Different layers

The government's method of dealing with BSNL, MTNL and FCI presents a problematic aspect of its public sector engagement

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The Narendra Modi government's engagement with the public sector entities under its administrative control has many layers. Take, for instance, its decision to infuse equity into about 250 operating central public sector organisations including the Indian Railways.

The Modi government infused an estimated ₹6.26 trillion as equity into these entities during the first five years of its tenure — between 2014-15 and 2018-19. This was almost three times the equity amount that the Manmohan Singh government had infused into these public sector organisations during its five-year tenure — between 2009-10 and 2013-14.

But take a closer look at the composition of the equity infused into the public sector, a slightly different picture will emerge. During the five years of Modi, capital for public sector banks (PSBs) accounted for about 40 per cent of the total equity infusion. The Indian Railways had a share of 33 per cent, the National Highways Authority of India (NHAI) had 18 per cent and Air India had a share of 3 per cent, raising the combined share of these four entities to as much as 94 per cent of the total equity infusion in five years.

In other words, just four out of the 250-odd public sector organisations had gobbled up so much equity that left only six per cent, or ₹34,931 crore for the remaining public sector entities in a period of about five years. So, if you thought the Modi government was generous with equity allocation to all its public sector organisations, think again. It distributed 94 per cent of its entire equity for the public sector to just four entities.

The Manmohan Singh government was a little more democratic in equity allocation. Of its total equity outlay of ₹2.34 trillion for public sector organisations, during its second five-year term, 45 per cent went to the Indian Railways, 20 per cent went to the NHAI, 19 per cent went for recapitalisation of PSBs and 6 per cent was spent on Air India. Thus, these four organisations consumed 90 per cent of the entire equity outlay in these five years, leaving 10 per cent for the remaining entities.

Given this context, two developments last week deserve greater attention. One, the government appears to be having second thoughts on a proposal from the department of telecommunications to bail out the ailing two public-sector telecommunication companies — the Bharat Sanchar Nigam Limited (BSNL) and the Mahanagar Telephone Nigam Limited (MTNL). The ostensible reason for reconsidering a revival package was its huge cost, estimated at over ₹74,000 crore.

Such a review is understandable. The suggestion that the two enterprises could be closed down after offering a compensation package to their employees through a voluntary retirement scheme (VRS) is worth a closer look. And the cost of closing down would be cheaper as several employees are actually not direct recruits in the two organisations. According to one report, just about 10 per cent of the employees are direct recruits, mainly technicians and the cost of offering a VRS to them would not be huge. The remaining employees either belong to the Indian Telecom Services (ITS) or have been deputed from other public sector enterprises.

The obvious question, therefore, is why the government has allowed its two public sector telecom organisations to be burdened with such staff from the ITS and from other public sector organisations. These two organisations should not be treated as a parking place for either ITS or presumably surplus staff belonging to other public sector undertakings. Since three-fourths of their total revenues are being consumed by their wage bills, the first step would be to free them of this burden and see how the two organisations could be run more efficiently with minimum staffing. Both the organisations have a viable business and a customer base that should be the envy of any rival telecom company. A good way out would be to free these companies from the burden of such huge wage bills and then get their businesses transferred to a new entity that presumably could be set up as a public-private partnership, with a time-bound plan under which the government would eventually exit from the business entirely.

The second development pertains to the Food Corporation of India (FCI), a public sector company that undertakes procurement of food grains on behalf of the government. Partly because of its own inefficiency and its excess manpower and partly because the government has consistently defaulted on paying its bills, FCI is hugely indebted, having borrowed from the market as well as entities like the National Small Savings Fund. Its financial troubles are in no small measure due to the government's failure to clear its dues.

The financial woes of BSNL, MTNL and FCI present another layer of the Modi government's engagement with public sector organisations, which is both problematic and potentially harmful for its fiscal health.

CHINESE WHISPERS

Taking sides

In the fight between former Ranbaxy promoters Malvinder Mohan Singh and Shivinder Mohan Singh (*pictured*), the family seems to be firmly behind the younger sibling, Shivinder. The bonhomie among Shivinder and the other members of the family was evident as they sat outside the chief metropolitan magistrate's court awaiting the order copy, and spoke to each other for a good half an hour before Shivinder was taken away by policemen. During the same waiting period, Malvinder sat alone for the most part, only to be joined by his advocates and a couple of other people intermittently. It might be too early to draw a conclusion, but it seems the family has made its position clear as to whom it would stand by in this bitter fight.

