on their own data centre, an administrative application hosted or another cloud and so on.

"Now, when you actually go hybrid, and when they've (customers) got things running in different environments... we ask customers how many clouds you use? It is definitely not an intuitive answer, but our view is that our customers today use anywhere between six to 15 clouds," says Vikas Arora, cloud and cognitive software leader, IBM India/South Asia. "It can be the biggest nightmare for administrators because now you are looking at managing all of these environments. So customers are increasingly looking for management technology, that can basically give you a single window to manage all of this infrastructure," he adds.

In August, IBM announced IBM "Cloud Paks", offerings that integrate IBM and Red Hat software in a way that enterprises can build applications once and run them on all leading public clouds, including Amazon Web Services, Microsoft Azure, Google Cloud Platform, Alibaba and IBM Cloud and on private clouds. The cloud paks claim to reduce development time by nearly 85 per cent, reduce operational cost and manual work.

"Today, if you're using any of these cloud paks, or if you're using Red Hat components and communities, and IBM software put together to address a use case, support comes from one place... one number to call. We've also built teams that basically jointly implement these technologies now. We've been hard at training our people because customers no longer want to reach out to different organisations," Arora sums up.

### BUILDING MUSCLE

How an acquisition is helping create new possibilities

- IBM bought Red Hat last year for \$34 billion, its largest acquisition till date
- The technology giant sees a \$1 billion annual opportunity for every 5 per cent customers who adopt Red Hat
- Wants to expand Red Hat to 30 new countries where it has no previous presence
- Red Hat has large engineering facilities in Pune and Bengaluru
- Big opportunity for IBM and Red Hat to cross sell to customers

GUEST COLUMN

# Time to reboot

## How an economic slowdown can be a branding opportunity for companies

With the general dampening of economic mood and sentiment, most businesses are speculating if current slowdown will remain or is it just a cyclical phase. While high-value sectors such as housing, automobiles and electronics are facing the heat, everyday household products, too are witnessing a fall in demand. The question is whether in these times, it would be right to discuss about spending money on non-revenue generating activities such as branding?

Brand building is perceived to be an expensive and unnecessary activity that might easily get shelved in lieu of current situation. However, in a longer run, this may end up hurting brand's foundation. Brand building is all about long-term thinking and a slowdown probably is the right time to think through your brand. Here's a golden opportunity for you to look at your brand and re-evaluate what it means to consumers.

Here's a quick roundup of all that you can do to utilise the current slowdown:

RUTU MODY-KAMDAR
Jigsaw Brand Consultants

**Spend time to really know your consumer**

Now's the time to know your consumer up, close and personal. Invest time to understand consumers psyche. During an economic slowdown, it would be interesting to study how consumers reallocate their spending across categories. Take buying a home for instance. Most consumers are cautious about it right now. It would be useful to study consumer sentiments as to what deferring a purchase of this nature really means to them. Understanding consumer behaviour during a slowdown, is a great way to know how your product category and brand, positions itself in the life of consumer.

**Re-evaluate your value proposition**

At a time when retailers are experiencing a general slowdown, Amazon is riding a high wave with spurt in its business. Amazon is known to have always worked "backwards" starting with its customer. Excelling in its customer service, it has always offered services that goes beyond what other players are offering.

Spending time evaluating the pains that consumers go through and the gains you can offer to them could help you build a recession-proof business.

**Revisit brand purpose and build internal belief**

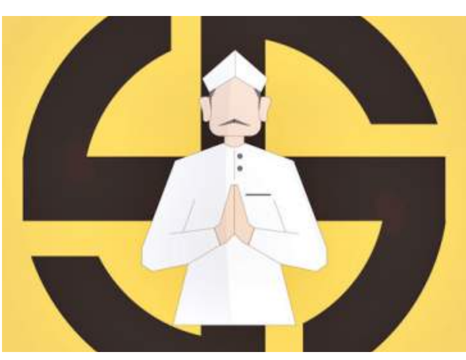
While consumer sentiment is in gloom, employees too are insecure about their future. Here's a chance to align your team with your brand purpose. Build internal belief, use motivational branding tools to give your stakeholders a reason to show up at work each morning with enthusiasm.

