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BACK PAGE P14
PAK DENIES USE OF AIRSPACE TO MODI'S FLIGHT

COMPANIES P2
INDIGO'S WIDENING INTERNATIONAL GAMBIT

How markets performed last week

	Index on Oct 251, '19	*One-week	% Chg over Dec 31, '18 Local currency	in US $
Sensex	39,250	-0.12	8.82	7.10
Nifty	11,627	-0.30	7.04	5.35
Dow Jones	26,958	0.70	15.56	15.56
Nasdaq	8,243	1.90	24.23	24.23
Hang Seng	26,667	-0.20	3.18	3.11
Nikkei	22,800	1.37	13.91	15.01
FTSE	7,324	2.43	8.86	9.46
DAX	12,895	2.07	22.12	18.02

Sensex Nifty Data on Oct 27, *Change (%) over previous week, Source Bloomberg; Compiled by *BS* Research Bureau

NOT SELLING GOLD FROM RESERVES: RBI

The Reserve Bank of India (RBI) hasn't sold any gold recently, nor is it trading in the metal, the monetary authority said in a tweet on Sunday. Newspapers had reported on Friday that the RBI started trading in gold actively since July, buying gold worth $5.1 billion and selling $1.15 billion worth. News reports cited data from the RBI's Weekly Statistical Supplement. "The fluctuation in value depicted in Weekly Statistical Supplement is due to change in frequency of revaluation from monthly to weekly basis and is based on international prices of gold and exchange rates," the RBI said. PTI

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Khattar, Chautala take oath in Haryana

Manohar Lal Khattar on Sunday took oath as chief minister for the second time and Dushyant Chautala was sworn-in as his deputy as the BJP formed the government with the help of the JJP in Haryana. Governor Satyadeo Narain Arya administered oath to them at a ceremony held at the Raj Bhavan here on Diwali. Other ministers of the Khattar Cabinet are expected to be sworn-in after a few days.

RESULTS RECKONER

Quarter ended Sep 30, 2019; common sample of 382 companies (results available of 431)

SALES			
Sep 30, '18	22.5%	₹7.13 trillion	↗
Sep 30, '19	4.2%	₹7.43 trillion	↗
PROFIT BEFORE TAX			
Sep 30, '18	7.6%	₹95,861 crore	↗
Sep 30, '19	18.5%	₹1.13 trillion	↗
NET PROFIT			
Sep 30, '18	2.0%	₹65,238 crore	↗
Sep 30, '19	24.0%	₹80,863 crore	↗

Companies with zero sales excluded; Given the change in corporate tax rates, to give a fair comparison the profit before tax has been considered; Compiled by *BS* Research Bureau; Source: Capitaline

Markets start Samvat 2076 on positive note

Sensex gains 192 points; mid- and small-caps outperform benchmarks

SUNDAR SETHURAMAN
Mumbai, 27 October

Samvat 2076 started on a positive note for the equity markets with the benchmark Sensex ending the ceremonial one-hour-long trading session with a gain of nearly 200 points on Sunday. Across-the-board buying was seen with the broader market mid- and small-cap indices outperforming the benchmarks. After gaining as much as 344 points, the Sensex settled at 192 points, or 0.5 per cent, higher at 39,250, while the Nifty 50 index logged gains of 0.38 per cent, or 44 points, to end at 11,628.

A lot of individual stocks witnessed high trading activity, reacting to news flow over the weekend. Shares of Tata Motors rallied 16.5 per cent, the most among Sensex components, buoyed by promoter Tata Sons' decision to infuse ₹6,500 crore into the company by way of rights issue.

YES Bank gained 5 per cent — extending the monthly gain to 70 per cent — to end at ₹55. Shares of Reliance Industries ended with gains of only 0.24 per cent even as the company announced the plan to make its telecom venture Jio debt-free by transferring liabilities of ₹1.08 trillion to a new entity.

The move is seen as a precursor to listing Jio. Shares of Infosys gained nearly 2 per cent as concerns around corporate governance lapses eased. Overall, 23 Sensex stocks ended with gains and only eight ended with losses.

On the BSE, the advance-decline ratio was three-to-one in favour of the gainers.

The Nifty Midcap 100 and Smallcap 100 added 0.64 per cent and 1.22 per cent, respectively. The outperformance triggered hopes among investors present at the BSE that the New Year could lead to a reversal in prospects of stocks outside the large-cap universe. In Samvat 2075, the small index had hugely underperformed the Sensex, with the former dropping 10 per cent and the latter gaining 12 per cent. "After tough two years, we will have a much broader-based rally this year," said Ramesh Damani, member, BSE.

The return expectations remain modest stepping into the new Hindu calendar year.

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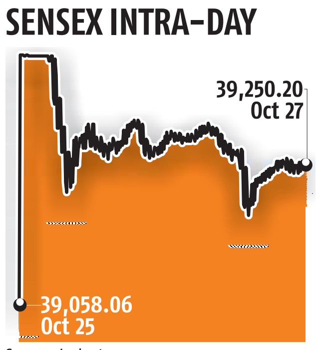
Actor Rajkummar Rao rings the opening bell for Samvat trading at the BSE on Sunday, along with other officials
PHOTO: KAMLESH PEDNEKAR

SENSEX INTRA-DAY



Source: Industry

Street thumbs up to RIL's 'debt-free Jio'

The Reliance Industries (RIL) stock gained 0.4 per cent in Mahurat trading, as the Street cheered the company's plans of a new structure that will make its telecom arm Reliance Jio debt-free, which could be followed by its potential listing. Sunday's reaction was the first following Friday's announcement.

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MARKETS IN SAMVAT 2076
PAGE 12

SEEKING QUALITY IN TOUGH TIMES

The kicker for the market as a whole could come through if the ongoing reforms, tax cuts, further fall in interest rates and likely pick-up in investment/consumption cycle boost GDP growth. This could be a trigger for earnings growth and a market-wide re-rating.
RAM PRASAD SAHU, HAMSINI KARTHIK, UJJVAL JAUHARI and SHREEPAD AUTE write

EDIT: FAITH IN THE STOCK MARKET P7

'India is growing, with tremendous potential'

Blackstone's co-founder **STEPHEN A SCHWARZMAN** has recently published his first book, *What It Takes: Lessons In the Pursuit of Excellence*, where he shares takeaways on how he helped build the world's largest private equity firm. He tells **Pavan Lall** why he is still bullish on India, how loss makes for the deepest learnings, and the reason corporate culture is the difference between winning and losing. Edited excerpts:

In your book, you mention how Tuhin Parikh's (senior managing director, Blackstone India) comments on India's booming realty prices as a turning point grabbed your attention during a morning call. Given the scene now, have those wild swings in prices changed the way you see India's real estate market?

Anywhere in the world, sudden jumps in prices are signs to be cautious of. However, our business model isn't as sensitive to market fluctuations. We're more concerned with finding high conviction, long-term opportunities. India is one of the fastest-growing economies, with tremendous potential.

With developments such as the introduction of the goods and services tax (GST), the boom in e-commerce, and a rising young population, we feel it's an opportune time to strengthen our portfolio here.

We're now the largest commercial landlord in India, with a portfolio of more than 115 million square feet. We have also recently launched Asia's largest and India's first REIT with our local partner, the Embassy Group. We're proud of our work in India over the last decade.

"WITH THE INTRODUCTION OF THE GST, THE BOOM IN E-COMMERCE, AND A RISING YOUNG POPULATION, IT'S AN OPPORTUNE TIME TO STRENGTHEN OUR PORTFOLIO HERE"

Please explain the consistent focus and support on education that you fund globally (Yale University, Oxford University, and institutions in China)? And, will you be looking to set up something in India soon?

I believe that education is the passport to a better life. We have a responsibility to not only preserve the knowledge that has been passed down to us, but to develop it and make it more relevant for future generations. I'm hopeful that my contributions in education — from building a first-of-its-kind student and cultural centre at Yale, to working with global academic institutions to study the implications of artificial intelligence, to establishing a scholarship program bridging China and the world — will help future generations maximise their full potential.

I approach my philanthropy and pursuits outside of Blackstone with the same principles I apply at the firm: Identify and address complex challenges by developing creative and thoughtful solutions, whether in India or elsewhere.

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GVK keeps Adanis out of Mumbai airport

Group sells 79% stake in airport biz to 3 investors

ANEESH PHADNIS
Mumbai, 27 October

The GVK group will raise ₹7,614 crore by selling 79.1 per cent stake in its airport business to three investors to pare debt and stave off the Adani group's proposed acquisition in Mumbai airport. The group on Sunday announced signing off a definitive agreement with the Abu Dhabi Investment Authority (ADIA), PSP Investments of Canada, and the National Investment and Infrastructure Fund (NIIF) for selling stake in its airport business holding company.

PLAN TO SELL
The GVK group owns 50.5% in Mumbai airport and 74% in Navi Mumbai airport, which is being developed

PURPOSE
Money from stake sale will help pare debt and buy 23.5% in Mumbai airport from Bidvest and Airports Company South Africa

LEGAL BATTLE
GVK and Adani are locked in a legal battle for acquisition of Bidvest shares in Mumbai airport

EARLIER EXIT
The GVK group exited Bengaluru International Airport selling 43% to Fairfax in 2 tranches

The proceeds from the transaction will be used by GVK to retire around ₹5,500-crore debt of its holding companies and fund the purchase of additional shares in Mumbai International Airport (MIAL) from two South African entities — Bidvest and Airports Company South Africa.

An arbitration tribunal has given the GVK group time till October 31 to deposit ₹1,248 crore for acquiring Bidvest's 13.5 per per cent stake. A GVK spokesperson said funds required for purchasing shares in MIAL will be transferred to an escrow account before October 31.

After the stake sale, the GVK group will continue to have management control of its airport business. GVK Reddy will continue as executive chairman and G V Sanjay Reddy as managing director in both MIAL and Navi Mumbai International Airport, he said.

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New rules on cards to govern OTC medicines

TURNING A NEW LEAF
The government is coming up with a new schedule for over-the-counter (OTC) drugs under the Drugs and Cosmetics Act

CURRENT STATUS
- Multiple categories, depending on risk factor and therapeutic value
- No clear definition

FUTURE PLANS
- Govt plans to govern sale, quality, prices and advertising norms of OTC drugs
- To increase availability; make these available at retail stores
- Labelling in local languages, with information on safety, how to use, expiry and common side effects
- Drug packs could be according to desirable dosages to avoid prolonged use

SOHINI DAS
Mumbai, 27 October

If you have fever, you need to go to a pharmacy to get even a paracetamol, a common drug for fever and pain. But, the government plans to soon make such drugs available at local retail outlets, with their labelling containing important information — preferred dosage and side effects — in local languages.

This is expected to help people in rural and far-flung areas, where pharmacies are rare.

"A new schedule is likely to be created under the Drugs and Cosmetics Act for OTC (over-the-counter) drugs so that these commonly used medicines that are not 'prescription only' and are relatively safe to use can be governed," said a senior government official who did not want to be named.

He added: "There is a need to make such drugs available to more people. This will reduce the cost of treatment." The official said many people preferred to self-medicate instead of going to a doctor, which is expensive for them.

Paracetamol is an OTC drug. There are no norms at present to regulate these.

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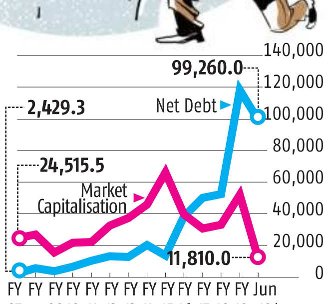
AGR shocks to Vodafone Idea balance sheet

ILLUSTRATION: AJAY MOHANTY

A BIG GAP BETWEEN DEBT AND EQUITY VALUE
Trend in Vodafone Idea net debt and market capitalisation (₹crore)



*Market capitaisation as on October 25, 2019 Source: Capitaline, company

Promoters unlikely to fund dues; telecom firm will have to raise funds on its own

KRISHNA KANT & DEV CHATTERJEE
Mumbai, 27 October

The promoters of Vodafone Idea have indicated they are not liable for the ₹28,300-crore dues imposed on the company because of the Supreme Court decision on the adjusted gross revenue (AGR) for mobile operators. This is likely to adversely impact Vodafone Idea balance sheet as the company will have to raise funds on its own books. According to the apex court judgment, telecom operators have three months to pay the AGR dues.

The promoters of Vodafone Idea, Vodafone PLC and the Aditya Birla group entities, are of the opinion that the liability is on the company and the promoters' liability is now limited to the equity exposure.

The pending licence fee dues of combined entity of Vodafone Idea amount to nearly ₹28,300 crore equivalent to more than a third of the company's estimated net worth at the end of June this year. According to analysts estimate, the company had a net worth of around ₹80,000 crore at the end of Q1FY20, accounting for ₹25,000 crore worth of rights issue and company's net loss during the quarter.

Analysts say that additional borrowings by the company to fund the AGR levy would wipe out the financial gains that accrued to the company after the rights issue. The fund infusion by the promoters post the rights issue led to a sharp fall in the company's leverage ratio and provided it the surplus cash to fund capex for next two years. The company spent around ₹2,840 crore on capex during the first quarter of FY20 and reported a net loss of ₹4,874 crore in the first quarter.

Vodafone Idea net debt declined to around ₹99,000 crore at the end of June this year from ₹1.18 trillion at the end of March this year. In the same period, the company's net debt to equity ratio improved to 1.2 times — the lowest in the past five years, from twice at the end of March this year. The company reported cash and equivalent worth ₹21,180 crore at end of the first quarter.

Emails sent to Vodafone PLC and the Aditya Birla group did not elicit any response.

Analysts said the post the Supreme Court judgment on the AGR, the company will now have to go back to the drawing board regarding its finances.

"Vodafone Idea has indicated that it could also look at filing a review application if there are any technical or procedural grounds to do so. Assuming no relief comes through, the outstanding liability (and another potential large demand for past SUC (spectrum usage charges underpayment) would make the already-stressed situation even tougher for Vodafone Idea. The company may need to resort to another large equity raise round to fund these payouts. This may not be easy, however, given that the amounts we are talking about are a multiple of the company's current market capitalisation," said analysts, Rohit Chordia and Aniket Sethi of Kotak Institutional Equities Research.

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CASES UNDER BANKRUPTCY CODE STAY ELEVATED IN Q2

The number of insolvency cases admitted by the bankruptcy court continued to stay elevated, with 369 companies alone admitted in the Sept quarter.

The number of insolvency cases admitted by the bankruptcy court continued to stay elevated, with 369 companies alone admitted in the September quarter.

The March quarter of FY19 had seen the highest number (374) taken by the Benches of the National Company Law Tribunal (NCLT), revealed data by the Insolvency and Bankruptcy Board of India (IBBI). The number of firms to go for liquidation in Q2FY20 stood at 96.

Operational creditors have triggered 48.5 per cent of the corporate insolvency resolution processes (CIRPs) so far, followed by 43 per cent by financial creditors.

The Insolvency and bankruptcy code (IBC), under which cases are referred to the NCLT, is almost three years old now, during which the experience has been disappointing. Of the total number of cases admitted by the NCLT (2,542), only 6 per cent have yielded resolution. While 23 per cent have wound up in liquidation, close to 4 per cent have been withdrawn under Section 12A of the IBC. Almost 59 per cent are still under the resolution process.

Of the 1,497 cases still under CIRP, 35 per cent have exceeded the time prescribed under the IBC to wrap up the resolution process (270 days).

COMPILED BY SUBRATA PANDA

CORPORATE INSOLVENCY RESOLUTION PROCESS

Quarter	Admitted	Resolution plan approved	Commencement of liquidation
Jan-Mar,2017	37	0	0
Apr-Jun,2017	129	0	0
Jul-Sep,2017	233	2	8
Oct-Dec,2017	147	7	24
Jan-Mar,2018	195	11	59
Apr-Jun,2018	246	14	52
Jul-Sep,2018	243	29	87
Oct-Dec,2018	275	17	82
Jan-Mar,2019	374	22	86
Apr-Jun,2019	294	27	93
Jul-Sep,2019	369	27	96
Total	2542	156	587

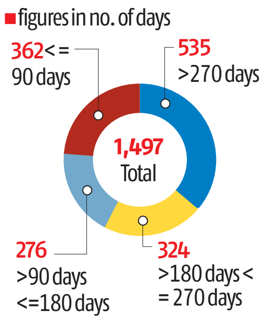
STATUS OF CIRPs

as of September 30, 2019

	No. of CIRPs
Status of CIRPs	2,542
Admitted	186
Closed on appeal /review/settled	116
Closed by withdrawal under section 12A	156
Closed by resolution	587
Closed by liquidation	1,497

ONGOING CIRPs

figures in no. of days



INITIATION OF CIRPs

Quarter	Operational creditors	Financial creditors	Corporate debtor	Total
Jan-Mar,2017	7	8	22	37
Apr-Jun,2017	58	37	34	129
Jul-Sep,2017	100	94	39	233
Oct-Dec,2017	67	66	14	147
Jan-Mar,2018	89	84	22	195
Apr-Jun,2018	129	99	18	246
Jul-Sep,2018	132	95	16	243
Oct-Dec,2018	153	106	16	275
Jan-Mar,2019	166	187	21	374
Apr-Jun,2019	154	127	13	294
Jul-Sep,2019	177	183	9	369
Total	1232	1086	224	2542

IndiGo's widening international gambit

Despite warnings from aviation experts, IndiGo is taking small but confident steps into foreign sectors

ANJULI BHARGAVA
New Delhi, 27 October

Half of the total growth that domestic aviation market leader IndiGo expects this financial year will be in international sectors, said the airline's chief commercial officer William Boulter. IndiGo has chalked out a cautious but well thought out approach for its international foray, he added.

