DoT studying security threat over no state-owned telcos

Seeing how US, UK, who have only pvt services, cope with security issue: Official

MEGHA MANCHANDA
New Delhi, 13 October

As the finance ministry refuses to part funds for the revival of Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL), the Department of Telecommunications (DoT) is busy brainstorming on the security aspect of complete privatisation of the domestic telecom sector, besides persisting with the Centre to infuse the twin PSUs with fresh capital.

"We are evaluating the security threat posed by complete privatisation of the sector, if any. How do countries like USA, UK and Brazil cope with the safety and security aspect of telecommunication services — they only have private operators," a senior DoT official told *Business Standard*.

The department is examining case studies in this regard, from developing economies, too, where the government has no entity of its own in the sector.

Telecom companies in the US are AT&T, Verizon, Sprint and T-Mobile. Britain has Three UK, EE, O2, Vodafone and BT. In Brazil, the bulk of the market is divided between four operators — Telefónica, América Móvil, Oi and GVT.

The finance ministry (FinMin) would prefer BSNL and MTNL to be shut down. Officials say if this stand prevails, DoT would urge downsizing to save their existence.

"If shutting down of BSNL and MTNL is what FinMin wants, we will request them to at least consider continuing it for services like space, defence, intelligence, railways and government departments for internal usage," a senior official said.

The finance ministry would prefer BSNL and MTNL to be shut down. Officials say if this stand prevails, DoT would urge downsizing to save their existence

Waiting anxiously as the employees of both entities. "We are hoping our department (DoT) will save us," a BSNL employee said, adding that the company has real estate assets worth at least ₹5 trillion. It and MTNL have land assets at prime locations across the country, including in Mumbai, Bengaluru, Hyderabad, Delhi and the Delhi region.

Both companies are so short of money that staff salaries are not coming on time. BSNL paid the September salary earlier this month; MTNL is yet to pay its staff for August and September.

Recently, a meeting of secretaries to the government, convened by P K Mishra, principal secretary to the prime minister, was doubtful on any revival prospects.

Earlier this year, both BSNL and MTNL formally sought relief from the government in the form of conversion of their debt into sovereign guarantees, a pay revision and a subsequent voluntary retirement scheme (VRS).

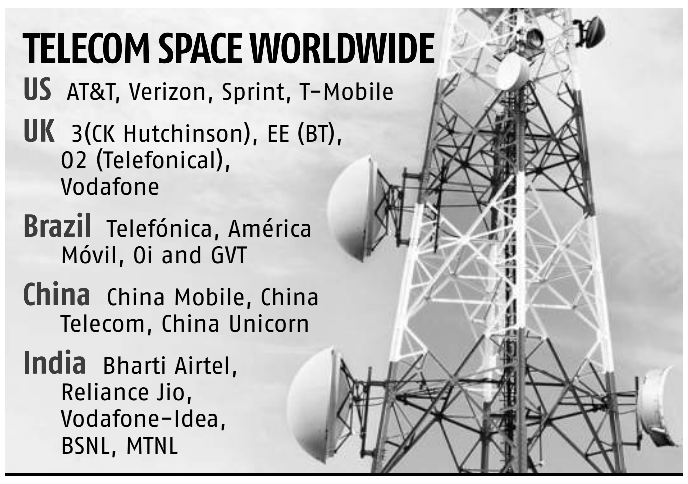
BSNL also sought fourth-generation technology (4G) spectrum across India through equity infusion of ₹7,000 crore. MTNL suggested converting its ₹20,000 crore of debt into a sovereign guarantee and surrendering its 3G spectrum. The proposal was that a proposed VRS package be funded by a bond issue over 10 years.

About half the 176,000 employees at BSNL are estimated to retire in the next five to six years.

For MTNL, the VRS package could have a revenue impact of ₹2,120 crore. The company has 22,000 employees. Of this, 16,000 are to retire in five to six years.

BSNL's loss in 2018-19 is estimated to be around ₹14,000 crore, with a decline in revenue to ₹19,308 crore. Debt is ₹13,000 crore.

Telecom minister Ravi Shankar Prasad had, in his first press conference after assuming charge earlier this year, said the government would revive BSNL and MTNL.



OPINION Page 9
THE BEST OF BSNL & MTNL

World Bank says India facing a severe slump, cuts GDP forecast to 6%

BLOOMBERG
13 October

The World Bank cut India's economic growth forecast, the most among South Asian nations on Sunday, below the outlook pegged by the nation's central bank for this year, mainly because of a deceleration in domestic demand.

India's gross domestic product (GDP) growth is projected at 6 per cent in the fiscal year, started on April 1, compared with 7.5 per cent forecast in April and 6.8 per cent recorded a year earlier, the bank said in its latest South Asia Economic Focus report. "Growth is expected to gradually recover to 6.9 per cent in 2020-21 and to 7.2 per cent in the following year", it said.