Babbar's parting shot

Outgoing Uttar Pradesh Congress president Raj Babbar (*pictured*) bade adieu to the state unit with a sharp-witted letter to his successor and party MLA, Ajay Kumar Lallu. Babbar conceded that despite sincere efforts during his rather lacklustre three-year term, he fell short when it came to delivering results. The actor-turned-politician also took a swipe at the party's top leadership, noting that at times his own decisions or some of the decisions of his seniors failed miserably to get support within the party. Also, some of his decisions aimed at promoting young leaders in the party and harnessing the experience of senior Congressmen did not go down well with a certain section of the state leaders, he added.

Protecting cows

After Congress leader Digvijaya Singh said last week that stray cows on the Bhopal-Indore highway led to accidents, Madhya Pradesh Chief Minister Kamal Nath said his government had set a target of constructing 3,000 cow shelters by the end of next year. Nath tweeted: "Dear Digjiyaya-*ji*, you mentioned about the accident of cows sitting on Bhopal-Indore highway. I have asked officials to make a plan about the security of cows on main roads." He added that his concern for cows was genuine and not motivated by politics. "I am concerned about it ... It is also true that for us, cows are a symbol of faith and pride and not for politics. We want to do the work which has not been done in years to protect cows."

Can LIC and Rakesh Sharma save IDBI Bank?

IDBI Bank will post net loss in September and probably in the December quarter too but it can come out of the woods

BANKER'S TRUST

TAMAL BANDYOPADHYAY

IDBI Bank Ltd, quarantined in the correctional facility of the Reserve Bank of India (RBI) which restricts its ability to lend, is about to start corporate lending in a limited way to its existing customers with high credit ratings. Till now, its ability to lend is capped at ₹5 crore per customer.

In the June quarter, it announced successive 11th quarter loss — ₹3,801 crore. From December 2015 when all Indian banks were forced to clean up their balance sheets till June 2019, it has made losses every quarter barring two — overall a record ₹35,977 crore in the past 18 quarters. Is IDBI Bank turning out to be the classic milk pitcher or inexhaustible bottle of magicians, pouring net losses every quarter?

To keep it floating, since fiscal year 2016, the government and the bank's new majority owner Life Insurance Corp of India (LIC) together have pumped in ₹48,765 crore (including ₹9,300 crore committed during the current year by the government).

Is the worst behind the bank? Can its managing director and CEO, State Bank of India-bred Rakesh Sharma, who has also headed Canara Bank, turn it around?

Going by the numbers, all is not lost for IDBI Bank. As the government doesn't hold a majority stake (47 per cent), it is a private bank and yet, for regulatory purposes, it is a public sector bank. LIC, which holds 51 per cent stake, needs to bring it down to 40 per cent over the next 10 years and it will continue to supply capital for the next five years.

The bank's gross non-performing assets (NPAs) as well as net NPAs as a percentage of total loan assets dropped in June. This is a good omen, particularly when the overall asset book is shrinking. Its advance portfolio shrank from ₹2.3 trillion to ₹1.7 trillion in the past three years. When loan assets grow, in percentage terms, NPAs shrink to create an optical illusion even if there is less recovery or more loans going bad. Its 88 per cent provision coverage ratio is higher than most banks.

The low-cost current and savings accounts have risen from 37 per cent to 43 per cent in the past one year even as high-cost bulk deposits dropped from 33 per cent to 25 per cent. The overall cost of deposits has come down from 5.56 per cent to 5.44 per cent.

It is also shedding corporate loans. Around 51 per cent of its loan book is now retail, including loans given to small enterprises. The retail loans fetch relatively higher interest. This, combined with a drop in the deposit cost, has led to a rise in the net interest margin — from 1.7 per cent to 2.03 per cent. Historically, IDBI Bank's inability to lend to retail borrowers, particularly in the so-called priority sector (40 per cent of a bank's loans mandatorily flow there), has cost it dear. It has been keeping at least ₹21,000 crore in infrastructure bonds as a penalty of non-fulfilling priority sector lending norms, earning 4.15 per cent, much lower than the cost of the deposits. It will start releasing the money in phases and give loans to earn more.

ALL IS NOT LOST **The bank's gross NPAs as well as net NPAs as a percentage of total loan assets dropped in June. This is a good omen**

Historically, IDBI Bank had 80 per cent corporate loans, supported by wholesale liabilities. The RBI restriction on fresh loans has had a spiral effect as the good loan accounts started leaving the bank and with the balance sheet shrinking, its earnings were affected. Focussing on retail loans (out of ₹54,000 crore pure retail loans, 75 per cent are home loans), Sharma is trying to stem the rot. Only 1.3 per cent retail loans are bad.