"As of today, we are operating a little above twice the capacity internationally that we were at this time last year. We still see much opportunity and are proceeding accordingly," said Boulter.

Though there have been repeated rumours that IndiGo was going for wide-bodied aircraft in a big way, Boulter clarified that there were no plans to induct aircraft other than the current A320/321 (and ATRs) in the airline's fleet.

"We have always said wide-bodied aircraft are an "aspiration" and not a firm commitment at this stage." Hence, fears that IndiGo would hastily jump in whole hog into international sectors appear to be unfounded.

IndiGo is adding routes using its present fleet — A320s and A321s including the neos — which typically allow four to five-and-a-half hours' flying with a full aircraft load. The delivery of its new A321neos may be delayed somewhat but the airline will lease aircraft from the market as and when required.

The airline says that despite a sharp rise in the number of aircraft in its fleet, there is no intention at present to "separate" the operations of the A320/321 aircraft from the ATRs the way many international carriers tend to do at some stage.

Again, contrary to market rumours, the airline is not setting up any hubs per se. The strategy is to have "gateway cities" as and where it makes sense. For instance, Kolkata is being developed as a gateway for flights from Yangon, Hanoi, Ho Chi Minh City and Guangzhou to connect to multiple cities within India, including those on the "Buddhist circuit".

"We are offering connectivity from over 30 cities in India through Kolkata to various Asian points and are confident that we will stimulate the markets sufficiently to achieve profits in due course," Boulter said.

Experts, investors and analysts in the aviation sector have been concerned over IndiGo's choice of routes and expansion plans into new markets. The closure of Jet Airways has left a wide gap in domestic and international capacity. While the domestic capacity vacated by Jet has been largely filled by the Indian carriers, the latter remains a tempting void for many players.

The timing has also been a worry for analysts and industry observers. IndiGo has been going through its own share of troubles since 2016 — be it engine problems, a series of PR disasters, a creeping arrogance, a faster than anticipated growth, a new aircraft type (ATR) to deal with, unhappy pilots, sulking Indian staff, entry and exits of top level management and more recently, a bitter spat between the founders.

THE PLAN AHEAD

- IndiGo is adding routes using its present fleet — A320s and A321s including the neos — which typically allow four to five-and-a-half hours' flying with a full aircraft load
- Indigo says despite a sharp rise in the number of aircraft in its fleet, there is no intention at present to "separate" the operations of the A320/321 aircraft from the ATRs
- IndiGo is developing Kolkata as a gateway for flights from Yangon, Hanoi, Ho Chi Minh City and Guangzhou to connect to multiple cities within India
- According to the airline, there is a lot of business, tourist and MICE demand between India and Vietnam

Many analysts have been of the view that the viability of some of the routes chosen by the airline is questionable in view of the fact that the airline's present network does not offer any further connectivity. Experts say that as things stand, barring Dubai, Bangkok and Singapore, very few cities in the region offer enough point-to-point traffic from even the main Indian metros. They also point out that several international carriers have tried other direct connections but have often burnt their fingers in the process.

At present, IndiGo is offering daily connections between Kolkata and both Hanoi and Ho Chi Minh City, with two separate flights.

According to the airline, there is a lot of business, tourist and MICE demand between India and Vietnam, a route which has so far been underserved and directed over cities like Bangkok, Kuala Lumpur or Singapore.

What is giving the airline more confidence is that both Istanbul and Chengdu routes are performing "ahead of expectations". In the first few weeks of operations, flights departing from Chengdu have had 90 per cent loads — far higher than anticipated. The airline expects some of its international routes to break even in the short term.

"We don't factor in losses in advance as market behaviour often surprises on the upside," said a confident Boulter. Most international routes, he pointed out, take six to 12 months to mature. IndiGo withdrew its direct connection to Hong Kong recently, but that was more on account of the political unrest in the region.

According to Shakti Lumba, a former IndiGo employee and a stalwart in the sector, "IndiGo has the maximum to gain from international operations owing to their extensive domestic network, which can feed traffic into the metros to carry forward." However, he said that the airline must avoid a "hit and miss strategy — introducing new routes and withdrawing due to poor loads — at all costs."

Boulter dismissed warnings of observers, saying that "industry analysts are a mixed bunch" with a variety of competencies and experience and that what may seem "a bit hasty" to one can look like classic, flexible, nimble low-cost carrier behaviour to another. The airline is happy that it has been able to start five new destinations in three countries in the past five weeks.

The good news is that the viability of new routes — especially on international sectors — becomes evident rather quickly and allows for rapid course correction. As for IndiGo, as long as the giant treads gently, it should not find itself falling into a deep crevice.

Ranitidine cancer scare: Firms that clear quality tests to gain

SOHINI DAS
Mumbai, 27 October

With the Australian drug regulator allowing sale of antacid ranitidine made by Strides Pharma, analysts say clarity will emerge in the ensuing weeks as most companies would have submitted their test results to the regulators.

In September, several companies, including British drugmajor GlaxoSmithKline Pharma (GSK), Hyderabad-based Dr Reddy's Laboratories (DRL) had withdrawn their ranitidine products from the markets after the US Food and Drug Administration (USFDA) raising concerns over the presence of a cancer-causing substance in some ranitidine products.

Following this, ranitidine manufacturers in different countries (including the US, the EU, and India) were asked by the respective drug regulators to conduct tests for determining the concentration of an impurity (N-nitrosodimethylamine or NDMA) in the ranitidine they supply. This order came in the wake of a citizen petition filed by Valisure (a US pharmacy that chemically validates all the products it delivers to end users).

NDMA is a known environmental contaminant and found in water and foods, including meats, dairy products, and vegetables. The USFDA, however, has not asked patients to stop taking ranitidine at this time.

ICICI Direct in a recent report noted most Indian suppliers of ranitidine had already submitted their test results.

"A few have reported positive outcomes. JB Chemicals announced that NDMA level in its ranitidine is within acceptable limits. SMS Pharma also announced the same and TGA Australia reported that 20 of 23 ranitidine batches from Strides Pharma had NDMA within acceptable limits whereas it was higher for most other companies," the report said.

Companies whose ranitidine products had higher NDMA concentration have been directed by TGA Australia to recall the batches.

A GSK Pharma spokesperson informed they were awaiting results from tests.

GSK's British parent has sent the samples for testing. Meanwhile, JB Chemicals had informed the stock exchanges that their API vendors have got their products analysed.

"Our API vendors have got their product analysed according to international guidelines to verify the presence of NDMA. They have reported that the NDMA is well within the permissible limits. In addition, the company has also initiated analysis of the samples of all Rantac formulations for the presence of NDMA. We have to inform that initial report received indicate NDMA is well within the permissible limit," it said.

Ranitidine sales account for 2 per cent of Strides sales and 6 per cent of its profit after tax (PAT), for DRL it is less than 1 per cent of sales and PAT, while for JB Chemicals, it is about 10 per cent of sales and 18 per cent of PAT. Sriraam Rathi, analyst, ICICI Securities, felt the TGA order would be positive for Strides as it could easily increase market share in Australia. "If USFDA too testifies that the NDMA level in Strides' API is within acceptable limits, it would be a further booster to the company, which already has the highest market share," he added.

Analysts thus said it expected clarity to emerge in coming weeks. Regulators in most countries are investigating this matter and we believe clarity would emerge in ensuing weeks, as most companies would have submitted their test results to the regulators.

The companies had stopped fresh shipments of ranitidine products to regulated markets while several companies have started voluntary recall pending clarity.

THE SHARE

- Ranitidine sales account for 2 per cent of Strides sales and 6 per cent of its profit after tax
- For Dr Reddy's Laboratories, ranitidine sales are less than 1 per cent of sales and profit after tax
- For JB Chemicals, the same is about 10 per cent of sales and 18 per cent of profit after tax

Railways try to hail Uber, Ola cab again

Ride so far too costly, say the latter; attempt now to sweeten parking spot deal for the cab aggregators

SHINE JACOB & KARAN CHOUDHURY
New Delhi/Bengaluru, 27 October

A revenue churning plan for Indian Railways (IR) that would have hitched a ride with cab service aggregators Uber and Ola seems to have got derailed.

According to sources in the know, the two companies have informed IR that they will be unable to continue managing the designated spaces allotted by the national transporter for parking in key stations such as Bengaluru and Mumbai.

Multiple sources said talks are on between IR and the companies to revive the deal.

"We have been in talks with railway officials. However, we are unsure if we will continue with the plan. There are various logistical factors; also, the return on investment was not what we expected. Logistical issues include cabs getting stuck in railway parking lots for hours and our driver partners complaining of tussles with prepaid taxi and auto operators. We are undecided on whether we will continue," said a top executive in one of the cab aggregators.

Uber and Ola had spent ₹100 crore each in setting up parking spots and kiosks at stations. They had taken space at various stations, including Mumbai Central, New Delhi and Bengaluru.

A government official confirmed their exit from the allotted space at Bengaluru station. "In most of these stations, the companies had gone for higher bids. For example, in Bengaluru, they are of the opinion that the ₹7 crore for which the contract was awarded is unviable," said the official. The companies have also said they are not ready to take up more stations under the programme.

During 2018-19, the railways earned around ₹21 crore from parking slots for cab aggregators. Sources said they might give some cost benefits to the aggregators and larger designated spaces to keep the association and the contracts going. As of now, contractors get a fenced demarcated area, with a booth and permission to park not more than 10 taxis in major stations at a given point of time.

Sources claim that over the past year, the transfer of non-fare operations to zones had slowed the allotment process of parking space to app-based cab service providers. Earlier this year, cab aggregators began going slow on their plans to acquire additional parking rights. They said drivers do not prefer to park their vehicles and wait for customers; instead, they believe in staying mobile to find passengers. The investments by Uber and Ola included setting up of kiosks, incentivising drivers for parking at stations, and payments to IR.

Income share agreement start-ups catch students' fancy

It is still a nascent market but a growing one, which has investors interested

T E NARASIMHAN
Chennai, 27 October

Assume you want to do a course but don't have enough for the fees. A company comes forward to pay not only the fee but also offers a job placement with decent income — from which they will deduct what they have lent, with a small interest rate.

This is actually happening in India and gaining traction from customers and investors. Termed the Income Share Agreement (ISA) education model, students can defer fee payment for higher education till they get a job. The model has been popular in America and parts of Europe. In India, around half a dozen start-ups are in the segment, focusing mainly on re-skilling for now.

"ISA has emerged as the most exciting innovation to finance a college degree," says Pratik Agarwal, co-founder of the School of Accelerated Learning (SOAL).

How it works

The contract obliges a student to pay back a portion of future income for a set number of years, rather than take a student loan. These start-ups pay fees for re-skilling freshers and engineering graduates.

The post-college skilling market in India was pegged at $370 million (₹26,300 crore) this year and the post-college tech skilling at $180 million, growing at almost 50 per cent annually. Every year, around nine million students graduate from colleges but 85 per cent do not make it to a well paying and white collar job. The data shows half of all BE/BTech graduates and 60 per cent of MBAs are still considered not employable by reputed tech organisations.

"The ISA model makes quality education accessible. Around 80 per cent of our students are dependent on their families and the family income is less than ₹5 lakh (a year)," says Divyam Goel, co-founder and chief executive at AttainU. They have a little over 500 students enrolled across five batches of software engineering, with specialisation in full-stack web development. The first batch is ready to graduate and 40 per cent of them have pre-placement offers, he claims.

The segment is expected to grow and see investor interest, with financial technology opening up. Fintech entities and non-bank finance companies are increasingly open to collaborating with ISA, is the observation.

Pesto Tech says it assures that if it does not get the student a job paying at least ₹15 lakh a year, its training programme was not good enough and the student should not have to pay for it. The company is focusing on training software engineers to break into international tech careers, through full-time remote jobs. In its programme, the student has to share 17 per cent of the salary for three years. InterviewBit operates on a different model. There is a prepaid one, with upfront ₹2 lakh payment for a six-month course with job guarantee. And, a postpaid model where the student has to pay 17 per cent of the base salary for two years if he or she gets a job with more than the minimum guarantee on CTC (cost to company). The maximum total payment is ₹3 lakh, says the company website.

Nova Semita says the same way investors gain only when their start-ups grow, ISA start-ups gain only when a student's career accelerates. "We invest in resources for you and take the risk on ourselves. In return, we get 12 per cent of your income for three years upon you earning above ₹5 lakh per annum. In case we fail to get you there, ASAP, you don't have to pay us anything," says the company.

How the Investors benefitted

Data by Venture Intelligence shows that since April, SOAL, Pesto, InterviewBit Academy and Masai School have raised a little over $4 million, from Matrix Partners, Sequoia Capital, Astrac Ventutres, India Quotient and others. Angel investors include Shailesh Rao, ex-mananging director at Google India; Nikhil Rungta, former head of Intuit India; Anil Gelra, founder of SnapMint and Manish Kumar, founder of KredX and LetsVenture.

Agarwal of SOAL says though the ISA model is nascent in India, it has huge potential. There is a young population which wants to keep upgrading by studying but faces a lack of adequate funds to do so. Says Nikhil Rungta: "Over 60 per cent of the engineering students who pass out every year are either unemployed or stuck in unrelated jobs. If we go beyond engineers, this problem multiplies 10 times."

Challenges include ensuring repayment of the fee, considering a legal dispute on this could derail the business. Getting more numbers placed in good jobs also becomes a responsibility of the start-up, it being a requisite to ensure proper repayment. Trust is very important in this business, while quality is essential to keep it a success, say Agarwal and Goel.

AttainU says it has a rigorous assessment process and selects only 1.4 per cent of total applicants for its 30-week course. SOAL has enrolled a tenth of its 1,100 applications to date.

"It isn't an unlimited fee that the student needs to pay. People cap it at varying amounts, of ₹4-7 lakh," said Agarwal. These companies follow different revenue models; some have been experimenting with more than one. "ISA allows institutes to admit meritorious students who otherwise might not be able to afford the course fee. This loan structure involves institutes and promises good placements...this adds another layer of security," he adds.

Jio's IUC is likely to help telcos increase tariffs

ROMITA MAJUMDAR
Mumbai, 27 October

After announcing that subscribers will have to get additional top-up recharges to make off-net calls to compensate for interconnect usage charges (IUC) paid by the operator, Reliance Jio has launched plans that come bundled with IUC usage.

Analysts largely see this as a positive for the sector, saying it will allow Bharti Airtel and Vodafone Idea to increase their rates as well.

"We think all-in-one plans ease some of these concerns (on the older majors' operational issues), by bundling 1,000 IUC minutes. Also, the new plans provide relief to the price hike (brought by IUC fees) in one of Jio's most popular plan, the ₹399 (1.5GB/day, validity 84 days) one," wrote Varun Ahuja, research analyst at Credit Suisse.

The brokerage notes Jio's new plan (₹444 with 84 days validity) is almost 7 per cent lower than the potential rate after factoring in the IUC fee (₹479, with 84 days validity). The ₹399 + ₹80 for 1,000 IUC minutes (in line with the current rate pattern) is only a 11 per cent price hike (over the pre-IUC period) versus an estimated 20 per cent potential price hike without the all in-one plans.

However, for the 28 days validity plan, the new one (₹222) is 49 per cent more expensive than the current one of ₹149. It does not look like this plan is likely to see a lot of traction, as customers can get an additional 315 minutes of off-net calls (based on current traffic) by paying ₹25, without the need to pay an additional ₹73 for 1,000 off-net minutes.

Note that the new plans provide daily data allowance of 2 GB a day as compared to the current popular plans at 1.5 GB daily.

Under the new plan, Jio customers will not have to buy IUC top-up vouchers for making voice calls to other operators. The new ones come with 2 GB free daily data, along with free unlimited Jio-Jio voice calls and 1,000 minutes of voice calling to all non-Jio numbers.

From October 10 onward, Jio started charging customers six paise a minute for making calls to any non-Jio mobile number.

It comes after Jio had taken the bulk of market share. The additional charge was introduced soon after the Telecom Regulatory Authority of India (Trai) moved to reopen the deadline for ending charges for terminating calls on rival networks beyond the earlier deadline of January 2020.