**Maybe wisely but do spend on marketing**

Most marketing expen-ses are allocated as a percentage of future business, which means that when business is down, that figure will automatically come down. However, cutting down on marketing will lead to a cyclical downturn in future especially when economy goes an upswing again. Remember, consumers buy brands that are familiar to them. Those they have seen and can recall. While expenses may be cut, do not compromise on being visible even during a slowdown.

The biggest barrier to action during a slowdown is your internal team's mindset. There will be many who don't believe in branding. Convincing your peers that the brand you are building is for long term, which will pay rich dividends in future is required right now. Consumers, investors and employees alike would want to believe in a brand that stands through the test of time.

## SNIPPETS



### Trust matters

**If you are a politician**, a minister or an advertising executive, you may want to question your career choice. A new global survey by marketing research company Ipsos found that the respondents labelled these professions as the most "untrustworthy". Politicians fared particularly bad in the survey as a majority (51 per cent) of urban Indians rated them as the most "untrustworthy". Government ministers garnered 52 per cent of these thumb downs while advertising executives, 41 per cent. On the other extreme, the most trustworthy ones, had the armed forces (71 per cent) taking the pole position. The second and the third places of trustworthiness in professions were bagged by scientists and teachers respectively. "Politicians, despite their efforts to clean up the system, have not yet won the trust of most. Also, the advertising professional, writing interesting copies and creatives, highlighting merits of brands, is viewed with scepticism," says Parijat Chakraborty, country service line group leader, public affairs & corporate reputation, Ipsos India.

### Challenges galore

**Euromonitor International's** *Global Economic Forecasts* report for the third quarter of the current year predicts that an overwhelming contribution to global growth will continue to come from developing and emerging economies, with their output expected to rise by 4.3 per cent in 2019 and will further improve to touch 4.7 per cent from 2020–2021. In the advanced economies, growth rate is expected to be 1.7 per cent in 2019 and may decline to 1.5 per cent annually in 2020–2021, the report adds. Among the negative global factors which will continue to cast a shadow on global growth will be tensions from the China–US trade war. Global trade volume growth has declined, constraining growth for export-dependent emerging markets and the Eurozone. Stock markets remain fragile and below their 2018 peaks, it says.

## STATSPEAK

### FUTURE VIEW

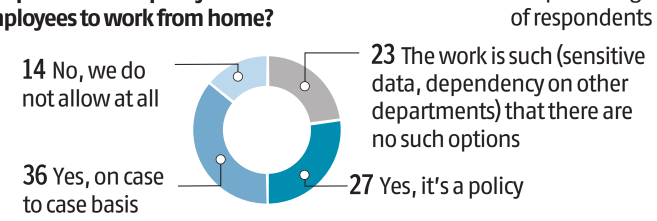
Flexibility, inclusive culture and technology will become increasingly important as the workforce moves towards the future. But how ready is corporate India to support the gig economy? The *Gig Readiness Survey of Corporate India* conducted by Noble House is based on responses from company owners, senior managers and HR professionals who have been or will be a part of the gig workforce. Through their responses, it studied their preferences, presumptions and preparedness among other things.