"India's cyclical slowdown is severe," the report said. According to the bank, the weakness is mostly due to a deceleration in local demand. In such a weak economic environment, structural issues surface and the weak financial sector is becoming a drag on growth.

Earlier this month, the Reserve Bank of India (RBI) downgraded its economic growth projection by the biggest cut in its forecast in at least five years to 6.1 per cent this year. GDP growth cooled for a fifth straight quarter to 5 per cent in the three months ending June, the slowest pace since March 2013.

6.9% PROJECTED FOR 2020-21

6.9% projection for 2020-21

7.2% expected growth in 2021-22

GROWTH FORECASTS for Sri Lanka, Maldives and Bhutan have been cut as well

PROJECTIONS FOR Nepal and Bangladesh show an improvement in the economy

Critical situation

The critical situation demands decisive policy actions, and initial government steps point in the right direction, with the RBI embarking on an easing cycle and the government announcing a stimulus package recently, the World Bank report said. "All these measures will help to contain the downturn, but also raise concerns about fiscal space," the bank said.

"The main policy challenge is to address the sources of softening private consumption and the structural factors behind weak investment," according to the report.

"The main sources of risk include external shocks that result in tighter global financing conditions, and new defaults by non-banking financial companies (NBFCs) triggering a fresh round of financial sector stress," the report said. "To mitigate these risks, the authorities will need to ensure that there is adequate liquidity in the financial system, while strengthening the regulatory framework for NBFCs," it added.

The World Bank expects India to grow at 5.9 per cent this year, lower by 1.1 percentage points from its April estimates. It also cut growth forecasts for Sri Lanka, Maldives and Bhutan, while raising those for Nepal and Bangladesh.

GNPA for PSBs in agriculture sector crosses ₹1-trillion mark

Instances and scale of farm loan waivers have seen an unprecedented increase since 2014-15... this surge is driven by state govt, finds RBI study

NAMRATA ACHARYA
Kolkata, 13 October

Gross non-performing assets (GNPA) for public sector banks (PSBs) in the agriculture sector has exceeded ₹1 trillion.

According to Reserve Bank of India (RBI) data, the GNPA from agriculture and allied activities in these banks was ₹1.04 trillion at end-July, against total credit of ₹942,869 crore (about ₹9.4 trillion). Thus, the ratio of GNPA to total credit is over 11 per cent.

The NPA rise over the past one year was a little less than 20 per cent. At the end of June 2018, sectoral GNPA was ₹86,032 crore, about 9.6 per cent of the total credit for agriculture and allied activities. In the past two years, the rise has been almost 30 per cent.

Bankers agree that much of the deterioration in the credit culture over the past year was on account of the general election in the country and expectations on a debt waiver.

According to a recent report of the internal working group to review agricultural credit, from RBI, "the instances and scale of farm loan waivers have seen an unprecedented increase since 2014-15. This surge in loan waivers is driven by state governments. Ten states have announced loan waivers aggregating ₹2.4 trillion (1.4 per cent of 2016-17 gross domestic product at current prices) since 2014-15. This is significantly higher than the two-nationwide loan waiver programmes — ₹100 billion programme in 1990 (₹506 bn at 2016-17 prices, using the GDP deflator) and a ₹525 billion programme in 2007-08 (₹812 b n at 2016-17 prices, using the gross domestic product deflator)."

In mid-2017, Uttar Pradesh gave farm loan relief amounting to ₹36,400 crore. In May 2017, Maharashtra announced one of ₹30,500 crore. In June 2017, Karnataka announced one for ₹8,200 crore. In October 2017, Punjab's waiver was about ₹10,000 crore. Other states that have announced a farm loan waiver or relaxation include Tamil Nadu, Andhra Pradesh and Telangana.

"The Reserve Bank) data shows NPA levels increased for all states that announced a farm loan waiver programme in 2017-18 and 2018-19. On the other hand, almost all other states (with the exception of Bihar, Odisha and Haryana) have shown either no material change in their NPA level or actually registered a decline between 2016-17 and 2017-18. Taken together, this could be indicative of the presence of moral hazard, with borrowers defaulting strategically in anticipation of loan waiver," says RBI.

In this background, PSBs have also been realigning their strategies on agricultural loans. Instead of short-term credit, they are now preferring long-term agri infrastructure credit, where chances of default are low.

For example, in the first quarter of this financial year, Allahabad Bank recorded new slippage amounting to ₹2,986 crore. Agricultural NPA accounted for a major chunk, of ₹1,135 crore or 38 per cent of the total. In response, the bank is giving more emphasis on investment credit. It recently rolled out a Kisan Pragati Kendra (KPK), through which loan proposals above ₹5 lakh under the agriculture investment credit portfolio will be considered.