"With this move, we see limited space for further price hikes and this also lowers IUC gains. Jio could instead have taken a clean price hike, as it has become the market leader. The move to charge for IUC with a sunset clause indicates its sustained focus on subscribers and that tariff (rate) increase is not a near-term focus. Indeed, this move encourages voice-only subscribers to move to Jio's network," says Piyush Nahar, research analyst, Jefferies.

Jio has alleged that Trai's review of the call connect charges "sabotages" the government's Digital India initiative. And, that it will hit not only the regulator's credibility but also investor confidence, as the move protects vested interests of the earlier operators. "Jio's plan to recover IUC from subscribers provides an opportunity for the (older) incumbent operators to differentiate their offerings and gain smartphone subscriber addition. This might prompt the others to take a price hike in the near future. That said, after charging for IUC, Jio might not immediately raise its tariff," says Pranav Kshatriya, research analyst at Edelweiss.

Barclay family puts Telegraph newspaper up for sale: Times

HEATHER BURKE & JIM SILVER
London, 27 October

The Barclay family has put the *Daily Telegraph* and *Sunday Telegraph* newspapers up for sale as part of a review of their British investments, *Times of London* reports, citing an unidentified senior executive close to the family.

Financial advisers are expected to be appointed to value the portfolio of businesses, including The Ritz hotel and online retailer Shop Direct, and seek buyers, the newspaper said.

The family hopes the review can be complete in 12 to 18 months, according to the *Times*. Potential buyers could include *Daily Mail* and *General Trust* and *Alexander Lebedev*, owner of the *Evening Standard* and *The Independent*, the Times said.

The Barclay family have owned the *Telegraph* newspapers since 2004.

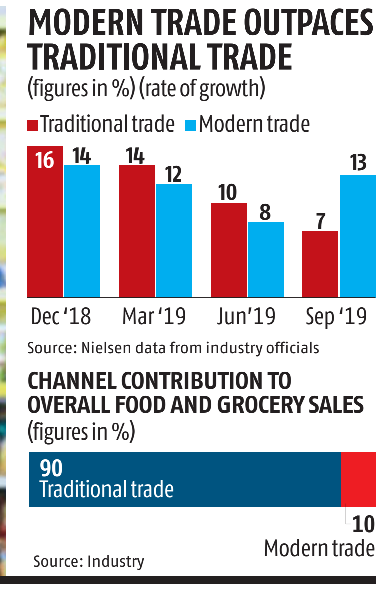
The review was prompted by the realisation the family is no longer as united on strategy, in what an insider called a generational shift, the Times said. A Barclay family spokesman declined to comment to the Times.

Shop Direct could also be sold, although it is understood Aidan and Howard Barclay want to stay investors, the newspaper said. The Times reported earlier this month that the Barclay family was considering a sale of the Ritz in London. BLOOMBERG

Consumers flock to modern trade during slowdown

Rate of growth nearly double that of traditional trade in July-Sept: Nielsen data

VIVEAT SUSAN PINTO
Mumbai, 27 October



Footfalls at the neighbourhood supermarket are growing in contrast to the *kirana* or corner shop, considered the backbone of the fast-moving consumer goods (FMCG) market. Nielsen data sourced from the retail industry shows modern trade as a channel for carrying food and grocery products has grown at nearly double the rate of traditional trade in July-September (Q2), coming at a time when the overall market remains weak.

Specifically, the rate of growth of modern trade, says industry officials, in Q2 is 13 per cent versus traditional trade's 7 per cent. This is the first time in four quarters that the rate of growth of modern trade has outstripped that of traditional trade, they say, pointing to the initiatives that organised retailers are taking to buck the overall slowdown.

"Most modern traders, especially in food and grocery, offer an assortment of products today at competitive price. This increases convenience," says Arvind Singhal, chairman, Technopak. "They are also pushing more sale days and offers and matching discounts offered by e-tailers," he says.

When announcing the company's Q2 results this month, Neville Noronha, managing director and chief executive officer, Avenue Supermarts, which runs the DMart chain of stores in India, said the company's revenue mix was better this year from last year and that the retailer remained committed to opening more stores across the country to improve its reach. It has 189 stores currently.

DMart's revenue growth for Q2 stood at 22 per cent year-on-year, which analysts say is due to the chain's aggression on discounts. DMart is among the country's key value retailers in food and grocery and follows the 'everyday low price' (EDLP)model, based on sourcing and backend efficiencies. Noronha has said DMart's EDLP model will not change despite competitive intensity.

Future group, which runs the Big Bazaar brand of supermarkets and hypermarkets, on the other hand, has been pushing more sale days in Q2 to get footfalls into its stores, say analysts.

Kishore Biyani, founder and chief executive officer, Future group, say the retailer is focusing on understanding consumer trends and insights during offer periods to get the best out of it.

"While sale periods have become longer and their frequency has also grown across retail chains. The strategy for us is to have interesting tie-ups with companies, led by consumer insight. This way the strike rate in terms of sales is better," he says.

Big Bazaar also keeps its ears to the ground to understand shopper behaviour and change in habits accurately. For instance, when the price of essential commodities such as potatoes and onions began shooting up recently, Big Bazaar ran an offer saying it would sell these items at ₹10 per kg.

The chain runs a regular 'Wednesday Bazaar' offering food and grocery products at even greater discounts than on regular days and has special weekends offers for those planning their shopping trips on Saturdays and Sundays.

Louis Vuitton maker is looking to buy Tiffany

LVMH is exploring an acquisition of US jeweler Tiffany. in what would be the biggest purchase by the French owner of Louis Vuitton, according to sources. The luxury group has approached Tiffany with a takeover proposal earlier this month, said the people, who asked not to be identified because the discussions are private. BLOOMBERG

Pvt firms open to power supply franchise model

AMRITHA PILLAY
Mumbai, 27 October

The central government plan for a new franchise model to attract private companies into the power supply in various states will interest them, say sector officials and experts.

However, they add, more needs to be done for making this viable. The Union ministry of power has drafted a model plan, for multiple private franchisees as power suppliers in states. *Business Standard* reported on this earlier in the month.

It proposes a "light-handed approach" towards franchisees to incentivise, discount and set rates (within a stipulated range) for supply in an area. Industry officials say there is interest in the model but full privatisation in the supply segment would be a better step.

However, some say the benefits have not been encouraging and full privatisation might be better

"Adani Transmission would be open to pursuing any model of reforms in retail electricity distribution," said a spokesperson. Adding: "s long as it is supportive of the change management process in prudent and viable ways, whether it's through a franchise model or through PPP (public-private partnership)." A spokesperson for Tata Power said they'd like to pursue all opportunities in the power distribution business. These two entities are both distributing power in Mumbai.

An e-mail query to TorrentPower, power franchisee for Bhiwandi, close to Mumbai, was not answered. "It is a good move to open more distribution opportunities to private companies. However, the choice should be left to the discoms (state distributioin entities) and the companies that wish to participate. Both models should be explored," said an official from a private company, who did not wish to be identified.

The spokesperson for Adani Transmission says a privatisation model is better. "Full privatisation is more akin to supporting the transformation in management processes, due to a developer directly working under an independent regulator and there being flexibility of arranging capital expenditure and power supply in a competitive manner," the spokesperson said.

Under the existing franchise model, the private company steps in to collect electricity charges and help cut aggregate technical and commercial (AT&C) loss. But, does no investment in core infrastructure. In the full privatisation model, a private company collects charges, is free to source power from buyers of its choice, invests in infrastructure and files petitions to the regulator on what the supply rates should be.

Some officials from state discoms agree full privatisation is more viable. "In a franchise mode, my strength and my weakness become that of the franchise operators — there is less room for vast improvement," one said.

September quarter not cheery for most mid-size IT companies

Barring hi-tech, media and BFS, all other segments demonstrated strong growth for it

ROMITA MAJUMDAR
Mumbai, 27 October

AT A GLANCE

Companies	QoQ revenue growth (%)	Highlights
LTI	3.5	Broadbased growth and strong deal ramp-ups
Mindtree	4.4	Fewer deal renewals but BFSI performed well
Hexaware	13.2	Steep BFS impact due to a client but healthy deal wins
Zensar	0.6	Revenue took a hit due to impact from two large clients
Cyient	6.4	Core verticals took a hit but are expected to see a pick-up by Q4

Mid-cap information technology (IT) services companies have largely underperformed in the July-September quarter.

Except for L&T Infotech (LTI), they have been invariably unable to keep up on growth. Slower growth in the key banking and financial services (BFS) segment, and client-specific issues, are major reasons.

"We would strictly advise against investing in mid-caps in Indian IT at this point. We see greater revenue and margin volatility in a likely no-growth scenario for the industry in FY21," went a note from Girish Pai, head of research at equity research firm Nirmal Bang.

LTI did have client-specific issues but reported a strong quarter. Largely contributed by broad-based growth across verticals and steady deal ramp-ups. Barring hi-tech, media and BFS, all other segments demonstrated strong growth for it. The L&T group company also expects its BFS business to do well in coming quarters.

"We believe the receding of client-specific challenges, coupled with momentum in deal pipeline, is expected to lead to H2 (the second half of this financial year) being better as compared to the first half. Additionally, ramp-ups of recently won large deals provides the base for revenue growth acceleration in FY21," said Devang Bhatt, research analyst at ICICI Securities, in a note on the performance.

Even Mindtree, despite the uncertainty it faced in the past quarter due to a management shuffle, reported recovery in the BFSI (banking, financial services and insurance) segment.

The Bengaluru-based company reported stable pricing, though deal ramp-ups look slower. There was stronger operational efficiency, in terms of reduced staff cost, lower subcontractor cost and increased automation.

Another company that did well in BFSI was NIIT Technologies.

In the September quarter, it saw the insurance segment growing 15.3 per cent over the June one in constant currency (CC) terms, while banking and financial services grew 9.4 per cent. Strong sequential growth in verticals was also due to a $6-million revenue contribution from the acquisition of Wishworks.

On the other hand, performance of some other mid-sized companies such as Zensar, Hexaware and Cyient disappointed the market. Hexaware again reduced its forecast for this calendar year, to 17-18 per cent (from the earlier 19 per cent). Key factors include likely client furloughs in the next quarter, apart from anticipated reduction in revenue from top BFS clients and adverse foreign exchange impact.

"We had a few client-specific issues, which caused a two per cent drop in revenues in the quarter, and expect a further hit from this. Some pockets within BFS are growing normally but there is cautiousness around spending. Non-BFS verticals are doing exceedingly well," said R Srikrishna, chief executive at Hexaware. "Participation in deals across the board has continued to increase at a good pace."

Engineering services firm Cyient is also seen struggling with issues in its core aerospace and communication verticals.

Slower ramp-up of deals signed in previous quarters was another issue for the companies. Zensar reported lower than expected financial numbers. In CC terms, sequential revenue growth for the Pune-based entity was only 0.3 per cent, lower than analyst estimates, due to slower ramp-up of news deals.

Experts wary of exams for directors

Say online proficiency tests for independent directors may be counterproductive and some may not want to take it

RUCHIKA CHITRAVANSHI
New Delhi, 27 October

Independent directors will soon have to return to the books to qualify for a seat on the board of companies. Come December, the government will start giving them an online proficiency self-assessment test meant to ensure better standards in the overall corporate governance.

However, experts feel the move may be counterproductive since it can shrink the already low pool of independent directors. "It might become an academic exercise just to tick a box. Many independent directors may not want to take a test," Shriram Subramanian, managing director, InGovern Research Services, said.

According to the National Stock Exchange database, there are over 5,500 individuals who hold 7,066 posts of independent directors. Since 2006 more than 8,000 directors have given up office either due to the end of term or by their own choice.

The Companies Act requires independent directors to be trained every year and sensitised about new topics in their sector. Company Law, Securities Law, Basic Accountancy and other relevant areas are likely to be part of the online proficiency self-assessment test though the exact format is yet to be announced. The board of companies will have to disclose the results of these tests in their annual reports.

"I have taken many tests in my life, this one cannot be tougher. If a requirement has been placed by the government, one has to take the test. We are waiting for the details," said Vibha Rishi, who has served on various boards including PepsiCo, and Max India, among others.

The test could also cover topics, including risk management, succession planning, insolvency and bankruptcy law, corporate governance in family-managed companies, international corporate governance practices, judgment of the court dealing with rights, duties and responsibilities of directors and senior management. "Corporate trainings, workshops, interaction with directors and senior management on practical," said Gaurav Pingle, company secretary.

TURNING ON THE HEAT ON DIRECTORS

- Test is being designed by Indian Institute of Corporate Affairs
- Each person will have to score a minimum of 60% to qualify
- No cap on number of attempts an individual may take for passing
- Boards will have to disclose results of these tests in annual reports
- Directors will have to apply for renewal within a period of 30 days from the expiry of their term

The test is being designed by the Indian Institute of Corporate Affairs (IICA). Each person will have to score a minimum of 60 per cent to qualify. There is no cap on the number of attempts an individual may take for passing such test.

Besides, an individual who has served as director in a listed company or an unlisted public company having a paid-up capital of ₹10 crore or more, for a period of not less than 10 years, need not qualify the test.

"India is perhaps the only country to have introduced an exam for its directors. Why not a test for managing directors and chief executives who run companies? The one challenge that still needs to be addressed is ensuring independent directors are truly independent," said Ankit Singhi, partner, Corporate Professionals.

However, the preparation and the test itself could be helpful for the professionals with non-accounting background. "They will be more aware of their roles, responsibilities, duties and importance of each document placed before them at board meetings, audit committee meetings or remuneration committee meetings," said Pingle.

Recent corporate scams have turned the heat on company directors, who the government feels have failed to detect any signs of trouble. The current law requires all listed companies to have a third of their board members as independent directors. Their role is to ensure that the interests of minority shareholders are protected and act as overseers outside the influence of the firm.

The government may be way off the mark if it wants to improve corporate governance by putting independent directors to test, experts say. "India needs to liberalise the takeover code. We need to create a market for corporate control. If a promoter is not performing well there should be incentives for others to take over who can better manage the company," a legal expert said.

The IICA at Manesar in Haryana has been notified as the institute to create and maintain a data bank containing names, addresses, qualifications of persons who are eligible and willing to act as independent directors, for the use of the company making such appointments.

The proficiency test would have to be taken only once after registration and the independent directors will have to apply for renewal within a period of 30 days from the date of expiry of their term.

Recent data indicates that the rate of resignation of independent directors from the boards of listed companies has increased significantly in comparison to previous years. A total of 606 independent directors resigned from NSE-listed company boards during the calendar year 2018. In comparison, 412 independent directors resigned between January 1, 2019, and July 22, 2019.

Let's dwell on brighter notes

EXIM MATTERS

T N C RAJAGOPALAN

Deepavali or Diwali, the festival of lights, is a time when we forget our anxieties and problems and look at the positives to enjoy the day, sharing our happiness with others. So, let us look at the encouraging developments in recent days.

The cuts in income tax rates for corporate entities have shored up the bottom line of many companies. And, brightened the prospects for increased investment in the coming years. That has buoyed sentiment in the equity markets. Consequently, many investors feel richer and will hopefully spend more, contributing to revival in demand for goods and services.

Rain has been good this year, raising the prospects of a bumper kharif harvest. With sensible procurement and trade policies, the income of farmers can go up, boosting rural demand for consumer durables and farm implements. The festive season has also added to the demand for consumer goods.

Businesses have offered attractive discounts to lure buyers and reduce inventory. With lower prices, abundant liquidity in the system and lower interest rates, the fall in demand might be arrested, at least in the short run

Businesses have offered attractive discounts to lure more buyers and reduce inventory. With lower prices, abundant liquidity in the system and lower interest rates, the fall in demand might be arrested, at least in the short run. The short vacation in some parts of the country in the coming days is likely to help the tourism sector.

Interest rates have been brought down significantly, which means cheaper loans for housing, consumer durables and fresh investment. The lower outgo on interest is expected to show up in more profits for businesses, even if top-line growth does not go up by much.

Exporters who have got used to the documentation requirements under the Goods and Services Tax (GST) regime are happy that their refund of taxes paid on export are now automatic and quick. That has significantly improved their working capital. Even the refund of unutilised credit, involving manual intervention, has been speeded, although at some cost for exporters. The government has announced that this refund will also be dealt with online, reducing the need for manual intervention.

The GST law has been suitably amended to allow input tax credit to the extent of 20 per cent of the eligible credit during a period, even in the case of invoices that are not uploaded by suppliers. This is a lot better than not allowing credit till the invoice details appear in the returns uploaded by the supplier. A committee of officers is looking at ways to improve the GST regime.

The Directorate General of Foreign Trade (DGFT) has decided not to impose late cuts on applications under the Merchandise Exports from India Scheme where the original application could not be processed due to system problems and had to be resubmitted after activation of the shipping bill. Similar facilitation measures are being regularly taken by the Customs and DGFT.