**Three key goals of the research**

- Exploring the shifting mindsets of employers with respect to flexible working
- Understanding the perspective of gig workers in the gig economy
- Understanding how the future workforce sees and will contribute towards the gig economy

**Is there a provision or a policy that allows your employees to work from home?**

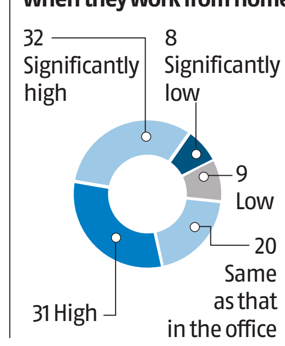
All numbers in percentage of respondents



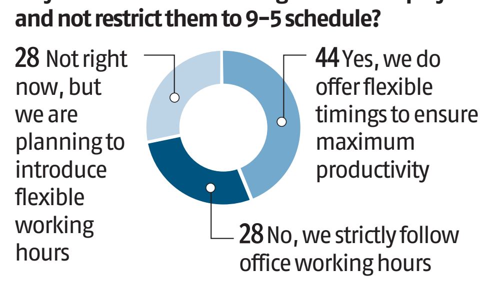

**Which department can avail work from home mostly?**

| Business leader response | Department | HR Response |
|---|---|---|
| 27 | Marketing | 19 |
| 4 | IT/Technology | 22 |
| 22 | Product & Operations | 8 |
| 12 | Admin & Legal | 8 |
| 4 | HR | 12 |
| 12 | Quality/Compliance | 7 |
| 10 | Sales | 12 |
| 7 | Other | 6 |
| 2 | None | |

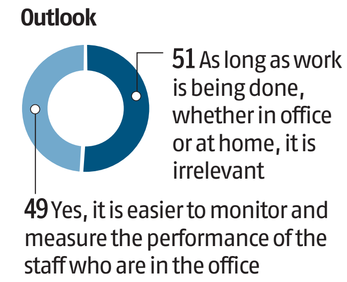
**What is the productivity level of your employees when they work from home?**




**Do you offer flexible working hours to employees and not restrict them to 9–5 schedule?**




**Outlook**




Source: Noble House

# 'Demonstrate value, net the consumer'

## Intelligent labelling can provide effective and quick solutions for engaging customers, managing inventories and preventing counterfeiting, **Bhardwaj** tells **Shubhomoy Sikdar**

**What are the possibilities digital technologies have opened up when it comes to product package labelling?**

Consumers adopting technology thanks to smartphone penetration and the government's push for a digitised economy are creating many opportunities. Intelligent labels is one such opportunity. There are multiple applications of those. Say you are a wine connoisseur and you want to know about the entire lifecycle of the grapes that went into it — from cultivation to fermentation and bottling — or the right type of food it goes with. You can access some of it through the label. But if we insert a chip in that label that you can decipher with the help of your smartphone, it opens the door to a plethora of add-on information that helps you and the brand to engage with each other. You simply scan that chip and it can run a promo or connect you to a link where a celebrity is endorsing the wine. So, for our client it provides an opportunity to run a campaign right there and brand owners too get a lot of information about consumer preferences. That kind of information was invaluable to a brand.

The other big application of a technology here is enabling better track and trace. Consider you are a pharma manufacturer and you ended up supplying a batch which for some reasons is not complying with the standards and therefore, a recall needs to be enabled. A pharma recall is very complex because it goes to multiple channels: The medicines in large batches go to a warehouse, then to the distributor from where it goes to the reseller and then to the consumer or a hospital. But if you have left a digital impression, each time it has exchanged hands, you can pretty easily recall it. So the labels that we have now would be able to leave a digital footprint at every step through technology, that is, radio-frequency identification or RFID technology that we are investing in big time.

Q&A

PANKAJ BHARDWAJ
Senior director, Avery Dennison India

The third thing the same technology can do is make it counterfeit-proof. Anti-counterfeiting is also a very big task.

It's a problem for large brands. And it's a bigger problem for the pharma sector because it is related to lives. The same technology can also be used for anti-counterfeiting because now you are leaving a digital impression. You can possibly know at which stage, if at all, there was any counterfeiting done.

**How much of this is already happening in India?**

We are living in a connected world where technology is moving reasonably fast. India is not a laggard in technology adoption. You just need to show the consumer the value. Smartphone penetration in India has been a huge success story because consumers value it. You need to make it more affordable and really make it easy to work.