"Such high levels of NPA in the sector, with GNPA touching double digits, is unsustainable in the long run," said a high ranking official of a public sector bank.


ILLUSTRATION: AJAY MOHANTY

HEADING UPWARDS
As of June 30

	Gross advances to agriculture and allied sectors (₹ cr)	GNPA in agriculture and allied sectors (₹ cr)	GNPA ratio as percentage of credit to agriculture and allied sectors (%)
2017	797,825	60,393	7.57
2018	899,566	86,032	9.56
2019	942,869	104,264	11.06

FROM PAGE 1

Privatisation...

A source close to the development told Business Standard the ONGC management was aware about the option to bring in a strategic partner. After the BPCL stake sale, there will be no obligation for HPCL to remain a public-sector undertaking or its subsidiary.

"Through this, if required, the company can think about bringing in a partner and give management control of HPCL too. Even if ONGC keeps about 25 per cent, it will be able to bring down its existing debt of around ₹13,000 crore now and make it debt-free," said an industry source.

ONGC acquired the Centre's 51 per cent stake in HPCL for ₹36,900 crore in 2017-18.

Together, BPCL and HPCL contribute around 47 per cent of the 65,554 fuel retail outlets in India, while Indian Oil Corporation's share comes to around 43 per cent.

Nayara Energy, Shell, and Reliance Industries run the rest.

BPCL and HPCL have a refining capacity of 38.3 million tonnes per annum (mtpa) and 27.1 mtpa, respectively, at present.

According to a report by Moody's Investors Service, a stake sale, whether to a private or a state-owned company, would mean a change of control for BPCL's bonds, and this will require the company to redeem its bonds within 45 days of the switch being triggered.

"There is no ratings condition attached to the put option for bondholders. A bond redemption will increase BPCL's refinancing risk significantly," it said. As of September 30, 2019, BPCL had $1.7 billion of foreign currency bonds outstanding.

It added that BPCL's liquidity is inadequate and redeeming the foreign currency bonds will expose BPCL to a significant refinancing risk.

As of March 31 this year, BPCL reported cash and cash equivalents of around ₹5,300 crore ($751 million), against ₹10,900 crore of debt maturing over the next 15 months (including the current portion of long-term debt), Moody's Investors Service added.

Technical textiles...

UNDERSTANDING THE FABRIC

40 New products to get new HSN codes

12% Average annual growth rate of over past few years

₹2 trn Projected domestic market size by 2020-21

These are the railways, road transport, Jal Shakti, agriculture, urban development, health, and defence.

The Cabinet is also slated to discuss the matter soon and notify the rules for this.

Technical textiles are functional fabrics used in multiple industries such as automobile, construction, and agriculture.

Manufactured for non-aesthetic purposes, the sector has been on the government's policy radar for 10 years for its high growth potential and capacity for job creation, and is divided into 12 industries.

Among these, medical textiles such as implants, geotextiles used in the reinforcement of river embankments and rocky cliff sides, and agro textiles for crop protection have been earmarked by the government as major growth creators, an official said.

The textiles ministry has run pilot projects to assess the viability of these products. A project of ₹427 crore to include geotextiles in constructing mountainous road networks in the Northeast has been successful, the official added. Maintenance is easy for the roads, which are expected to have a longer operational life and suited to the seismic nature of the area, according to official findings.

Rescuing textile exports

Streamlining the export of technical textiles is also on the cards. In January, the government notified the Harmonized System of Nomenclature (HSN) codes for 207 technical textile products.

HSN codes classify commercially traded goods globally and facilitate international trade. In the absence of a clear classification, technical textile manufacturers complain of not getting incentives being allowed to the sector by the Centre and state governments.

Now, the textiles ministry has requested the Directorate General of Foreign Trade to approve 40 more products, the export of which may then be categorised, planned, and boosted.

As a result, the government has finalised standardising 348 types of technical textiles, with a further 159 under development by the Bureau of Indian Standards.

The government is betting heavily on the sector at a time when apparel exports — a traditionally strong forex earner for India — have remained depressed.

India's $16-billion basket of readymade garments saw a 3 per cent decline in 2018-19 and has raked in $6.8 billion in the first five months of the current fiscal year. In contrast, exports of the 348 products already standardised in the January-June period of 2019 saw exports increasing by 17 per cent, while the negative trade balance reduced by 52 per cent, a senior official said.

Apart from planning workshops for exporters, the government will roll out six courses on technical textiles soon.

Manufacturing boost

The upcoming policy will keep cost escalation to a minimum because domestic companies have a significant presence in the production of almost all kinds of technical textiles. Products have been gaining ground in India due to functional requirements, safety, durability, versatility, customisation, and eco-friendliness, according to the Indian Technical Textile Association.