India's ranking in the World Bank's latest 'ease of doing business' report on 190 countries has gone up by 14 notches, from 77 to 63. There are significant improvements in the resolution of insolvencies, dealing with construction permits, trading across borders and registering of property.

This comes on the back of similar improvement by 23 and 30 places, respectively, in the past two years.

Overall, the second half of this financial year promises to be better than the first half. On that note, let me wish you all a Happy Diwali.

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'Slowdown hasn't hurt small finance banks'

ESAF Small Finance Bank, which began operations in March 2017, saw an over threefold jump in its net profit to ₹90 crore in 2018-19. Managing Director and Chief Executive Officer **K PAUL THOMAS** tells **Somesh Jha** that small finance banks (SFBs) are robust and have not been impacted by the economic slowdown. Edited excerpts:

The regulatory deadline to launch an initial public offering (IPO) for some SFBs, including ESAF Small Finance Bank, is approaching. How are you preparing for it?

Our deadline is July 2021 since we crossed net worth of ₹500 crore in July 2018 (so it should be three years from that time). We have started internal preparations and hired a merchant banker.

When we had last met in December 2017, you said you were looking to raise money from foreign players too. How has it progressed?

We raised two rounds of capital in 2018 totalling ₹364 crore, mostly from domestic insurance companies, including PNB Metlife, Bajaj, ICICI Lombard and a few high-net-worth individuals. So, we found good opportunity in domestic investors.

Do you need further capital this financial year?

At present, we are well placed and our capital adequacy is at 26 per cent. We don't require additional funding this year. Anyway we are planning to go to market and will raise money through the IPO. Before that, we haven't decided on capital and we are comfortable on the assets side.

We have seen a credit slowdown when it comes to commercial banks. What happened in the SFB segment in the last one year?

All SFBs are growing on the credit side also. We saw a credit growth of 30 per cent last one year. SFBs have multiple options for liquidity mobilisation so the sector remained unaffected. Most SFBs transformed from micro finance institutions so majority of the books remain small ticket in nature and non-performing assets are low.

What about recent months?

We have been disbursing monthly loans of ₹450-500 crore on an average. In July and August, few districts in Kerala saw impact because of floods and similar was the case in parts of Madhya Pradesh and Maharashtra. Good monsoon will help the rural market. I was in Coimbatore recently, interacting with farmer group companies who were optimistic about crop output because of good rains this year compared to last year. As a result, in another six months, rural demand will improve.

The Reserve Bank of India (RBI) gave you nod in December 2018 to operate as a scheduled bank. What has changed?

The advantage is that we will be able to reach out to registered trust and societies. In July 2018, the RBI permitted us to access NRE (non-resident external) deposits which gave us momentum in terms of retail deposits. In 15 months, we crossed ₹1,000 crore in NRE deposits which is a big achievement. Otherwise, 90 per cent of our deposits of ₹6,150 crore are small ticket.

How will a cut in corporation tax benefit you?

We will see a 3 per cent increase in profitability as we are a start-up bank and will fall in the 25 per cent bracket.

The RBI has issued draft guidelines for on-tap licence for SFBs recently. How do you see the move?

Barring the minimum capital requirements — which was ₹100 crore when we applied and now it has been changed to ₹200 crore — nothing much has changed. Further, promoters' stake has to be brought down, over a period of 15 years, to 15 per cent, in line with the draft norms. In our case it stood at 25 per cent. Otherwise, I haven't observed much of a change.

So are you bracing for competition in the sector?

Even today, there are non-banking financial companies (NBFCs), co-operative banks, micro-finance institutions to compete with. Competition was prevalent when we had launched too. Though the RBI has allowed urban co-operative banks to convert into SFBs but none of them has done it so far. A new bank will take 1.5-2 years to set up and by that time, our customer base will be stronger. In India, there is a huge market opportunity as a large number of low- and middle-income segments, which account for around 600 million people, are still underserved.

How are you seeing recent developments in the financial sector?

There are some uncertainties in financial services sector. When you talk about NBFCs, small and medium-sized ones, which were not totally dependent on market funding, were not impacted. For large NBFCs, structural issues still persist and it may take some time for them to get out of it. In the past, we have seen failure of co-operative banks but not at this scale. I hope and expect that there will be stricter regulations for co-operative banks in future.

Do you think converting co-operative banks into SFBs can be a viable solution?

It is a viable solution but I doubt how they will be able to meet the criteria while being co-operative in nature.

HC notice to govt, GST Council over refunds

INDIVJAL DHASMANA
New Delhi, 27 October

The Gujarat High Court has issued notices to the union government and the GST Council over the alleged breach of refund norms by field officers under the goods and services tax (GST) regime.

Under the Rule 92 of the Central GST (CGST) Act, the claim of the refund has to be made in the RFD 04 form. Thereafter, the officer concerned can accept or reject the claim after his investigations.

If the claim is accepted, he would issue refund in the form RFD 06. In case the refund is required to be adjusted, the officer would withhold it in the form RFD 07. If the refund is not admissible, partly or wholly, this would be communicated through the form RFD 08.

If the amount is rejected, it would be credited to the government account under the Rule 93 of the CGST Act, but for that, due process of RFD forms has to be followed.

A petitioner moved the high court, saying the field officer concerned rejected his claim of refunds without resorting to RFD forms. He reversed it under the Rule 93, which, he argued, could not be done without following the due process.

Abhishek Rastogi, counselor of the petitioner and partner at Khaitan & Co, said many petitioners were keen to move the court over the lapses. "The law provides that the denial of the refund has to happen only after compliance with the procedure laid down. We have challenged the rejection order, which has not followed the due process of law," he said.

STATSGURU

Low income returns on the rise

THE TAX DEPARTMENT HAS RELEASED the data on the source-wise collection of income tax and corporate taxes for the assessment year 2018-19, which pertains to direct tax revenue collected on incomes earned in the financial year 2017-18. It offers some interesting insights.

Direct taxes, as a share of total tax revenue, rose to 55 per cent, close to its average level in the last few years (*Chart 1*). This ratio had declined for a brief period due to a higher collection from excise duties on petrol and diesel. More and more direct tax is now deducted directly from the income account of the individual (*Chart 2*). Advance tax collection has settled at a lower normal of 40 per cent.

The share of direct taxes as a share of the economy is now at an 11-year high of 6 per cent (*Chart 3*). The rise in part is also due to slower indirect tax collections, especially the goods and services tax (GST). Buoyancy in direct taxes has remained above one for three year now (*Chart 4*), or in simple terms, taxes grew 1.21 times faster than GDP in 2018-19, and 1.59 times in 2017-18.

But more importantly, income tax returns (I-T returns) that declared incomes below ₹ 2.5 lakh per year grew for the first time in many years in 2017-18 (*Chart 5*). Number, as well as incomes declared in the bracket below this level, was reducing till 2016-17.

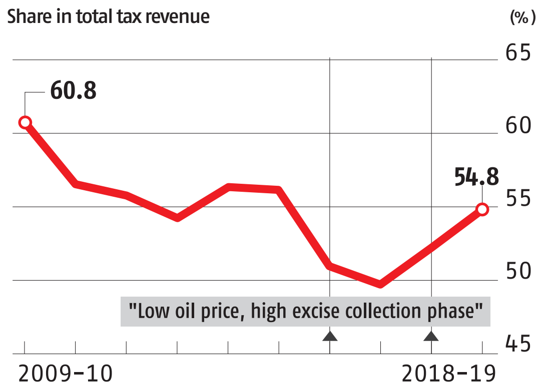
But in 2017-18, average income among a group of individuals earning less than ₹ 2.5 lakh per year, rose 8 per cent, after consistently contracting for at least three years (*Chart 6*). Yet, average incomes among all individuals filing I-T return rose at 2.4 per cent, the slowest pace in the past four years (*Chart 7*).

Drastically lower nominal growth at 8 per cent in the first quarter of 2019-20 now pose a serious threat to growth in government's revenue through income taxes.

ABHISHEK WAGHMARE

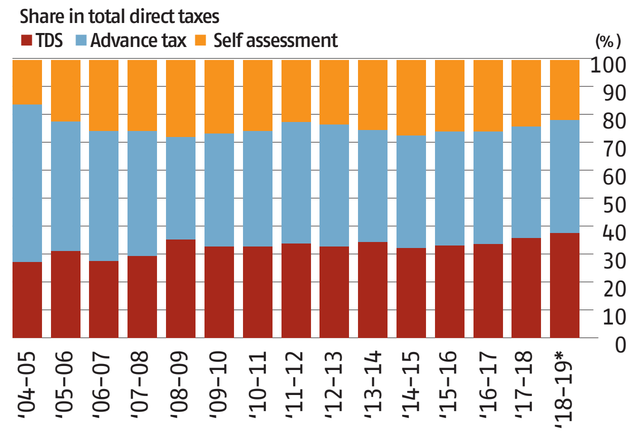
1: DIRECT TAXES ASSUME GREATER IMPORTANCE AFTER GST

Share in total tax revenue



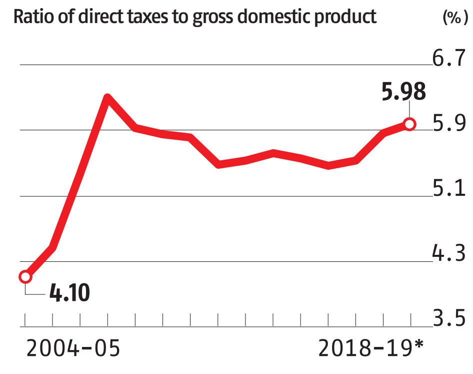
2: MORE TAX COLLECTED AT SOURCE

Share in total direct taxes



3: DIRECT TAXES AS SHARE OF GDP BEST SINCE FY08

Ratio of direct taxes to gross domestic product



Note: * Provisional data

4: BUOYANCY OF DIRECT TAXES REDUCES

Growth in taxes vis-a-vis growth in the economy

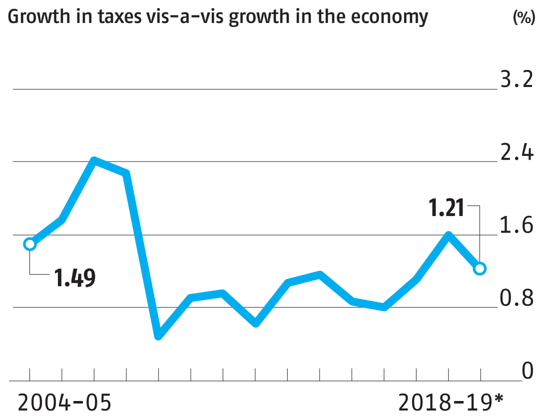
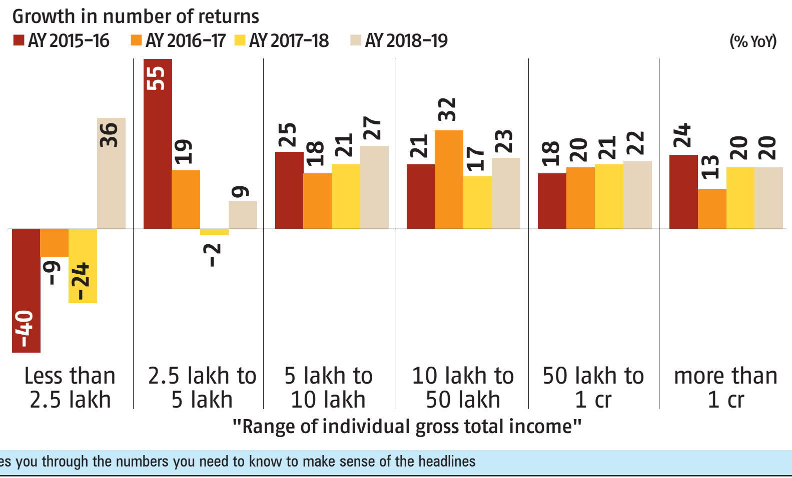


ILLUSTRATION: AJAY MOHANTY

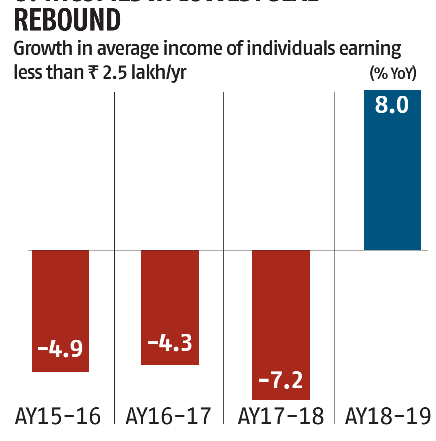
5: I-T RETURNS IN THE LOWEST INCOME SLAB GROW

Growth in number of returns



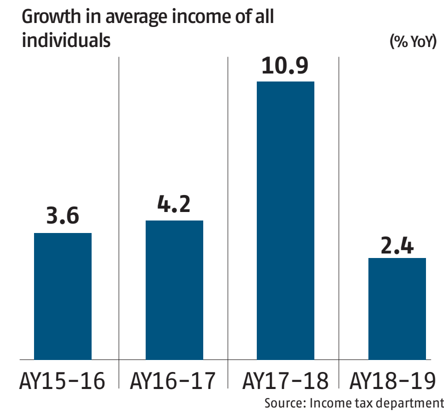
6: INCOMES IN LOWEST SLAB REBOUND

Growth in average income of individuals earning less than ₹ 2.5 lakh/yr



7: OVERALL AVERAGE INCOMES GROW SLOW

Growth in average income of all individuals



Source: Income tax department

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Source: International Monetary Fund, Ministry of Commerce; Compiled by BS Research Bureau

Six more airports to be privatised by January

Govt may tweak rule to cap number of airports an investor can bid for

ARINDAM MAJUMDER
New Delhi, 27 October

The Centre has decided to privatise six more airports – Bhubaneswar, Indore, Trichy, Amritsar, Raipur, and Varanasi – as early as January next year. A draft cabinet note proposing to put up the airports for sale has been circulated and the Cabinet is likely to approve it by the first week of December.

"The board of Airports Authority of India (AAI) has approved the proposal and sent it to the finance ministry. A draft cabinet note has been prepared, which will be put up for approval after the go-ahead from law ministry," said an official aware of the development.

The government may, however, tweak a rule to cap the number of airports an investor can bid for. A finance ministry recommendation not to award the same player more than two airports, out of six to be privatised by the Centre, was among key suggestions brushed aside by the government panel for public-private partnerships — the PPP Appraisal Committee (PPPAC) — effectively leading to Adani Enterprises emerging the winning bidder for all airports.

"The group of ministers will take a call on this but there are deliberations that awarding so many airports to a single entity may slow down the process of the airports' development, which is the purpose of privatising them," the official said.

A group of secretaries from the Ministry of Civil Aviation and departments of economic affairs and expenditure, headed by NITI Aayog Chief Executive Officer Amitabh Kant, will decide the contours of the sale.

This is the first wave of airport privatisation in India in 12 years. When Delhi and Mumbai airports were privatised in 2006, airport operation experience, either standalone or in a consortium, was a mandatory condition for bidders. In the new round, airports would be bid for a period of 50 years with freedom on land usage of airports for non-aeronautical purposes.

The process is being initiated even though awarding airports to Adani group from the previous round is yet to be completed. In February, after a bidding process, six airports — Ahmedabad, Lucknow, Jaipur, Guwahati, Thiruvananthapuram, and Mangalore — were awarded to the company. Legal cases have, however, delayed the process of transfer of the airports. The Union Cabinet in June approved leasing out three airport projects to the company.

The airports will be bid out according to the revenue-per-passenger model, which is different from the model that was followed for privatisation of Delhi and Mumbai airports.

Under this model, airport developers compete to win contracts based on the amount of revenue per passenger to be shared with the authority that gives the contract, instead of the current norm of developers sharing a part of the profit from the venture.

The government has envisaged that airports are better managed by private entities and the process helps in generating big revenue for AAI. The revenue can be used to develop airports in remote areas.

In FY19, more than 25 per cent of AAI's revenue was generated from private operators at Delhi and Mumbai airports. In the previous round, too, Adani group bid aggressively in terms of revenue share to AAI. According to an estimate, AAI will earn more than ₹3,000 crore as upfront payment from Adani group.

FOOTFALLS IN THE AIRPORTS

Airports	April–August FY20	April–August FY19
BHUBANESWAR	1,607,730	1,686,796
INDORE	1,175,128	1,190,066
TRICHY	710,506	661,918
AMRITSAR	985,322	923,328
RAIPUR	875,267	835,239
VARANASI	1,183,672	1,060,922

*Includes both domestic and international traffic
Source: Airports Authority of India

Silver to outshine gold in new year, says report

RAJESH BHAYANI
Mumbai, 27 October

The Samvat that has ended was good for both gold and silver, where the return was 21.3 and 22.4 per cent, respectively. However, with high prices, demand this Dhanteras and Diwali took a hit.