There is a lot happening in some European countries and in the US. Now the same technology can be used for significantly improving the baggage loading efficiency for airlines and reduce lost baggage events. Lost baggage is an expensive event for an airline because it has to do some extra bit to deliver the baggage; for you it's expensive because you have to manage the situation after the loss. This problem can be solved by the same technology which we are talking about, that is, RFID because ultimately it's about track and trace .

**Can you tell us the other areas where mass adoption of these technologies can be a game changer?**

Myntra is experimenting with a pilot project where you put the cart to a place and the check-out happens automatically as the money goes out either through your wallet or through your credit card if you insert the credit card in the machine. This gives users a frictionless shopping experience as there is no queue. Then there are medical companies that face many challenges because they deal with a number of products that can expire very fast. And in that business, it is extremely important to manage and maintain the inventory. So, we are talking to few of them for managing their whole expiry and shelf life so that their supply chain is far more efficient.

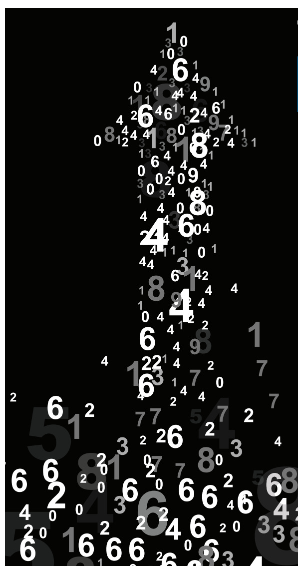
**Your line-scan programme — where you scan your client's manufacturing lines to identify areas which need work — has been going on for a while. What are the key learnings here?**

We started two years back. One of our biggest problems is that we are not as efficient and productive as some manufacturers in some other countries. Are we able to turn in as much work in an eight-hour shift as possible some other evolved manufacturing countries do? The answer is likely to be a no or maybe and definitely not a yes. Each of them wants to be more efficient and more productive and churn out more with the machines, time and manpower they have. And this programme is targeting them.

*More on www.business-standard.com*

# HDFC Bank, LIC, TCS most valued brands

## The top rung is unchanged but overall brand value growth slows to 6% in 2019 from 34% in the previous year: BrandZ



**TOP TEN MOST VALUABLE INDIAN BRANDS**

| Rank | Brand | Category | Brand value (₹ cr) | Value change (%) |
|---|---|---|---|---|
| 1 | HDFC Bank | Banks | 161,349 | 5.0 |
| 2 | LIC | Insurance | 143,078 | 2.0 |
| 3 | TCS* | Technology | 129,058 | 21.0 |
| 4 | Airtel | Telecom | 73,095 | -10.0 |
| 5 | State Bank of India | Banks | 59,750 | 7.0 |
| 6 | Kotak Mahindra | Banks | 54,271 | 15.0 |
| 7 | Asian Paints | Paints | 49,659 | 14.0 |
| 8 | Maruti Suzuki | Automobiles | 42,169 | -14.0 |
| 9 | Jio | Telecom | 38,886 | 34.0 |
| 10 | ICICI Bank | Banks | 38,395 | 11.0 |

*Tata Consultancy Services

**SOHINI DAS**
Mumbai, 25 September

HDFC Bank beat the crowds to top the list of 75 most valued brands in India, keeping its position intact from the previous year. At second and third spots, too, the old order held its grip. Public sector insurer Life Insurance Corporation of India (LIC) and IT major Tata Consultancy Services (TCS) retained their second and third ranks in the list of most valued Indian brands.

The big change, however, has been in the overall growth of brand values in the BrandZ 2019 Most Valuable Indian Brands, a report by WPP and Kantar Millward Brown. The total value of the top 75 brands increased to $228.2 billion, growing at a moderate 6 per cent over 2018, far slower than 34 per cent recorded the previous year. The report calculates valuations and ranking by combining companies' financial data with consumer insight and opinion.