Of the ₹88,000 crore bad loans, it has written off ₹37,000 crore and provided for ₹40,000 crore, requiring to make another ₹11,000 crore provision to come up clean. It could recover 25 per cent of the bad loans — ₹22,000 crore. After using ₹11,000 crore for provisions, an equivalent amount can add to its bottom line over the next few quarters. In the best case scenario, it can recover 35 per cent of the bad loans spread over infrastructure, power, steel, oil refineries.

The bank has moved the recovery tribunal for ₹65,000 crore of bad assets, of which cases involving ₹38,000 crore have been admitted. The top 20 NPA accounts make ₹30,000 crore. The recovery process can take 330-660 days. In June, it added ₹3,400 crore fresh bad assets but a bulk of it is technical in nature and the bank could classify ₹2,200 crore of it as performing assets by next March.

Sharma is doing his bit by setting up a data analytics department, hiring treasury and technology heads from smart private banks and recruiting staff from B-school campuses. Of IDBI Bank's 18,000 employees, the clerical and sub-staff, a legacy of the past, are less than 1,000. It is also on track in getting rid of the non-core assets — its stakes in asset management and insurance companies, a stock exchange etc, besides real estate and other fixed assets. It has already generated ₹3,400 crore through this route and another ₹1,500 crore is on the table.

LIC may have done an act of charity by picking up the ownership of IDBI Bank under government pressure but if the synergies between the bank and India's largest life insurance company are exploited well, IDBI Bank can bounce back. A task force, formed to explore the synergies, has charted out a 100-point action plan, focusing primarily on cross-sale of products. While policy premiums can be collected at 1,891 bank branches (giving the bank float money), 1.1 million LIC agents can source business for the bank – both loans and deposits. Potentially, 400 million policy holders could become IDBI Bank customers. It has started offering home loans to policy holders, which is 0.10 per cent cheaper than other customers.

IDBI Bank will post net loss in the September quarter and probably even in the December quarter but it can come out of the woods. From a milk pitcher magician, Sharma needs to act as Harry Houdini who escaped from a packing crate weighed down by 200 pounds of lead in New York's East River in less than a minute. No one will grudge Sharma a few more quarters to pull out IDBI Bank, buried deep under the burden of bad loans and the culture of a development institution.

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INSIGHT

Are we barking up the wrong tree?

India's main focus needs to be on policies that foster innovation and freedom for individuals and organisations alike

TV RAMACHANDRAN

"*Chalo, picture dekthe hein*" is a sentence that has withstood the test of time. In 2019 though, it sets forth a different sequence of events compared to a decade ago. Now, most likely, it results in a group chat about whether to go to a movie theatre or watch a movie or show over a streaming service. If the decision is to go to the theatre, someone usually looks for show timings online, and books tickets on BookMyShow. A few might travel by Ola or Uber cabs to get to the destination. Did the event even happen if a group selfie is not uploaded on various social media platforms after the show? If the plan is to stay home, surely Swiggy can be called upon to deliver hot pizzas.

In view of the features and functions they provide, digital platforms like Swiggy, Ola, Uber, BookMyShow, Netflix, MakeMyTrip, Amazon, Facebook, Twitter, Zomato, and even gaming platforms like Candy Crush, Quiz Up, and Minecraft act as intermediaries — channels or platforms that are conduits for information, entertainment, and other products and services. Intermediaries merely offer a platform for point-to-point communication, and a forum to connect users. To protect every Indian's freedom of speech and Right to Privacy, they are granted a "safe harbour" status under the Indian Information Technology Act of 2000.

Lately, however, there has been much discussion on imposing stricter regulation on these, driven primarily by the intent to curb harassment, eliminate the scourge of fake news, or criminal activity online. While a noble cause, greater regulations will do nothing to resolve these issues; instead, they might introduce a slew of new problems. The real solution already exists — our independent judicial system. Objections to user-generated content shared on an intermediary platform can be argued in a court of law, and if the content is indeed objectionable, a court order can be issued. It is important to note that many such platforms already have community guidelines and terms of service that don't allow users to upload and share certain types of content. Such content can be reported by users for takedown.

The proposal for stricter regulation seeks to make intermediaries responsible for regulating their content; if found non-compliant, they can lose their safe harbour protections. Additionally, intermediaries are provided an extremely short amount of time, just 24 hours, to evaluate flagged content, request clarifications, and respond.

Is this even practical? Such tight timelines could be implemented for certain types of unlawful content like child pornography, extremist content etc but they are difficult to enforce for all content categories. Most apps and intermediaries are available for a global audience; and if India-focused that's an incredible amount of data to regulate. With various languages, dialects, slang words, nuances, cultural references, and humour that people regularly use for communication, this is a disaster waiting to happen.