According to the Indian Bullion and Jewellers Association, demand shrank this time to 30 tonnes, from 40 tonnes last year, despite some pick-up in the past week.

In the new year, silver is expected to glitter more than gold. According to global research agency Metal Focus, while the average price of gold will rise eight per cent in the year, to $1,520 an oz, "silver is projected to see a stronger 14 per cent lift, to $18.5 an oz, although this will only represent a six-year high".

Neil Meader, its research and consultancy manager, said: "The macro economic backdrop will become increasingly favourable for investment in gold in the coming months. This includes an end to sustained dollar strength, further rate cuts by the Fed (the US central bank), more accommodative monetary policies from other major central banks and the continued rise of negative-yielding debt."

He also cautioned: "In spite of growing risk aversion this year, equities have remained near all-time highs and, seemingly, most investors are still not betting on a sustained correction." He feels this investor sentiment will eventually change in favour of defensive assets, including gold.

Silver follows wider fundamentals, as 55 per cent of its buying is for use by other industries. Hence, Metals Focus believes a global economic slowdown and its negative impact on base metal prices will weigh on silver over the next 12 or so months. Still, says Meader, silver has significantly underperformed in recent years, compared to its all-time high, and hence, "on balance, silver is likely to benefit more from rising investment inflows into gold".

Adding: "In early September, gold was only 12 per cent below its all-time high, while silver remained far below its $50 peak. Given silver's higher volatility, this leaves room for silver to outperform gold."

Silver production is again expected to reach its previous peak and supplies will be higher. Its industrial demand and jewellery offtake are both forecast to post small gains over 2019-20.

In this country, silver has been a preferred asset for traders and stockists. Chirag Thakker, director of the Amrapali Group in Gujarat, among the largest silver importers in India, says: "If we compare gold to silver in India, silver's market demand has recovered faster, in terms of discount to premium (in the past few months). It will surely perform better this year, as consumption has increased in industrial usage. Silver jewellery demand is also set to grow much faster than gold, as silver prices have bigger room to appreciate."

FPIs remain net buyers in October

PRESS TRUST OF INDIA
New Delhi, 27 October

Indian capital markets witnessed a net inflow of over ₹3,800 crore by foreign portfolio investors (FPI) in October so far on the back of steps taken by the government to revive domestic demand coupled with positive global cues.

The depositories data showed that overseas investors pumped in a net amount of ₹3,769.56 crore into equities and ₹58.4 crore in the debt segment, taking the total net investment to ₹3,827.9 crore in this month so far.

FPIs have been net buyers for the second consecutive month. In September, FPIs invested a net ₹6,557.8 crore in the domestic capital markets (both equity and debt).

Investment in September had come following net outflows in July and August.

Considering the extreme negative trends witnessed in the month of July and August, where FPIs went on a selling spree, the scenario in the months of September and October so far, directs towards the emergence of a positive trend, said Himanshu Srivastava, senior analyst manager research at Morningstar Investment Adviser India.

"The steps taken by the government to revive domestic economic activity has finally found favour among foreign investors," he added.

Shutdown effect: Biz in Kashmir takes ₹10,000-cr hit in 3 months

PRESS TRUST OF INDIA
Srinagar, 27 October

The shutdown in Kashmir, following the abrogation of Article 370, has crippled the Valley's economy as the business community has suffered losses amounting to over ₹10,000 crore in three months, a trade body said here.

The deadlock in Kashmir, after the Centre announced the abrogation of Article 370 on August 5, completed 84 days on Sunday with the Valley in shutdown as the main markets continued to remain shut and public transport off the roads.

Some shops open for a few hours early in the morning and late in the evening in certain areas, including in the city centre of Lal Chowk in Srinagar, but the main markets are shut.

Sheikh Ashiq, president of the Kashmir Chamber of Commerce and Industry (KCCI), said while it was difficult to assess the nature of losses as the situation was not normal yet, the business community has received a jolt from which it was very difficult to recover.

"The running business losses for Kashmir region have crossed ₹10,000 crore and all sectors have been severely hit. It has been nearly three months now and yet the people are not doing business because of the prevailing situation. There has been some activity in the recent weeks, but the feedback that we are getting is that the business is dull," Ashiq told *PTI*. He identified the suspension of internet services as the main factor for the losses.

"In today's times, the basic need of any business is the internet which is missing on the ground. We have conveyed it to the governor's administration that the businesses will suffer in Kashmir, the economy will weaken. Which will have huge consequences in the longer run," he said.

Giving examples of several sectors, Ashiq said the IT sector was an upcoming sector and there are companies which were providing services in the US, in Europe and their business has been affected by the suspension of internet facilities.

"If we take the handicraft sector, people associated with the trade receive orders in July-August and have to deliver the products around Christmas and New Year. When they can implement these orders, only then would they be served. There is no connectivity, so there were no orders resulting in loss of jobs to over 50,000 artisans and weavers," he said.

The KCCI president said the government should own responsibility for the losses and take steps to mitigate the sufferings of the traders.

"This is not about losses in business only. We will be facing technical issues like GST, online returns, whether you make business or not, we will face them and other issues like that. We are not falling under certain guidelines because we are missing them. So there should be a system for these sort of things for this region.

"We are disturbed even at the moment. Who will think about this? The government has to take the responsibility and it has to come out with the ways," he said. He said the development of the valley has come to a standstill.

"We had about ₹2,000 crore worth of development projects which have been pushed back because the workforce has left the valley. Now, we have to assure them, like tourists, and it will take time," he said.

Ashiq said it was the responsibility of the government to come out with various measures like certain packages for the business community in the prevailing circumstances.

"They have not approached us yet, but they may in the coming month," he said.

Asked about the detention of some business leaders, Ashiq said it was unfortunate and believed that businesses in Kashmir valley should not be politicised. "Let business be a separate thing. This is what KCCI believes in. Let there be no politicisation," he said.

He said the KCCI had taken up the release of Kashmir Traders and Manufacturers Federation (KTMF) president Mohammad Yasin Khan, whose mother passed away a few days ago. "At least, he should be released on humanitarian grounds." Ashiq said the business community in Kashmir was not against outside investments in the valley and KCCI would always be at the forefront in inviting foreign investments.

The deadlock in Kashmir, after the Centre announced the abrogation of Article 370, completed 84 days on Sunday

FROM PAGE 1

AGR shocks to Voda Idea...

"The latest AGR levy is a kind of financial shock to the company for which the company was not prepared. There is no clarity as to how Vodafone Idea will clear the dues unless they get additional equity support from their promoters shareholders," says an analyst on the condition of anonymity. At its current stock price of ₹4.11 per share, the company has a market capitalisation of ₹11,810 crore, down 77 per cent from ₹52,154 crore at the end of March this year. Fresh equity funding including rights issues are always done in a fraction of the company's existing market capitalisation.

On October 24, the Supreme Court ruled in favour of the Department of Telecom (DoT) in a decades-old dispute on the definition of adjusted gross revenues (AGR).

Operators pay licence fee and SUC on the AGR and the dispute pertained to inclusion and exclusion of receipts from non-licensed activities like treasury income, dividend, capital gains, scrap sales, forex income, etc. and certain other items like bad debt recovery, trade/consumer discounts, rental income on infra sharing.

The SC has opined that the DoT's claims on the definition of AGR as well as applicability of interest, penalty and interest on penalty are both valid and that the operators are liable to pay 100 per cent of the demand that the DoT has raised.

Markets start Samvat 2076...

"The markets are likely to remain range-bound in near term till economic recovery is visible. The economy and earnings are showing early signs of improvement as we step into new Samvat," said Motilal Oswal, managing director and chief executive officer, Motilal Oswal Financial Services.

During mid-September, the benchmark indices had dropped to seven-month lows amid concerns over low economic growth, corporate defaults and stress in the financial sector. However, the surprise reduction in corporate tax proved to be a shot in the arm for the markets. Currently, the Sensex is only 2.5 per cent of its previous all-time highs of 40,268 made in early June. "In spite of all the issues, the market is near the all-time highs, which suggests many believe a turnaround is around the corner. There are expectations of a pick-up in the economy, supported by adequate rainfall and steps taken by the government to revive growth," said U R Bhat, director, Dalton Capital India.

Many believe more bold steps are needed. "The key driver for the markets domestically over the next 12 months will be the privatisation of public sector units," said Damani.

"Leading up to the budget, the markets could be buoyant because there is a hope in markets that the government is understanding of its problems and will do the needful to address the concerns," he added.

Shares of many state-owned companies have been gaining in recent months of hope of some government action.

Also, global factors will be big drivers. "The other significant factor is foreign flows which will depend on how the trade wars develop and how the crisis in the middle-east pans out," said Bhat.

PHOTO: KAMLESH D PEDNEKAR

RIL's 'debt-free Jio'...

As part of the plan, RIL will transfer its telecom business and other digital initiatives to a wholly-owned subsidiary. While Jio's debt — worth ₹1.08 trillion — will move to RIL, the ownership of all telecom and digital businesses will be transferred to the arm.

The latter will receive ₹1.08 trillion in investment from RIL as well as its ₹65,000-crore equity holding in Jio. RIL's consolidated debt will remain unchanged.

More on www.business-standard.com

New rules on cards to govern OTC medicines

Making such essential drugs easily available is important, especially because in India there is less than one doctor per 1,000 people. Also, nearly 74 per cent of doctors in the country cater to a third of the urban population.

The government, however, is cautious to ensure that the regulations are stringent enough to prevent misuse or overuse of these drugs, which might compromise safety of patients.

"There could be multiple categories of OTC drugs depending on its therapeutic value and risk profile," said the official quoted above.

The policy to govern OTC drugs has been in the works for nearly a year now, said industry sources. Several senior executives of pharmaceutical majors as well as the Organisation of Pharmaceutical Producers of India (OPPI) are providing inputs to the government on the matter.

In its paper, "Shaping India's OTC Policy 2018", the OPPI said OTC drugs here are a mix of the following — widely available and mass-advertised brands, drugs outside Schedule H but not mass advertised (referred to as deemed OTC), and also drugs in Schedule H but sold without a prescription to patients upon repeat purchase (after an initial prescription by the doctor), and referred to as OTx products. Deemed OTC drugs (such as common calcium supplements) comprise almost 60 per cent of India's OTC market, estimated to be about ₹25,000 crore.

More on www.business-standard.com

GVK keeps Adanis out...

Upon completion of the transaction, GVK Airport Developers will hold 20.9 per cent in GVK Airport Holdings. The rest will be equally shared between the investors, said the company. It added that the closure of the transaction was subject to regulatory approvals and consent of lender.

Initially, the group had proposed 49 per cent sale in its airport business to ADIA and NIIF to reduce or refinance debt. A term sheet was signed with two investors in April.

The GVK group owns 50.5 per cent in MIAL and is also developing the Navi Mumbai International Airport.

The group is locked in a legal battle to prevent the Adani group's entry in Mumbai airport.

Earlier this year, the GVK group had exercised its right of first refusal to acquire Bidvest's 13.5 per cent stake in Mumbai airport for ₹1,248 crore. But it was unable to conclude the deal and instead filed a plea in Delhi High Court to prevent stake sale to third party.

The matter is now under arbitration after GVK group lost its plea in the court. The arbitration tribunal has also restrained the transfer of Bidvest shares till the next date of hearing in November.

Separately Adani group which signed a share purchase agreement with Bidvest for 13.5 per cent stake in MIAL moved the Bombay High Court last month staking it's claim on the shares. The two sides had extended the long stop date or deadline for share acquisition till November 7.

The Adani group has won the rights to develop five airports — Ahmedabad, Jaipur, Lucknow, Thiruvananthapuram, and Mangaluru airports in an auction earlier this year and was eyeing large stake in Mumbai airport.

'India is growing, with tremendous potential'

India's largest corporate entities are seeing tectonic shifts as they near cross roads at multiple levels. Do you find Blackstone challenged in that regard?

Blackstone has become what it is today because of our culture. Our core founding values — meritocracy, excellence, openness, and integrity — are still at the heart of our firm today. We place heavy importance on hiring only those who share our beliefs and fit into the culture we have carefully built over the years.

As we enter a new decade, this will not change. We'll continue to look for people who have exceptional talent, are intellectually curious and are considerate of others. We remain committed to passing our culture on to each new generation of employees, finding inventive methods to communicate our shared customs and policies. It is a mistake to assume that new joiners will automatically inherit a culture.

In reference to the buying of Edgcomb Steel, which then didn't perform later, you say you came close to tears when taken to task by your partners. You say you still remember the humiliation and go on to exemplify the incident as a hyperbolic example of losing investor money. Why did it hurt so much?

What happened with Edgcomb was one of the toughest moments in my career, but also an important learning experience. I had been responsible for signing off on a deal that resulted in millions of dollars in losses for our investors and I still vividly remember how helpless I felt. It was also a moment where I came face-to-face with the reality that our decision-making processes were flawed. For all our entrepreneurial strengths, our drive, our ambition, our skills, and our work ethics, we still weren't building Blackstone into a great organisation. This incident became an important catalyst that led us to completely revamp our processes. We put in place a rigorous system to evaluate all deals, which is the foundation of much of our success today. You must not bury your failures — they can often be the best teachers.

Where do you get the drive to do what you do, decade after decade?

I don't regard what I do as work. Each new investment we consider or business we launch at the firm is a unique challenge and an intellectually stimulating experience. I love learning and finding creative solutions to issues alongside the talented teams we have at Blackstone. This constant pursuit is what keeps me going. I don't feel a day over 38 years, the age I was when I started this firm. I still sleep the same five hours I always have.

In the book you say, "I like having a hand in creating beautiful things." Kindly explain...

I'm passionate about both the design and function of spaces, and put tremendous care into creating them whenever I have the opportunity. Whether it is Blackstone's own offices, Schwarzman College in Beijing — the home of the Schwarzman Scholars program, the renovation of the New York Public Library, or the new student center at Yale, it's inspiring to see beautiful spaces come to life to serve great institutions. It is similar to the process of "building" new things at Blackstone.

MUMBAI | MONDAY 28 OCTOBER 2019 Business Standard

Enter new oil retailers

The move to allow new players in fuel marketing can be more effective if refinery pricing is made transparent

RAISINA HILL

AK BHATTACHARYA

A few days before Diwali, the Union government took a major step towards liberalising its policy on retail marketing of petroleum products. It is the biggest decision taken in this area in the last 17 years. In 2002, retail marketing of petroleum products was thrown open to the private sector provided the applicant would commit to investing at least ₹2,000 crore in the petroleum sector. Last week's decision has allowed any entity to undertake retail marketing of petroleum products provided its net worth is valued at over ₹250 crore.

The expectation is that many non-petroleum players would be interested in retail marketing of petrol and diesel. Global giants like Total and Saudi Aramco may enter the Indian market. Even big retail chains could consider opening fuel outlets. This is because the earlier condition that a new player must have investments in the petroleum sector has been scrapped. But how successful will this policy liberalisation be?

It is clear that the retail policy liberalisation of 2002 did not yield the desired outcome. In 2002, the retail marketing network for petrol and diesel was monopolised by public-sector oil companies. There were 18,924 retail outlets then. In the last 17 years, these companies have added 39,000 outlets, taking the public-sector fuel retail outlets to 57,924.

In contrast, the private-sector initiative has been poor in spite of the policy liberalisation in 2002. In these 17 years, only 6,700 fuel retail outlets were opened by the private sector, including 5,128 by Nayara Energy Limited (earlier known as Essar Oil), 1,400 by Reliance Petro and 145 fuel outlets by Shell India. The absence of a market-linked pricing system for many products during much of this period was one of the reasons for the private sector's lukewarm response.

Thus, the demand for more fuel marketing outlets has been largely met by the state-controlled petroleum marketing companies. The compound annual growth rate (CAGR) in the sales of petrol and diesel in the last 17 years is estimated at 6 per cent. The CAGR of fuel retail outlets in the same period is just 7.5 per cent. And this growth could be maintained largely because of the public-sector oil retail outlets.

Last week's decision followed the government accepting the recommendations of an expert committee that examined how the 2002 policy liberalisation impacted the oil marketing network. The committee had concluded that while the government should retain its power to authorise the entry of new players in the oil marketing sector, it should now relax those rules by letting any entity with a minimum net worth of ₹250 core to set up fuel retail outlets. In line with the committee's findings, the government also set a condition that the new players will have to set up at least 5 per cent of their retail outlets in notified remote areas within five years of the grant of authorisation.

There are, however, many questions over the effectiveness of the new policy. Monitoring how the new players will fulfil their obligation of setting up 5 per cent of the new fuel retail outlets in notified remote areas would introduce an element of discretion that can always become problematic and lead to politicisation in the grant of authorisation of new fuel retail outlets. The chances of such obligations-based policy incentives being misused are also quite high. Past instances of how the scheme for import concessions linked to export obligations was misused and poorly monitored should not be forgotten.