While brands grappled with many challenges this year, a few managed to push valuations up significantly. With a 34 per cent jump in brand valuations, Jio led the band of top risers, a diverse set of brands on the list. Preeti Reddy, CEO South Asia, Insights Division, Kantar, said, "They (Reliance Jio) have built an entire ecosystem around Jio which is feeding into each other and they continue to be disruptive." Among the other brands that increased their valuations at a significant clip are Infosys, TCS, Maggi, Ola, and others.

HDFC Bank saw its brand value increases five per cent, growing slow but at a steady clip, to keep the top spot. "HDFC has utilised the digital ecosystem well and secondly they were very prudent about their business decisions. They are with the customers, walking with the times," said Vishikh Talwar, chief client officer, Kantar Insights Division.

Banking brands make up the largest share of the BrandZ Top 75, with 23 per cent of the total brand value tied up in that sector. However, in comparison to other countries, where one category dominates the brand ranking (such as France with luxury goods, US with technology, or Indonesia with banking), India's top brands are much more evenly dispersed.

Consumer tech, retail are the fastest-growing categories with brand values increasing 30 per cent. Among the high performers in this category, Flipkart saw a sharp 14 per cent spike in its valuations while newcomers to the list, Oyo, Swiggy and Zomato also took a big leap forward. Vodafone was the top ranked newcomer to the list of most valued brands that saw eight new entries in 2019. This is much lower than the 30 newcomers that debuted the list in 2018.

According to the report brands need to be innovative in dealing with the challenges thrown up by the economy. Jio (Rank 9) is a brand that has read the market accurately, even taking its rank up a notch as compared to 2018. Talwar said that Jio did not stop at being the cheapest. "They kept their focus on expanding the base of their services and are almost trying to own the smartphone ecosystem," he said. Smartphone user numbers in India increased by 18 per cent in 2018 (the fastest rate of growth in the world).

Jio's peer Airtel (Rank 4) lost 10 per cent in brand value, but it ranked above Jio and debutante Vodafone (Rank 24) on the list this year. "Vodafone is not exploiting the brand value that they actually have," Reddy said.

Retail brands have been best able to leverage their equity in the present scenario, creating omnichannel platforms and focusing on what the report labels 'middle India'. This is the growing number of people in second, third and fourth-tier towns that are changing India's traditional urban-rural divide. Both Talwar and Reddy said the new band of consumers prefers brands that cater to local needs and improve their daily life. For brands keen to get on the list next year, the trick then is to go local and get personal.

FROM PAGE 1

## MCA norms to shield IBC bidders...

JSW Steel had sought relief from statutory authorities in connection with its resolution plan for Bhushan Power & Steel. However, the National Company Law Tribunal (NCLT) approved its ₹19,350 crore resolution plan earlier this month without granting the reliefs. The company has appealed against the NCLT order.

In its appeal, JSW has said that in the absence of protection as prayed and liability resulting from criminal proceedings, the appellant would not be liable to implement the resolution plan as it would be unviable and unfeasible.

JSW's concerns stemmed from its experience with Monnet Ispat & Energy, also acquired under the IBC, jointly with AION. Claims from different government departments had come up in Monnet.

Tata Steel, which acquired Bhushan Steel for ₹35,200 crore, has also faced claims from different authorities.

Tata Steel BSL (formerly Bhushan Steel) mentioned in its annual report that the company was impleaded in a proceeding initiated by the Directorate of Enforcement (ED) relating to the confirmation of a provisional attachment order (PAO) of ₹50 lakh (PMLA proceeding).

The amount was seized by the Central Bureau of Investigation in relation to an allegation of payment of illegal gratification made against the previous managing director of the company. The company contested the PMLA proceedings, and the adjudicating authority vide its order dated September 24, 2018, refused to confirm the PAO in the proceedings against the company and other defendants.

The ED, however, filed an appeal against the order before the Appellate Tribunal, Prevention of Money Laundering Act, which is being contested by the company.