India has a modest 4 per cent share in the global technical textiles market, but has seen a healthy annual growth rate of 12 per cent over the past few years.

The last baseline survey of the sector carried out by the ministry showed its domestic market size to be more than ₹1.16 trillion in 2017-18. Now, the textile commissioner's office has estimated a market size of ₹2 trillion by 2020-21.

The results of a new baseline survey, being done by Indian Institute of Technology-Delhi, will be released by November, sources said.

According to government estimates, there are about 2,100 units in the country manufacturing these products. They are mostly in Gujarat, followed by Maharashtra and Tamil Nadu.

The sector constitutes 12-15 per cent of the textile value chain in India.

The global growth rate for technical textiles outmatches that for apparel or home textiles.

According to UK-based Allied Market Research, the global technical textile market was valued at $234 billion in 2017, and is projected to reach $334 billion by 2025, growing at a compound annual growth rate of 4.5 per cent from 2018 to 2025.

We will capture demand first, optimise delivery later, says TCS' Gopinathan

But (at the same time), we will structurally create capacity to service the demand.

Last year, we hired some 30,000 freshers. This year, we'll hire similar numbers or more. That's why we have pulled in people in the first half of the year itself. This has given us the capacity to do more off-campus (hiring). We have invested in platforms to do that through the national qualifier (test). It can be used on demand. We have started what is called ProCert to help people improve and test them through learning tools. All these are capabilities we have systematically invested in. Fresher hiring is also part of our organic talent development strategy for the long term. That is a range of up to three years.

Margin concerns remain. Did these massive hiring and onboarding of talent impact margins? Can it affect TCS' industry-leading margin profile?

We continue to be the margin leader and there is no getting away from it. If you look at the commentary around margins over the past three years, there were concerns that digital will bring down margins but we still did it. Margin is about a combination of demand, delivery, currency, etc. The margin band we have indicated is doable, as we have proven it four quarters ago. However, multiple environmental levers have to play on our side. Margin leadership is a matter of competitive strength.

What are the levers you are using to plug further (margin) erosion?

Can we get the talent structured correctly? Can we get better deal structure to give more demand visibility and deploy teams appropriately? How much capability can be generated in-house? How dependent are you (we) on short-term market-based hiring, compared to organic talent development? What is the size of customer relationships and are you (we) able to scale them up? These are perennial levers and we will continue to optimise them. Then, external factors like currency and demand volatility, which can create short-term margin impact. We have always insulated our employees from external volatilities. We don't hire and fire. Our salary increases and promotions depend on internal factors. Those scenarios also have an impact. (Our) salary hikes are benchmarked to local inflation. Pricing is benchmarked to market inflation. In the markets where we are serving, inflation is zero to negative. When people look at the pricing decline at TCS, it is not a reflection of capability or demand. Inflation will flow into everything. Wage inflation is a reality in India. Also, currency depreciation is a critical component of our model. But currency moves in lumpy jumps and that is causing volatility.

"Price resilience for our products is very high. That's the beauty of the quality of work and the service business that we have built"

Is there any pricing pressure from the client's side?

Pricing pressure is always there. (But) I would say our service portfolio is diversified enough to be able to absorb the pressure. Price resilience for our products is very high. That's the beauty of the quality of work and the service business that we have built.

With the huge fresher intake, are we going to see the employee pyramid (mix) getting changed?

The model is not moving away from what it was earlier. When projects require skills in new technologies, and project sizes are relatively smaller, you need experienced people to step up and capture demand. But as you get larger projects and greater visibility, you can structure your team better. Once you get the training aligned to the immediate demand, you structure the team better and leverage experienced people better. Essentially, we have increased capacity at the bottom of the pyramid to increase the leverage of the experienced people. That has been the strategy for the past few years. We will capture demand first and (will then) optimise delivery.

The holiday season (in the second half of the year) will keep growth on track?

I don't know (yet). We'll have to wait and see. But we are well-positioned to capture it. Let's give it a few months to play out.

The growth on the digital side seems to be moderating. What's happening there?

Growth rates will moderate. The fact is, the differentiation between digital and non-digital is disappearing. Large deals have the full spectrum of it now. Earlier, there was a doubt about whether we were participating enough in (grabbing) the opportunities. Technology integration in an organisation happens through infusion rather than just a bolt-in approach.

There's no sign of sub-contracting cost coming down, despite your efforts to enhance employee localisation in the US?

The US is a supply-constrained market with a fair amount of local contract pool. Even our customers rely on it (sub-contracting). Whenever the market is supply constrained, you will see this kind of freelancing market developing. We are structurally trying to fix it by increasing our own hiring and internal training. What is important is to capture demand when it comes and then optimisation can be done internally.