Similarly, there is room for further liberalisation in the new policy. There is no reason why the new players should not be allowed to sell petroleum products, obtained from different refineries, from the same outlet. As long as the new outlets maintain transparency and provide disclosure on which refinery's fuel the consumer is buying, there is no reason why they are being mandated to sell fuel purchased from different refineries only through different outlets.

The more troubling question is that if the objective of the policy liberalisation is to usher in more competition in fuel marketing, then the government should also take the next step to remove opacity in the way public sector oil refineries are pricing petroleum products. Effective competition will be introduced once the new players, which have no access to their own refineries, can actually buy the fuel from the existing refineries. Such purchases will be difficult without a transparent pricing mechanism at the refineries.

Yes, the new players can import petrol and diesel and sell them at a price that can create competition for the public-sector oil refineries. But why not use this opportunity to introduce more reform in retail oil pricing by India's state-controlled refineries. A consequence of such transparency would also facilitate the next move to allow different public-sector refineries to compete with each other on the final price at which they sell the petroleum products through their outlets. Once such reforms are introduced, the effectiveness of the latest move to allow new players to set up fuel outlets would improve enormously.

CHINESE WHISPERS

Backdoor politics

As the Bharatiya Janata Party (BJP) faced criticism for taking support from Haryana Lokhit Party leader Gopal Kanda, an accused in criminal cases, it was the friendship between Jannayak Janata Party (JJP) chief Dushyant Chautala *(pictured)* and Minister of State for Finance Anurag Thakur that helped it save some blushes. Chautala and Thakur are known to be good friends. He visited Thakur's residence on the evening of vote counting on Thursday to wish him on his birthday. It was by then apparent that the BJP was set to fall short of a majority. According to sources, the discussion veered towards politics and Thakur could sense that Chautala would be amenable to an alliance. Next day as the BJP faced criticism from within and outside about Kanda and understood the difficulties it would face managing so many independents, Thakur let it be known to the party leadership that Chautala would be willing to join the government. BJP President Amit Shah returned from Gujarat early, and Thakur got Chautala to meet Shah, ensuring that the two enter through the back gate of Shah's residence in Delhi to evade television cameras. The deal was struck and conveyed to the media at a press conference later on Friday evening.

Enterprising think tank

In an example of how think tanks affiliated to political parties can reach out to experts from all walks of life, the Rajiv Gandhi Institute for Contemporary Studies will host Ministry of MSME (micro, small and medium enterprises) Secretary Arun Kumar Panda for a book launch and panel discussion in the first week of November. Panda will launch *Story of Indian MSMEs: Despair to Dawn of Hope*, written by B Yerram Raju, who is adviser at the Telangana Industrial Health Clinic. The event will also have a panel discussion on the issues in access to social equity. National Small Industries Corporation Director P Udayakumar, among others, will participate in the discussion.

Swinging fortunes in Kerala

Voters in Kerala have given both the ruling Left Democratic Front (LDF) and the opposition United Democratic Front (UDF) reasons to cheer in the recently concluded by-elections in five constituencies. The ruling LDF won two seats, and UDF won the remaining three. The LDF wrested two seats from the Congress and managed to narrow the margin in the Ernakulam constituency, which is a Congress bastion. The UDF retained two seats. In Aroor, it managed to elect Shanimol Usman, who was the only Congress candidate in Kerala to lose the Lok Sabha elections last May. The BJP seems to be the only party left out in the cold by the voters. K Surendran, who led the BJP's Sabarimala campaign, bit the dust in Konni and was pushed to third position.

How safe is your money with Indian banks?

Either the DICGC cover should be raised or we need an independent resolution body to protect depositors. The FRDI Bill can ensure that

BANKER'S TRUST

TAMAL BANDYOPADHYAY

Till Infrastructure Leasing & Financial Services Ltd and Diwan Housing Finance Corp. Ltd stole the limelight in the second half of 2018 for all the wrong reasons, ballooning bad loans in the Indian banking system held centre stage. The mis-governance of a multi-state urban cooperative bank (UCB), which was run by a real estate developer, leading to its collapse, has changed the narrative. Since the Reserve Bank of India (RBI) clamped down on the bank and restricted withdrawal of deposits (capped at ₹40,000 now), at least four depositors have died because of stress and the fear of losing their life's savings. There is panic all around and everyone seems to be wondering how safe is depositors' money in the Indian banking system.

All deposits are insured but not for the entire amount. If a bank fails, a depositor (irrespective of the number of deposits) can get up to ₹1 lakh from the Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly-owned subsidiary of the RBI. The post-Independence banking crisis in West Bengal had set the ball rolling but the deposit insurance scheme came into force in 1962 after the collapse of Palai Central Bank, triggering a run on all banks in Kerala. The insurance cover, ₹1,500 in 1962, rose to ₹1 lakh in 1993 after its fifth revision. Since then, the amount has not changed. Adjusting for inflation, the value of ₹1 lakh in 1993 is ₹5.74 lakh now.

The insurance cover in most other countries is far higher. For instance, up to 500,000 pesos ($9,500) is insured per depositor in the Philippines; the equivalent sum in China is 500,000 yuan ($70,000) and in Thailand it is about 5 million bahts ($160,000). In developed markets such as the UK, the first £85,000 of one's savings is protected if a bank/building society goes bust; for a joint account, the limit doubles. The banks in Europe offer €100,000 compensation to the savers and the Federal Deposit Insurance Corporation (FDIC) in the US insures up to $250,000 per depositor. In neighbouring nation Sri Lanka, the cover is for ₹2 lakh per depositor; in Bangladesh, ₹1 lakh.

The ₹1 lakh limit covers at least 90 per cent of the accounts (barring government deposits, all other accounts are mandatorily covered) and 29 per cent of the deposits but it is pretty low vis-à-vis most other countries in relation to per capita income.

In 2008, when the collapse of Lehman Brothers Holdings Inc. plunged a large part of the world into recession, there were discussions on raising the insurance cover but the RBI refrained from doing so as it did not want to create an impression that the Indian banking system was unsafe. Indeed, not a single commercial bank has been allowed to fail ever since India embraced economic liberalisation in 1991. There have been cases of a few banks teetering on the verge of collapse but on every occasion the RBI stepped in and stitched together mergers of the weak banks with the stronger peers to protect depositors.

Between 1963 and 1992, DICGC offered full insurance cover to the depositors of seven commercial banks and another 20 banks' depositors got part of their money. Cooperative banks started coming under the cover in the late 1960s. Since then the depositors of 351 such banks have received ₹5,118 crore as full or part payment from the DICGC, which takes care of depositors when a bank goes bust or when a bank gets merged or reconstructed by the regulator.

Clearly, the depositors of cooperative banks need the maximum protection. There are 1,545 UCBs with a ₹4.7 trillion deposit portfolio and 44 of them are present in more than one state. How does DICGC raise the cover? It charges Re0.10 or 10 paise premium per Rs100 in deposit as insurance premium. DICGC's reserve ratio or money available with it as a percentage of insured deposits is just 2.7 per cent. Ideally, it should be 4-4.5 per cent. So it needs to raise the premium. Under its Act, it can be raised to Re0.15.

Should it be raised for all or DICGC should opt for risk-based premiums — the more vulnerable the bank, the higher the premium? There could be a hybrid model too where after a certain limit, the graded system kicks in. While the high street banks may not like the idea of subsidising the UCBs forever, there is a flip side to the risk-based premium arrangement. The riskier banks will have to pay more and this will affect their already fragile health. Also, even though the premium will be based on the confidential rating of a particular bank, people will know how much the bank is spending for the insurance cover from its balance sheet and other regulatory filings and this will affect its deposit flow. Incidentally, Bangladesh has opted for risk-based premia — 0.10 per cent for the so-called problem banks, 0.09 per cent for early warning banks and 0.08 per cent for others.

What's the ideal level of insurance cover? Certainly, a depositor's full exposure to a bank should not be guaranteed as there is a moral hazard — once the full amount enjoys insurance cover, a bank will not be meticulous in its health care.

The FDIC, an independent federal agency insuring deposits in at least 5,400 US banks and thrifts, also examines and supervises certain financial institutions for safety and soundness, performs certain consumer-protection functions, and even manages receiverships of failed banks. DICGC does not do anything beyond offering the cover.

An independent resolution corporation can take care of all this. In fact, the Financial Sector Legislative Reforms Commission has recommended creation of such a body but this has been kept on hold. The Financial Resolution and Deposit Insurance (FRDI) Bill, which has envisaged this, is pending before a Joint Parliamentary Committee. The objective of the Bill is resolution of deposit-taking bankrupt financial intermediaries, while the Insolvency and Bankruptcy Code takes care of the resolution process for ailing non-financial firms. Media reports suggest that the finance ministry has started work on reviving the Bill more than a year after the proposed insolvency law for financial institutions was withdrawn by the government.

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INSIGHT

Big data. Humanised.

How it can help vulnerable people get a handle on their health and their lives

AMBI PARAMESWARAN

What is big data anyway? There are many definitions. The simplest one I came across says that big data stands for information that goes beyond what could be squeezed into a large spreadsheet. Big data cannot be filled into a spreadsheet simply because it is no longer numbers. It includes words, visuals, pictures, videos and more. Add to that the enormous amount of information we share on social media platforms, Google searches, blog posts, online reviews, personal photographs, videos etc and you have the big mass that is big data, I was told.

At a recent seminar hosted by IIM Calcutta Alumni Association Mumbai Chapter, Professor Ram gave us a new definition. She should know; she is Anheuser-Busch Endowed Professor of MIS, and Entrepreneurship & Innovation in the Eller College of Management at the University of Arizona. In her scheme of things, big data needs to be seen through just two simple lenses. One, big data has led to 'datafication' of what till now that was not in the realm of data. Take for example the smart watch you are wearing. By merely wearing it you are able to convert a lot of signals from your body that has always existed into data. You can count the steps you took yesterday, measure your pulse rate, and even take real time measurement of your blood pressure.

Two, big data is so defined because it comes with "time and geo stamp". We are collecting a lot of data that is not just data but it comes with a clear marker about when it was collected and where it was collected. Take real time traffic measurement that is happening on Google maps. The data is getting collected real time with clear geographical tags (Google has some catching up to do on predicting travel times in Indian cities like Mumbai; for that it probably needs Big Big Data that goes into the realm of divinity).

The question is, how do you use all this big data. Professor Ram shared two interesting examples with us.

The university was approached by a leading Dallas hospital to see if the MIS department could predict the admissions that can be expected in the emergency room. A well-manned emergency room can save lives. But it is expensive to have additional medical or para-medical staff on standby. The data analysis took several steps. First was the simple analysis of past three years' emergency room records. To their surprise the researchers from the university found that the most critical cases were not from gun shootings or traffic accidents but from domestic accidents, cardiac and asthma cases. They narrowed down to study asthma since that department was keen on finding out more. Their search for predictive links led them to many places including Google searches, weather data, pollution data (particulate matter in the atmosphere) and even Twitter postings relating to asthma attacks.

Researchers collected tweets posted between October 2013 and June 2014 and narrowed down to 3,810 tweets that mentioned asthma attacks. They could

link this data with incidence of asthma-related emergency department visits. By mining the tweets and linking it to emergency room visits and atmosphere data, the researchers could build a robust model. As they say in the article published in IEEE Journal of Biomedical and Health Informatics, "Rapid progress has been made in gathering non-traditional digital information to perform disease surveillance. We introduce a novel method of using multiple data sources for predicting the number of asthma-related emergency department visits in a specific area. Twitter data, Google search interests and environmental sensor data were collected for this purpose... Our model can predict the number of asthma ED visits based on near-real-time environmental and social media data with approximately 70 per cent precision".

In yet another case the researchers were posed the question of addressing student drop-outs in the under-graduate programme at the University. In the US only 60 per cent of the students graduate within six years. Current approaches such as student grades and demographic information was of limited value, especially since a student often decided to drop out within the first 12 weeks of starting at a University. How does one predict who would drop out and who needed help? The academic research had shown that two key factors predicted if student would continue or drop out -- the ability to make social connections and regularity of activity. How does one measure these two in a non-invasive manner?

Professor Ram's team had at its disposal the data from student identity cards (smart cards) which were used for entry into the mess halls, library, dorms, class room buildings etc. This data was being collected live, real time by the university. By mapping card transactions that occur very near in time and at the same location, researchers could make inferences about a student's implicit friends group and social networks. They could also build a model around the regularity of the students activities, in an anonymous fashion. According to Ram the model that was build was able to predict at the end of the first 12 weeks the potential for a student to drop out to the extent of 85-90 per cent accuracy. By providing selective help, the University was able to hit a retention rate of 86.5 per cent, the highest in its history. While questions of privacy remain, here is a case where big data was used to help a very vulnerable cohort manage their lives better.

As you would have learnt by now, big data is not just about Big Brother watching you. When used sensibly, it can save lives and help build better future citizens. One human bit at a time.

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LETTERS

All's well that end's well

The recent Supreme Court judgment upholding the definition of adjusted gross revenue (AGR) as set by the government has brought finality to the issue. The inclusion of various non-telecom revenue in the AGR has long been disputed by telecom service providers (TSP). However, the final word from the apex court has settled the issue of AGR definition completely. This also means the TSPs will have to shell out a big amount to the government as spectrum charges and licence fee pending for years.

The telecom industry is going through its worst crisis ever. With the aggressive entry of Jio a few years ago, the tariffs hit rock bottom, resulting in huge losses for most incumbent players. The industry is beset with a debt burden of ₹7 trillion. Payment of licence fee/spectrum charges by TSPs because of the judgement would exacerbate the situation. Under the circumstances, the regulator and the government must look for ways to protect the industry.

Hopefully this will bring the industry back on the path to profit.

Sanjeev Kumar Singh Jabalpur

What's the priority?

This refers to "BSNL, MTNL to merge, to get ₹70,000 crore in deal" (October 25). First and foremost, the government must state whether the aim of the merger is to make the entity profitable or is it to extend the telecom services to every nook and corner of the country — even inaccessible and non-profitable locations. If the answer to the question is to make the organisation profit oriented, the following steps should also be considered. First, the government should permit the shut-down of around 13,000 telephone exchanges in rural areas that are incurring a loss of ₹3 lakh on an average per month. Else, 100 per cent compensation must be allowed. Second, the BSNL management must function independently without any hindrance. Third, allow BSNL to participate in the auction of spectrum, adhering to all the terms and conditions, such as repayment holidays, applicable to private operators. Also allow the company to choose the circles that are profitable.

If the government's aim is to have a strong arm to protect telecom customers from exploitation, monopoly and pressure tactics from private operators and to fulfill the dream of digital India, then it should not be so keen on profitability. Some balance, without burdening tax payers, is welcome.

Venu K P via email

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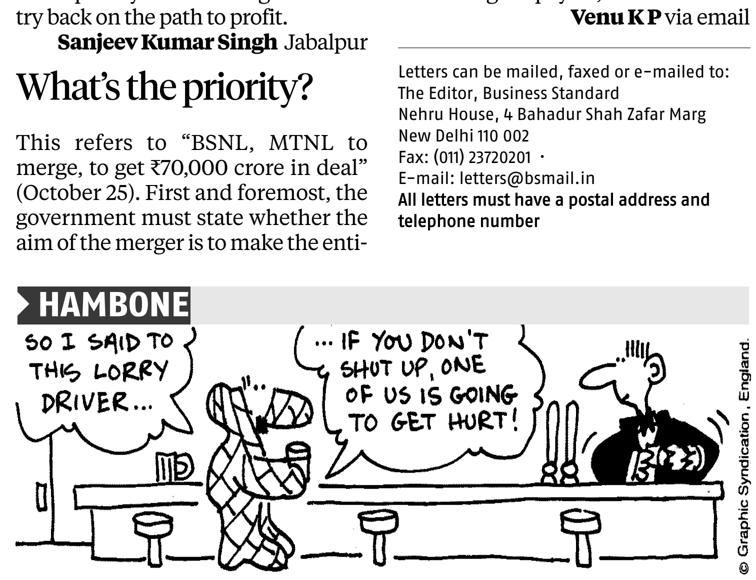
HAMBONE



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Faith in the stock market

Banks and NBFCs continue to remain cause for concern

Equity prices have displayed unusual patterns in Samvat 2075. Between November 7 last year and October 26, the Nifty and Sensex have gained over 9 per cent each. But while the headline indices have done well enough, the mid- and small-cap indices have suffered capital losses, and the majority of listed stocks have lost ground. As a result, most equity investors have suffered and that has perhaps been a contributory factor in the weak consumption patterns witnessed this festive season. Despite this and the steady stream of negative news on the corporate and macro-economic front through the past 12 months, most investors appear to have kept faith with the stock market. Equity mutual funds have received stable inflows and assets under management continue to grow. Overseas investors have retained their optimism about the Indian economy, with foreign portfolio investors (FPIs) continuing to contribute substantially to both the equity and debt segments. This is at least partly due to political continuity, with the BJP retaining its grip on governance by winning handsomely in the Lok Sabha elections this year.