## Extending debt instrument maturity...

In January, MFs along with other lenders had entered into a 'standstill' agreement with Essel promoters where it was agreed that no 'default' will be declared on account of a steep fall in the price of Zee shares, which were pledged by the promoters as collateral. Also, the creditors decided to give time to the promoters till September 30 to settle the dues. This also extended the maturity of certain debt instruments till the end of September.

On Wednesday, Essel Group said its lenders had agreed to further extend the timeline beyond September-end, enabling the group to 'optimise value output from the sale of its assets'.

Earlier this month, the group cleared part of its dues by transferring the proceeds from the promoters' stake sale in Zee Entertainment. The payment halved the outstanding exposure of most MFs exposed to LAS structures of Essel Group firms.

The promoters had reached an agreement with Invesco Oppenheimer to sell up to an 11 per cent stake in Zee for ₹4,224 crore.

While some MFs are believed to have sold the pledged shares of Zee to recover their dues, some fund houses have decided to give the Essel group promoters more time to pay up the remaining dues.

"We feel that promoters can realise the right value of their stake in Zee if they are given additional time. This would lead to better recovery for investors," said a senior executive.

Overall, the MF industry had a ₹5,000-₹6,000 crore of debt exposure to Essel Group firms before the first tranche of dues were received.

## No room to cut home prices...

Sharma said input costs for developers had gone up since the introduction of the new goods and services tax rates, which do not allow deduction of input tax credit.

The government reduced the GST rates on home from 12 per cent to 5 per cent in March, but has disallowed deduction of input tax credit. Niranjan Hiranandani said there was "no room" to cut prices to boost demand. He said according to income tax rules, if a developer cuts prices by 5 per cent both buyers and sellers have to pay a extra tax.

"Capital investment, which had stopped, will start again. When developers invest money, they will invest in new projects, construct properties and generate employment. People will buy these properties. There will be a multiplier effect," Hiranandani said. There has been a large pile up of residential real estate because of high prices and slowdown in demand. There is unsold residential inventory worth ₹90,000 crore, according to some estimates.

A Mumbai-based property developer said when 85 per cent of homebuilders are incurring losses a cut in taxes will not help. "If the government wants to boost housing demand, they should cut housing loan rates and individual income tax rates," he said.

## PM rolls out red carpet ...

"Your desires and our dreams match perfectly. Your technology and our talent can change the world. Your scale and our skills can speed up global economic growth," he said. "Your prudent method and our pragmatic mind can write new stories in management. Your rational ways and our human values can show the path which the world is looking for. And if there is any gap anywhere, I will personally act as a bridge."

Modi said democracy and an English-based judicial system gave added confidence to investors as there would be no problem of interpretation.

The government is looking at investing ₹100 trillion in building new airports, railway lines, electrification, laying new roads and giving houses to all. "Infrastructure is a priority," Modi emphasised.

"We have taken numerous decisions to increase investors confidence including scraping of 50-old laws which were coming in way of development," he said. "This is just the beginning. We have a long innings ahead. The world business has a golden opportunity to partner with India in this journey."

Stating that the target of nearly doubling the economy to $5 trillion by 2024 was achievable, he said about $1 trillion was added to the size of the economy during the last five years.

Modi also interacted with over 40 business leaders and American CEOs, highlighting the steps taken by India to build a $5 trillion economy. "Captains of industry interact with PM @narendramodi in New York. The extensive agenda includes harnessing investment opportunities in India and boosting commercial linkages between India and USA," the Prime Minister's Office tweeted.