Consider this. To most of us, the words "*main tera khoon pi jaunga*" brings to mind a young and angry Dharmendra. To someone unaware of the reference, it might sound like a threat!

When such misunderstandings happen during face-to-face interactions, how on earth do we expect intermediaries to proactively self-regulate the enormous amount of content generated 24/7 on their platforms? Even artificial intelligence has not evolved to understand the context and nuances at this level of granularity. Let's be careful what we wish for. If we want intermediaries to moderate and take down content that they deem incendiary, it would be unlawful censorship. Intermediaries will willy-nilly restrict content to lower the risk of non-compliance with regulation, thus infringing upon our fundamental rights.

The passionate discourse for intermediary regulations fails to take into account the financial burden these regulations put on the intermediaries — particularly start-ups and small businesses that see their cost of doing business going up significantly if they have to incorporate sophisticated technology and manpower to monitor content, not to mention the burden of contesting legal issues over non-compliance. This will surely stifle innovation in India.

Another proposal is for companies to maintain a physical presence in India. For global entities, it is not always financially viable to maintain a physical office in every country they operate in. Sure, India is an attractive market, but under growing constraints, these companies might be forced to leave India out. This then denies Indians the ability to leverage global innovations. Indian companies would be in danger of facing retaliatory regulation in other countries.

Another consequence of unwarranted regulation is exposure to massive legal liabilities. What if the viral hit song "*Coca Cola tu*" angered a rival soft drink company? If several of their employees flag mentions of the song on social media as "offensive", the intermediaries might have to restrict the song or risk potential penalties. It would be a huge legal liability if the music director or Coca-Cola decided to contest this decision. Ironically, circumventing courts for content-related decisions will result in more legal battles.

The mandates for intermediaries to continually monitor and regulate information is also a gross violation of global norms. Based on the United Nations' Rapporteur's Report on the promotion and protection of the right to freedom of opinion and expression, independent and impartial judicial authorities should be deemed arbitrators of lawful expression — not the government. Additionally, global guidelines providing a road map to manage intermediaries, the Manila Principles, clearly state that content cannot be restricted without clear, unambiguous orders from a competent court of law.

Since India aspires to be one of the world's leading economies, why are we squandering opportunities to encourage free-market enterprise? To stop miscreants from using intermediary platforms to incite violence or spread false information, we need to streamline the legal system and infuse greater transparency into the decision-making process of the courts. India's main focus needs to be on policies that foster innovation and freedom for individuals and organisations alike.

(Research inputs by Chandana Bala)

The author is honorary fellow of IET (London) and president of Broadband India Forum. Views are personal.

LETTERS

Gross negligence

This refers to the letter "Lack of Accountability" by Shanmugham M (October 11). I think that the author of the letter has trained his guns on the wrong entity. An auditor can only 'audit' the information/facts and figures are placed before him. In the PMC Bank scam, accounts related to the loans made to HDIL were hidden, by virtue of a few 100 dummy accounts created specifically to fool the auditors. My concern pertains to the regulator — the Reserve Bank of India (RBI). There is something intrinsically amiss, if despite the monthly, yearly statutory statements and the balance sheet in its possession, the RBI was unable to detect any wrongdoing at PMC Bank. The RBI has failed miserably in acting as a "watchdog". It can be blamed for gross negligence, dereliction of duty, and unconscionable behaviour towards the depositors of PMC Bank.

Vipan Sarup Mumbai

Hold RBI accountable

This refers to the erudite article "Financial sector stability & our cook Lilu-*tai* by Tamal Bandyopadhyay (October 7) in which he has pertinently raised the question, "Was the banking regulator sleeping all these years?". It is about the collapse-cum-crisis of the PMC bank. For several years, this bank was violating rules and its beneficiaries were enjoying in the most ostentatious manner. The Reserve Bank of India (RBI) had done an audit but could not detect anything. Millions of depositors are in the lurch. Yet the RBI issued a release on October 7 saying that, "the Indian banking system is safe and sound". The biggest joke of all, my country men! This has now launched cartoons in newspapers about the RBI as the watch dog, showing a dog watching as the bank was collapsing on the head of creditors.

The RBI cannot argue that the control is divided because the job of audit is to be done by the RBI. Like the bank officials who have been taken into custody, some auditors also deserve the same treatment. Governors who went about lecturing about the independence of the RBI and freedom of speech, should come out in the open now to explain if lecturing was their job or they were also supposed to do their normal routine work. The finance minister should also say something clearly fixing responsibility on the RBI for its failure.

Sukumar Mukhopadhyay via email

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