Apart from weak consumption, the worries in Samvat 2076 centre round the pattern of default that has become increasingly common in the debt market. The NBFC and banking sector continues to cause concern with fresh cases of default unearthed with depressing regularity. What's more, credit-rating agencies have clearly failed to identify risks, with many of the defaults emanating from entities with high ratings. This has caused a crisis of confidence in the debt segment. Lenders have turned cautious. Debt funds have been forced to rejig schemes and book losses. Investors have pulled back from the income segment. Even as the Reserve Bank of India has adopted an easy money policy, with an accommodative stance and a sequence of six successive policy rate cuts, it has not managed to turn sentiment around. That could be the central bank's most challenging task in the months to come — both consumption demand and credit offtake will depend to a large extent on the return of confidence.

Corporate results and macro-economic growth have now been poor for the past five quarters. Corporate advisories and macro-estimates from investment banks and multilateral institutions suggest that there could be an uptick in the earnings pattern in the next six months, given a reasonable monsoon. Corporate earnings may receive a boost now, if only due to the low base effect. A few factors now favour investors looking at India. One is that global energy prices remain weak, limiting the outgo of forex on that account. Another positive is that inflation remains benign, giving the central bank room to ease monetary policy further if there is need. The economy continues to grow, albeit at a slower pace. Given a large economy like India, there will always be pockets of resilience and interesting investment plays for those who look hard enough. But investors would also like to see signs that the government is looking at a combination of tax code reforms and the simplifying of corporate regulations to encourage investment and consumption. Investors have had to hold their nerve through almost two years of lacklustre equity returns after the markets peaked in early 2018. The data indicates that most of them have kept faith with the markets despite all the bad news. That gives hope that Samvat 2076 would provide more joy than what Samvat 2075 did.

Now, the hard part

Stable policy must back the EoDB momentum

India has made creditable progress in the World Bank's Ease of Doing Business (EoDB) rankings, clocking in at number 63 in 2019 from 77 in 2018, and bettering its position on seven of the 10 parameters. The EoDB has been one index in which the National Democratic Alliance government has recorded consistent improvements. Since 2014, the country has jumped 79 notches up the rankings, a reflection of one of Prime Minister Narendra Modi's key initiatives. The principal drivers of this improvement has been the Insolvency and Bankruptcy Code, which saw India move up 56 ranks on the parameter "Resolving insolvency" between 2018 and 2019. Technology has also played its part, with the move towards e-filing of construction permits, property registration, and paying taxes accounting for improvements on these parameters. Taken together, these are impressive achievements and in that sense, India has earned its position on the list of "economies with the most notable improvements" for the third year in a row at number nine. The cautionary note, perhaps, is that it shares this listing with countries that can be scarcely described as open, liberal economies — Saudi Arabia, Bahrain, and Kuwait, all monarchies, Pakistan, a failed state, and China, a dictatorship.

The obvious anomaly in India's eye-catching EoDB performance is that little of this is reflected in growth and employment-accelerating investment. Stripped of reinvested and other capital — a definition that was introduced during the United Progressive Alliance — growth in foreign direct investment (FDI) has been anaemic at best, and in 2018-19 it actually shrank, albeit by a marginal 1 per cent. The data on industrial investment proposals recorded by the Secretariat of Industrial Assistance shows that the number of proposals and investment, though rising, is still to reach even the modest 2013 levels, an indication that investor confidence has never matched the buoyancy of the EoDB rankings. Exports have scarcely grown. Though the improvements in the disaggregate rankings are commendable, they are in, a sense, low-hanging fruit. Weaknesses on three EoDB parameters on which India has made no progress or done worse — enforcing contracts (163, no change), getting credit (22 to 25), protecting minority investors (7 to 13) — suggest themselves as the more difficult agendas that the government needs to tackle on a war footing. They reflect the serious flaws in India's judicial system and a crisis in the financial sector. Recapitalising zombie state-owned banks, merging poor and well-performing banks without detaching them from government interference, and proposing to amalgamate defunct public sector telecom companies do not reflect the kind of bold, reformist mindset that India had come to expect from this regime.

The mismatch between India's EoDB performance and economic growth is also the result of variables that are not captured by the index. Maverick economic policy must rank as the principal failing: The twin shocks from the 2016 demonetisation and the accelerated timetable for introducing a poorly designed goods and services tax in mid-2017 followed by rising protectionism are all part of the problem. The most recent example of sending, at the behest of a domestic lobby, investigatory letters to foreign-owned ecommerce majors Amazon and Flipkart for details of their festive season sales is unlikely to enhance investor confidence. In short, the government needs to look beyond the EoDB for sustained economic growth.

ILLUSTRATION BY BINAY SINHA

Opening bell for class-action suits

The Companies Act does not prescribe a maximum cap on the damages that may be awarded

CYRIL SHROFF & AMITA GUPTA KATRAGADDA

A steep sudden fall in share price can now trigger much more than uncomfortable investor calls for the management of a listed company. Recent moves by the government have resulted in game-changing developments for the securities regime in India, making listed companies vulnerable to class-action lawsuits by investors on the back of big losses in share value.

The scope of issues that can attract a class action under Section 245 of the Companies Act, 2013, is fairly wide, and includes any matters pertaining to the conduct of management that is prejudicial to the interests of the company or its shareholders. A sudden stock price drop often links to a specific event, action or inaction by the company, and allows shareholders to quantify the loss suffered for compensation purposes. If the identified event is proven to result from a wrongful act or a breach in fiduciary responsibility or a lapse in the duty of care and loyalty for instance, it could result in significant monetary compensation payable by the listed company and its directors/auditors to investors. From international experience, the typical corporate actions that attract securities class litigation include misrepresentations in financial documents/prospectus (Facebook, Lyft, Alibaba and Wells Fargo), false forward-looking statements (Electronic Arts Inc.), accounting standards violations (Petrobas, Enron and WorldCom), internal control weaknesses (Costco and LendingClub), misleading/delayed disclosures (Fiat Chrysler and Yahoo), related-party transactions (Altisource Portfolio Solutions), regulatory issues (Danske Bank) and acquisition/merger integration issues (DaimlerChrysler, AOL Time Warner and Bank of America).

An application for a class action must be made by the requisite number of shareholders/depositors before the National Company Law Tribunal (NCLT). In May this year, the government notified the regulations whereby a "class" for listed companies can now be formed by the lesser of: (A) 2 per cent of the issued share capital, (B) 100 shareholders, or (C) 5 per cent of the total number of shareholders. The government is also reportedly considering a proposal to extend financial support to minority shareholders seeking to pursue class-action lawsuits. At the admission stage, the NCLT will review the application to determine whether the action requires a "class action" and whether the applicants are acting in good faith. If the action is admitted, the NCLT will order a public notice to be issued to all shareholders, after which the matter will be heard on merits. A shareholder, who forms part of a "class", would need to seek the permission of the NCLT to opt out of the proceedings.

We expect that certain procedural and substantive legal defences will be frequent fliers in class actions. The procedural side includes defences that the minimum representation of members is not met, the applicant is not acting in good faith, or that the cause of action is personal and not of a "class". A frivolous or vexatious suit could attract a penalty on the applicant which could extend to up to ₹1 lakh. On the substantive defences, arguments and evidence would need to demonstrate that the corporate action was not unlawful, wrongful or prejudicial, or entitled to the benefit of the defence of the "business judgement rule". The individual liability of directors may be defended based on the lack of knowledge, recorded dissent, satisfaction of the duty of care, loyalty and diligence, etc. Often, the company's defence may seek to ringfence the wrongful act to a single "rogue" actor by demonstrating that the internal controls of the company were otherwise robust. A key point to note is that "market practice" or "everyone does it" is unlikely to hold water as a valid defence. For instance, in an action in the United States in the matter of Vaalco Energy Inc., it was observed that "Just as 'all the other kids are doing it' wasn't a good argument for your mother, the idea that 175 other companies might have wacky provisions isn't a good argument for validating your provision".

The Companies Act does not prescribe a maximum cap on the damages that may be awarded. Given current Indian jurisprudence, it is unlikely that there will be punitive damages to the extent that have made class actions headline news in the United States, though we would have to wait and watch. While the liability of the company itself may be limited because of the nature of a body corporate, there are no obvious limitations on the liability of the directors, auditors and experts.

The US securities holders of Satyam received a settlement of $125 million pursuant to a class action in the US. In contrast, the Indian shareholders received no compensation and were only left to observe the regulatory actions taken against the company and its auditors. This situation will likely not repeat. Investors now have rights of restitution that will change the principal-agent relationship, as well as the power balance between shareholders and management. Going forward, we also expect that there will be an activist arbitrage that will come in, that will become a much more sophisticated and essential product in India, and that governance matters and liability concerns will take up more mind space for directors, management and auditors.

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Why govt is responsible for PMC

IRRATIONAL CHOICE
DEBASHIS BASU

It is a month now that the Reserve Bank of India (RBI) has suspended the fraud-ridden normal functioning of the Punjab and Maharashtra Cooperative (PMC) Bank. The RBI has appointed an administrator who, with all due respect to his other skills, has not run a bank, far less a bank that has been hit by a massive fraud. His job, assisted by three others bankers, is not to find a solution, but follow procedure. If the past is any guide, this will turn PMC Bank into a zombie bank, neither living, nor dead.

I gather that some ₹27 crore a month is needed, just to keep PMC Bank's 137 branches open across six states while the administrator and his advisors move slowly through the thicket of rules and procedures. The cost of its zombie-like existence, nearly ₹1 crore a day, will steadily eat up depositors' money. The longer the bank remains in this state, the more money it loses, because the core banking business of lending money has been halted.

This is what happens every time a cooperative bank is put "under directions" from the RBI. Kapol Cooperative Bank became a zombie bank on March 31, 2017, with a withdrawal cap set at ₹3,000 per depositor. The bank will remain "under directions" till January 2020. Rupee Cooperative Bank became a zombie bank on February 22, 2013. The depositors don't have access to their money but the staff gets its salary. The RBI has allowed the bank to release some money for exceptional cases.

The 103-year-old CKP Cooperative Bank was put under directions on May 2, 2012. The RBI-appointed board of administrators ran the bank until April 2015, after which a new board was elected. The depositors converted a part of their money into share capital in 2015. The bank is still "under directions" after several extensions over the years. Every few months more zombie banks join the list: The Needs of Life Cooperative Bank, Kolhapur-based Youth Development Cooperative Bank, Shivam Sahakari Bank of Ichalkaranji, The City Cooperative Bank, Mumbai, Maratha Sahakari Bank, Karad Janata Sahakari Bank all "under directions" of the RBI.

Why is the government responsible?

This process harms depositors, the stakeholders who matter the most. They are victims of fraud, committed by politicians in most cases; in PMC Bank's case it was a business house. But who is responsible for allowing rampant crony capitalism, fraud and political influence to destroy the savings of millions of depositors in one cooperative bank after another? It is the government (Ministry of Finance or MoF, and the RBI). Consider this:

- The government has overtly encouraged the growth of cooperative banks. At no time has it made customers aware of any additional risk in such banks, over scheduled commercial banks.
- On an average one cooperative bank fails every few months. The RBI has not learnt any lessons from previous failures and has not taken any steps to prevent cooperative bank failures.
- The RBI never made customers aware that it was not regulating them in the same manner as other commercial banks.
- Cooperative banks were allowed to provide many of the services that commercial banks provide. PMC Bank, for instance, was permitted to open non-resident accounts and have foreign currency dealings. It could give bank guarantees, enter into forward contracts, and issue credit cards. All these permissions came from the RBI, presumably after adequate due diligence.
- In permitting specific cooperative banks to issue credit cards or sell mutual funds and insurance, the RBI signalled that they are fit and proper.
- By allowing bank interest to be paid without tax-deducted at source, the MoF encouraged depositors with lower income (below the minimum taxable total income) to invest in fixed deposits of such banks. They were naturally keen to avoid the trouble of filing tax returns and then claiming refunds.
- The revolving door between the RBI's urban banks department and advisory positions at cooperative banks is scandalous. Senior RBI officials who are sitting on critical information about shady cooperative banks become advisors to the same banks after retirement. Why, senior RBI officials are even gracing the boards of large crooked finance companies.
- For the past 25 years, every single payout of deposit insurance has been to cooperative banks while the bulk of the premium is from scheduled commercial banks. Both the MoF and the RBI have known how cooperative banks work and yet have done nothing about it.

These are only a few of important issues; lack of space prevents me from going into more. I am also quite struck by how callous the RBI has been in handling a failed bank. If a bank has intangible assets, it can be a takeover target. If so, it needs to be treated as a going concern with strategies that are appropriate for it. Instead of a retired central banker, it should be led by someone with deal-making skills that lead to takeover of assets or mergers. If it doesn't have such assets, it is a gone concern. Such banks need a hardcore banker who can call back the loans, salvage what he can, liquidate investments, pay back the depositors and shut down the bank. In either case, speed and direction is the key. But both MoF and the RBI remain apathetic. They would rather convert all failed cooperative banks into zombie banks. This is another reason why they should take full responsibility for their inaction and compensate the depositors.

The writer is the editor of www.moneylife.in; Twitter: @Moneylifers

Timothy Egan makes room for the Holy Spirit

BOOK REVIEW
MATTHEW THOMAS

If you're looking for something to believe in, you could do worse than Timothy Egan's particular blend of intelligence and empathy. In his ninth book, *A Pilgrimage to Eternity*, this self-described "lapsed but listening" Irish Catholic makes the 1,200-mile journey from Canterbury to Rome along the Via Francigena "on foot, on two wheels, four wheels, or train — so long as I stay on the ground," as he attempts to decide what he believes. If this book doesn't quite settle the question of belief for you, it will at least fortify your faith in scrupulous reporting and captivating storytelling.

Egan was educated by Jesuits and is a "skeptic by profession." He says he has arrived at a point in life where he is "no longer comfortable in the squishy middle" and so he undertakes this journey willing to be led to deeper belief. He writes, "Until atheism can tell a story, it will always have trouble packing a house."

But this isn't just a book about religion: It's also one about family. Egan is visited in his travels by his son, his daughter and, finally, for the last leg, his wife. He writes of how the two of them tried to expose their children to the basics of major religions and then "let the free market of ideas settle the debate as they thought it through." Now full-fledged adults, Egan's children have "a reasonable person's skepticism toward the supernatural claims of religion." Egan expresses some misgivings about his own flexibility as a parent, wanting his children "not to foreclose on the idea that a great faith, though flawed, can contain great truths."

His journey can also be enjoyed as a travelogue, complete with the kinds of absurdities that happen on any long trip. For instance, Egan learns that *Canterbury Tales* is not sold at Canterbury Cathedral; the book is too bawdy. When he arrives at the Abbey of St. Paul in Wisques, Egan must pass an amusing entrance exam. In a series of rapid-fire questions, the abbot asks, "How are things in America?"

Egan answers, "Troubled."

"Why is that?"

"Trump."

"What's wrong with him?"

"Everything."

"I'll show you to your room," the abbot says, satisfied.

Then there are the meals — many good, some spartan. And the mishaps: Egan doesn't properly tape his toes in the Alps and carries on, blistered and mangled, until his discomfort finally forces him into a car. At this point, the reader shares his sense of relief and defeat.

Along the way, Egan sets a goal for himself: To get enough stamps in his pilgrim passport to earn a special seal from the Vatican at the end of the journey. Considerable energy builds around the lengths he goes to to get those stamps. When he finally lands the hard-won certificate, he says: "It's official. I know how the Scarecrow felt when he got his brain."

"A Pilgrimage to Eternity" is also a stunningly comprehensive history of both Christianity and Western Europe. It's all here: from St. Maurice, "believed to be 'the first black saint'" (wrote Henry Louis Gates Jr.), and the 1,500-year-long uninterrupted prayer at the abbey named for him; to the 1518 Treaty of London forever outlawing war between Christians (it lasted "barely two years"); to Mencken on Puritanism: "The haunting fear that someone, somewhere may be happy." In fact, there's so much history that the plot can sometimes feel like an excuse to get the background in, though one hardly complains; Egan is so well informed, he starts to seem like the world's greatest tour guide. You follow along as much to hear him talk as to see the sights. It feels as if there's nothing he hasn't digested for the reader, and his extraordinary reliability is reminiscent of that of the monks he describes so evocatively throughout the book.

Egan doesn't shy away from contentious subjects. He calls for more women in the church's hierarchy. "The desire among women to be a guiding part of this faith is great," he writes. "There are more than 50 per cent more nuns and sisters in the world than priests." He's sick of the church's censorious attitude about sex — little basis for which can be found in Jesus' teachings — and harbours a healthy skepticism about Mary's perpetual virginity and Jesus' celibacy. He sees misogyny in this history, and in the revisionist denigration of Mary Magdalene, and traces this thread from St. Paul — an "early celibate" — to SS. Jerome and Augustine, who preached celibacy after long careers of debauchery, and to St. Benedict, who "feared sex so much that whenever he was aroused he threw himself into a patch of nettles or a bed of thorns." Of the 1968 Vatican encyclical against birth control, Egan writes that it "is almost universally ignored by Western Catholics — and has little basis in the philosophy of Christ."