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**HOW TO PLAY**

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# Ambani tops Hurun rich list

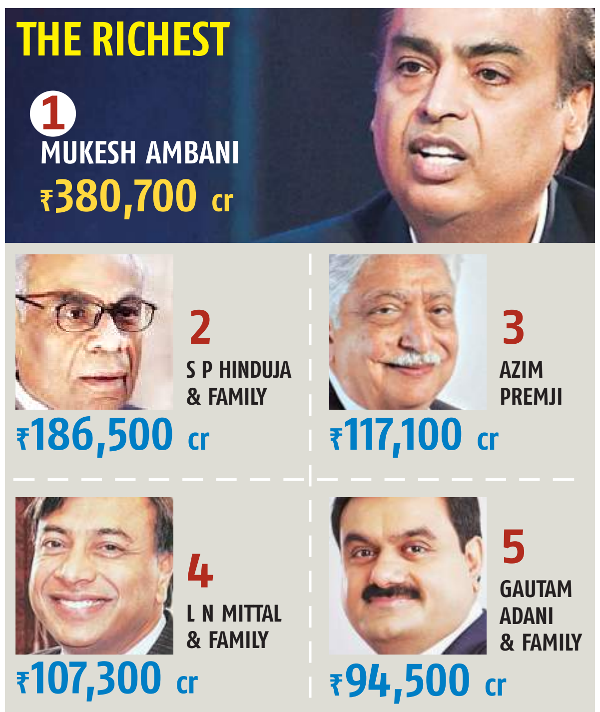
SACHIN P MAMPATTA
Mumbai, 25 September

Twenty-five of the richest Indians hold wealth which is equivalent to a tenth of the country's gross domestic product (GDP).

The richest in the list includes Mukesh Ambani, S P Hinduja and family, Azim Premji, L N Mittal and Gautam Adani, including their respective family holdings. The numbers are based on the IIFL Wealth Hurun India Rich List 2019 released on Wednesday.

The report identified 953 names, which meet their minimum net worth criteria of ₹1,000 crore. The average person on the list is 60 years old with a net worth of ₹5,278 crore. Fifty-three per cent of the total wealth on the list is inherited.

In comparison, the National Sample Survey Office (NSSO) numbers peg the average rural household assets at around ₹10 lakh. The average urban household's assets are around ₹23 lakh, according to the 2013 Household Assets and Liabilities report. The increasing income gap is a key concern among the wealthy, according to Yatin Shah, co-founder and executive director, IIFL Wealth Management. He believes that equality of opportunities has seen an improvement.



Source: IIFL Wealth Hurun India Rich List 2019

"Increasingly, more and more people are getting a chance to become an entrepreneur. They are backed by institutional capital. The opportunity is available to many more. I think we are still far away from seeing some social unrest because of the income gap," he said.

Five of the fastest wealth creators on the list are from start-ups which have reached a billion-dollar valuation, the so-called unicorns. The overall list includes names from 41 industries in total.

Shah believes that estate duty is likely to come in as economies transform from developing to developed, in response to a question on the matter. There are challenges that may need to be looked at before such a tax can come in. For example, he pointed out that 90 per cent of India's net worth is illiquid and locked-in in the form of business and real estate assets. It is easier to collect an estate duty on liquid assets.

Global solutions to address such problems include insurance and bank loans against business. He added that an inheritance tax is still four-five years away.

Anas Rahman Junaid, managing director and chief researcher, Hurun Report India, suggested that one should not see the rise in GDP as resulting in the creation of billionaires. It is the billionaires who have driven GDP growth.

"In my perspective, wealth creation is fantastic, and when it is done transparently, it deserves a lot of respect because it has a lot of positive impacts on the overall economy," he said.

Notable mentions in the top 10 include Gautam Adani and family, whose wealth rose 33 per cent to ₹94,500 crore, according to the report. This catapulted him to the top five. Meanwhile, Dilip Shanghvi, once India's richest man, saw a 20 per cent decline in his wealth to ₹71,500 crore.

A quarter in the list (246) lives in Mumbai. New Delhi is second with 175. Bengaluru is third with 77. Smaller cities, including Bikaner, Indore and Chandigarh have one entry each. Rajnandgaon has two entries while Kozhikode has three.

The top three cities have seen their share in new additions to the rich list fall from 59 per cent last year to 36 per cent in 2019.

## US House begins Trump impeachment inquiry

REUTERS
Washington, 25 September

Democrats in the US House of Representatives on Wednesday launched a formal impeachment inquiry into US President Donald Trump, accusing him of seeking foreign help to smear Democratic rival Joe Biden ahead of next year's election.

The inquiry ensures a partisan fight in Congress and on the presidential campaign trail in coming months, energising the most committed Republican and Democratic supporters and overshadowing the Democratic race for the nomination to face Trump in the November 2020 election. US House Speaker Nancy Pelosi announced the inquiry after a closed-door meeting with Democratic lawmakers, saying Trump's actions undermined national security and violated the US Constitution.

"The president must be held accountable. No one is above the law," said Pelosi, who for months had been reluctant to embrace an impeachment effort. US stocks fell for a fourth day as the impeachment drama intensified, adding another risk to markets already on edge over trade and slowing global growth.

## Johnson offers to allow no-confidence vote

BLOOMBERG
London, 25 September

British Prime Minister Boris Johnson, facing the biggest political crisis of his career, is addressing Parliament for the first time since Britain's Supreme Court ruled his decision to suspend the legislature was illegal.

**Boris Johnson challenged the opposition parties to call a vote of confidence in his government as he sought again to force a general election**

He has offered all opposition political parties the chance to trigger a formal vote of no-confidence in his government, a move that would put Britain on course for a potential general election. Speaking to the Commons, Johnson criticised the Supreme Court judgment, and said voters wanted politicians to deliver Brexit by the end of October, with no deal if necessary. He challenged the opposition parties to call a vote of confidence in his government as he sought again to force a general election.

Johnson threw down the gauntlet to opposition Labour Party Leader Jeremy Corbyn, telling him he has until the Commons closes for business on Wednesday to propose a motion of no confidence in the government. He also told minor opposition parties that they too could do so, and the government would ensure there was time to debate it. After opposition parties twice rejected an attempt by Johnson to force an early general election, a confidence vote would offer Johnson another path to national poll. If he loses such a vote, the House of Commons will have 14 days in which to form an alternative government an election will follow. "This parliament must either stand aside and let this government get Brexit done or bring a vote of confidence and finally face a day of reckoning with the voters," Johnson said.

## Oil declines as Saudi Arabia restores capacity

Oil extended declines as Saudi Arabia was said to be ahead of schedule in restoring its output capacity. Futures lost as much as 2 per cent in New York after dropping 2.3 per cent on Tuesday. Saudi Aramco's production capacity now exceeds 11 million barrels a day, beating a self-imposed deadline by about a week, sources. BLOOMBERG

# Google deals blow to EU copyright law in France

AFP/PTI
Paris, 25 September

Google said on Wednesday it will not pay European media outlets for using their articles, pictures and videos in its searches in France, in a move that will undercut a new EU copyright law.

The tech giant said it would only display content in its search engine results and on Google News from media groups who had given their permission for it to be used for free.

The announcement, which will result in free content gaining higher visibility, comes after France became the first EU country to adopt the bloc's wide-ranging copyright reform in July. The legislation is aimed at ensuring media firms are paid for original content displayed by Google, Facebook, and other technology giants, which dominate the online advertising market.

The new rules create "neighbouring rights" to ensure a form of copyright protection — and compensation — for media firms when their content is used on other websites such as search engines.

**Announcement comes after France became the first EU country to adopt the bloc's wide-ranging copyright reform in July**

Richard Gingras, Google's vice-president for news, told journalists in Paris that a Europe-based news publisher would have to decide if it would allow Google to show "snippets" of content or thumbnail images alongside search results in France.

If they accept, publishers will not receive any compensation from Google, he said. But if they don't, only a headline and a bare link to their content will appear in the results, resulting in a loss of visibility for the publisher.

The move is a major blow to media organisations who have seen their advertising revenues gobbled up by Google, Facebook and other US Internet companies. Refusing to allow Google permission could sharply reduce online audiences, since Internet users are more likely to click on results containing excerpts and images.