Egan also turns a critical eye on those who treat refugees poorly. For instance, he describes how the police in St.-Omer, France, "fired tear gas at volunteers" who were distributing food and clothing to refugees. Representatives of Secours Catholique, the charity behind the effort, pleaded, "Didn't Christ say we have an obligation to help 'the least of these brothers of mine'?" The authorities' response: Such assistance would only encourage the refugees to stay. Egan writes, "A religion whose leaders once called on followers to wage savage war against faraway cities held by people of a different religion now fights to feed and protect forsaken members of that same faith from those same faraway cities."

After traveling through England, France and Switzerland, bedraggled and untouched by strangers, Egan finally receives a hug from a woman in Italy. She is no longer a Catholic — but she still asks Egan to say a prayer for her when he sees Pope Francis. "I like this pope," she says.

The woman would never know if Egan failed to utter that prayer, but he keeps his promise at a Mass at St. Peter's Basilica. *Of course he does*, you think at the end of this marvelous account. Reading it, you feel yourself in the presence of goodness — the kind you might simply have to decide to believe in.

PILGRIMAGE TO ETERNITY
From Canterbury to Rome in Search of a Faith
Timothy Egan
Viking; 384 pages; $28

"When the PM raised the issue of RCEP (Regional Comprehensive Economic Partnership) with Xi Jinping, he was very clear it has to cover goods and services"

HARDEEP PURI, Union Minister

"Every interest of domestic industry and the people of India has to be protected before we execute any free-trade agreement"

PIYUSH GOYAL, Commerce Minister

"Once the negotiation process moves forward, and both sides are happy that we have enough safeguards to ensure nobody's interests are affected, I think it will be a reality"

RAM MADHAV, BJP General Secretary

A bit down, but not out

How Vasundhara, Chouhan and Raman Singh are placed in the post-defeat scenario

RADHIKA RAMASESHAN

The Bharatiya Janata Party (BJP) has seamlessly raised its next generation of leaders — its fourth since Atal Bihari Vajpayee, L K Advani, and Murli Manohar Joshi constituted the first line-up that took the party to power — in the shape of Devendra Fadnavis, Pramod Sawant, Jai Ram Thakur, Sarbananda Sonowal, Trivendra Singh Rawat, and Raghubar Das.

Between them, the chief ministers of Maharashtra, Goa, Himachal Pradesh, Assam, Uttarakhand, and Jharkhand have either justified their appointment by the BJP high command or are yet to earn their stripes. Their predecessors, who belonged to a more secure era when the BJP would not experiment with its regional chiefs, have gone into political oblivion or taken up gubernatorial assignments and ministries at the Centre.

Could the defeat of Vasundhara Raje, Shivraj Singh Chouhan, and Raman Singh in last year's polls in Rajasthan, Madhya Pradesh, and Chhattisgarh, respectively, augur a transition in the command structure of these states, where they reigned supreme as chief minister or Opposition leader, as in Vasundhara's case, for 15 years, or will the BJP brass keep them on? There are no straight answers because right now the Centre's assessment varies, depending on the former chief ministers' continued "utility", their perceived mass base and popularity, the ability to take the cadre along, and, most critically, their equations with Prime Minister Narendra Modi and BJP President and Home Minister Amit Shah.

"On a scale of one to 10, Vasundhara is the most vulnerable, followed by Singh. Chouhan has the greatest survival potential," a central BJP functionary said.

Vasundhara went into a shell when the BJP lost Rajasthan. She disregarded her appointment as national vice-president, as did Chouhan and Singh. However, while the former MP and Chhattisgarh chief minister reconnected with the voters through programmes, Vasundhara was not seen or heard of until she surfaced on Facebook. Her posts picked her "achievements" as chief minister and mentioned her recent visits to Jhalrapatan, her assembly constituency.

On its part, the BJP high command gave Vasundhara short shrift. Gulab Chand Kataria, Opposition leader in the legislative assembly, is an old adversary and, while left to herself, sources said she would not have endorsed the anointment of Satish Poonia as Rajasthan party president. There was more to come.

In the recent assembly by-elections in Khinswar and Mundawar, the BJP's central leadership kept its deal with the Rashtriya Loktantrik Party (RLP), helmed by Hanuman Beniwal. Beniwal, a former BJP member, never passed up a chance to denounce Vasundhara, who ensured he was ousted from the party. Because of Beniwal's assumed clout among the Jats of Nagaur, from where he is an MP, and north-west Rajasthan, Shah cemented a pact with the RLP before the 2019 elections.

The BJP gave Khinswar, in Nagaur, to the RLP and Beniwal fielded his brother, Narayan Lal. He took potshots at Vasundhara, saying that the renewed alliance demonstrated that she "no longer mattered". Narayan Lal won from Khinswar.

"It was an unkind cut but our top leaders said nothing," said a Rajasthan office-bearer.

Vasundhara expectedly did not campaign in the by-polls. A legislator from west Rajasthan believed to close to her said: "Knowing her, she will rise like a phoenix. She embodies glamour, hard work, and success. That's a rare package in my state."

Even a known Vasundhara detractor conceded the point: "If she moves around in Rajasthan, a majority of the legislators will gravitate towards her. Her drawback is she forgets that it's the party that brought her to power."

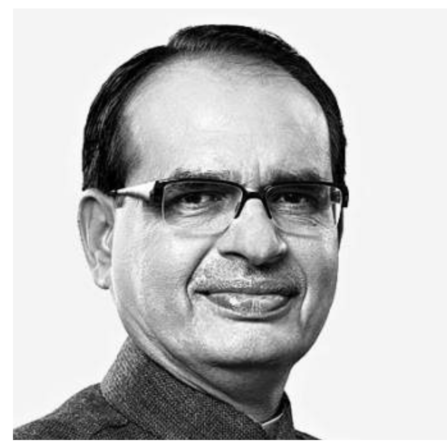
Chouhan is quite the antithesis of Vasundhara. "He made it clear to New Delhi that he wished to confine himself to MP," a source close to him said, emphasising that Chouhan's "self-enforced limit" was to allay a perception that he had nursed national ambitions. Setting aside a health issue, he campaigned tirelessly in the October 21 Jhabua assembly by-election, which the BJP lost to the Congress. While canvassing, Gopal Bhargava, the Opposition leader who's rumoured to be a "favourite" of New Delhi, used the tag line that a vote for the BJP was a vote to return Chouhan as chief minister, ominously hinting at a design to topple the Congress government. Clearly the slogan did not work.

The Centre's assessment on the former CMs varies, depending on their continued "utility", and most critically their equation with Narendra Modi and Amit Shah

In the 230-member legislature, the Congress was precariously ahead of the BJP. However, by winning Jhabua, it is slightly better-placed now.

"Chouhan is the only mass leader we have. MP has a huge population of the Other Backward Classes (OBCs). As long as the BJP was controlled by the upper castes, we experienced limited success. OBC leaders like Uma Bharti and Chouhan took us to new heights," said an MP from Baghelkhand, adding, "it's not easy to identify and nurture leaders. The high command knows it."

Singh is out of place in the BJP's changed tack in Chhattisgarh, which places greater emphasis on promoting the Kurmis, other OBCs, and tribals, and not Rajputs, the caste to which Singh belongs.



(Clockwise from left) **Vasundhara Raje, Raman Singh and Shivraj Singh Chouhan, former chief ministers of Rajasthan, Chhattisgarh and Madhya Pradesh**

NEWSMAKER / DUSHYANT CHAUTALA

The 'gentleman' of Chautala clan

ARCHIS MOHAN

Among his followers, Dushyant Chautala is known as a risk taker.

Last December, he risked the ire of his uncle when he split from the Indian National Lok Dal (INLD) to launch the Jannayak Janata Party (JJP). The gamble succeeded, with the new outfit winning 10 seats in the Haryana Assembly polls.

During his campaign, Dushyant galvanised the Jat community against the Manohar Lal Khattar-led Bharatiya Janata Party (BJP) government's "poor governance". On Friday, however, he risked his nascent political career to form a coalition government with the BJP.

At 31, he is set to be the youngest deputy chief minister of Haryana, and has sparked hopes of inheriting the legacy of his great grandfather — the Jat stalwart Devi Lal.

However, the JJP's alliance with the BJP also gave ammunition to the Congress — which, under Bhupinder Singh Hooda, commands allegiance of the majority of Jats — to attack it for being the BJP's "B team".

In the years to come, Dushyant may need to compete for the leadership of the Jat community with Hooda's son Deepender, and other Jat leaders. The decision to align with the BJP has the potential to both make or break his career.

Fluent in English and having not lost his earthiness, he is known as the "gentleman Chautala" among his followers. He studied at Lawrence School in Sanawar (Himachal Pradesh), and graduated in business administration from California State University. He also has a law degree.

In December, Dushyant and his father, Ajay Chautala, walked out of the INLD — the party of his grandfather Om Prakash Chautala and great grandfather Devi Lal.

Dushyant was unmoved amid attempts by some 'khaps' and former Punjab CM Parkash Singh Badal — a family friend of the Chautalas — for reconciliation. The JJP debuted in the electoral arena by contesting the Jind by-poll. Its candidate Digvijay Chautala, Dushyant's younger brother, lost to the BJP but pushed the Congress' Randeep Singh Surjewala to third.

The JJP then fought on seven seats in the 2019 Lok Sabha polls, leaving three for the Aam Aadmi Party. However, the BJP won all 10. For the Assembly polls, Dushyant severed his alliance with the AAP to explore an alliance with the Bahujan Samaj Party.

He decided to go solo when the alliance did not materialise. The JJP succeeded in supplanting the INLD, which won only one seat in comparison to the JJP's 10, and secured a paltry 2.44 per cent vote share versus the JJP's nearly 15 per cent.

Dushyant contested and won from the tough Uchana Kalan seat against senior BJP leader and former Union Minister Birender Singh's wife, Prem Lata, who had defeated him last time.

He had made headlines in 2014, after becoming the youngest member of the Lok Sabha at 26. "Name in Limca Book of Records as The Youngest Ever Elected Member of Parliament of India", his profile on the Lok Sabha website states.

During his tenure, Dushyant impressed with his well-prepared speeches, and cogent interventions on a wide array of issues. He asked 677 questions on railway and highway projects, crime against women, child labour, and drug trafficking. To highlight farmers' concerns, he drove a tractor to Parliament in 2017.

As a public representative, Dushyant says he has organised blood donation camps, awareness about organ donation, and tree plantation drives. He has also reached out to other castes in Haryana to be seen as a leader not just of Jats but all the "36 biradari" of the state.

Recalling his journey over the last five years, he says: "There has been a lot of change. I had to leave my education and get into politics, and today I am leading a party. It requires drastic effort and big changes."

He sees himself as a farmer leader who can fill his great grandfather's shoes, and invokes his memory in all his public meetings. The tractor featured on the polling day too. Along with wife, Meghna, and MLA-mother, Naina Chautala, he rode one to cast his vote.

STORY IN **NUMBERS**

CARD THEFT BUG BITING INDIA DESPITE MEASURES

Despite strong measures taken by the Reserve Bank of India to prevent credit and debit card fraud, the National Crime Records Bureau — in its 2017 report on crime in India — has captured credit card fraud in its statistics for the first time.

India was ranked among the top five countries globally that are vulnerable to credit card fraud, according to the 2016 Global Consumer Fraud Report published by payments technology company ACI Worldwide. The RBI has made chip-enabled credit and debit cards (which in some cases double as ATM cards) mandatory. Cards with magnetic strips, which store all important customer data, are considered more vulnerable to cloning.

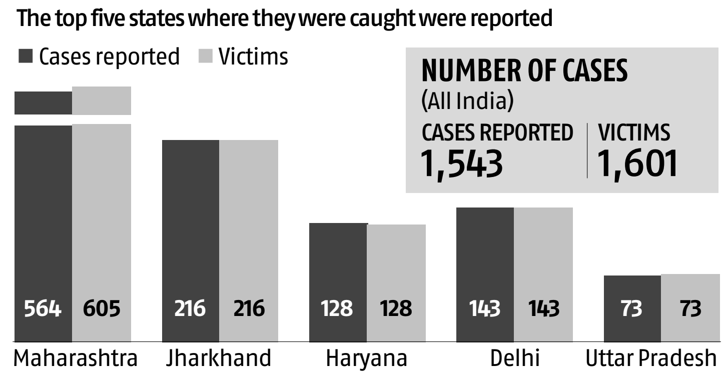
In 2017-18, the sum total of money that went into the wrong hands stood at ₹65.26 crore.

The central bank changed its norms to limit the liability of customers to card fraud, in July 2017. Under the revised guidelines, liability would be shared by banks and customers, depending on circumstances under which the fraud took place.

Most card frauds were targeted at ICICI Bank customers during 2017-18. As many as 348 cases were reported, with ₹7 crore embezzled. State Bank of India customers were defrauded to the tune of ₹10 crore, in 144 reported cases, according to information available in Parliament questions.

CREDIT/DEBIT CARD FRAUD

The top five states where they were caught were reported



Source: Lok Sabha questions, NCRB 2017 report on Crime in India

Infighting, turncoats mar grand alliance dreams

R KRISHNA DAS

When Sukhdeo Bhagat, a sitting legislator and former president of the Jharkhand Congress Committee, avowed that Umang Sir (referring to Madhya Pradesh minister Umang Singhar) was like a guardian to him, the party heaved a sigh of relief. This is because Singhar has been on the job to pacify Bhagat, who has raised a revolt within the party.

The Madhya Pradesh minister, also the deputy person in charge of the Congress party's affairs in Jharkhand, went to Bhagat's residence in Lohardaga, and held a marathon closed-door meeting. When Singhar came out, he appeared unmoved while Bhagat seemed excited. "Besides family, we have emotional relations," said Bhagat, hinting that everything was in order regarding party affairs, and that the Congress had no reason to worry.

Bhagat has made no secret of his differences with the party high command after he was unceremoniously removed from the post of party chief. A senior Congress leader said that during the meeting, Bhagat was furious and in no mood to listen to Singhar.

Within a week, Bhagat gave a big jolt to the Congress, by crossing over to the BJP on Wednesday along with another party legislator Manoj Yadav.

Jharkhand Mukti Morcha (JMM) legislators Kunal Sarangi and Jaiprakash Bhai Patel, along with Independent MLA Bhanu Pratap Sahi, also followed them. Besides the sitting lawmakers, senior leaders from both political parties, along with senior bureaucrats and police officials, joined the league.

"The five sitting legislators joining the BJP is secondary, though the development has added to five seats for the party. What is of significance, however, is the blow inflicted on the Congress and JMM," said a political observer. While both parties had been pursuing the idea of a grand alliance, the BJP succeeded in splitting it by pulling its top leaders and senior legislators into its fold.

STATE SCAN

JHARKHAND

The only challenge for the BJP in the state is to keep its own house in order

The Mahagathbandhan (grand alliance), which is already on a sticky wicket, received a big jolt before it could even take off.

Though an alliance with the Jharkhand Vikas Morcha (Prajatantrik), or JVM(P), and the JMM was not rewarding for the Congress in the Lok Sabha elections, the party knows it will not be able to take on the BJP's might in the Assembly polls without support.

However, many issues pertaining to the formation of a grand alliance still await resolution, the most prominent of which is seat sharing.

The Congress had reportedly claimed above 30 seats, including those where the sitting MLAs of the JMM were in a strong position. "I have met Babulal Marandiji [chief of JVM(P)] and have initiated talks," said Jharkhand Congress President Rameshwar Oraon. They have an understanding with the JMM and will hold further talks regarding seats later, he added.

Initial discussions, however, hit a roadblock when Marandi gave a contradictory statement.

"We will contest all 81 seats," said Marandi, adding that the JVM had a separate identity in the state and would go solo. He also denied any parleys going on for joining the grand alliance. In the 2014 Assembly polls, the JVM(P) had secured 10 per cent of the votes, winning eight seats. Six of its legislators, however, later split to support the minority government of the BJP, led by Raghubar Das.

A senior JVM(P) leader said Marandi had reservations over projecting a leader of the grand alliance. Hemant Soren, the working president of the JMM and former chief minister, is desperate to lead. The Congress is prepared to project him as the leader of the grand alliance. The party knows any alliance without the JMM, which secured a 20.4 per cent vote share and 19 seats, would fail to take on the BJP.

The JMM has a strong hold on the 26 tribal seats. Another daunting task for the grand alliance would be the transfer of votes among allies. "It is a precedent in Jharkhand politics that vote transfer to a partner does not take place," a political observer said. Tribal votes of the JMM will not go to the Congress or any other ally, they said, adding that non-tribal votes of the Congress would not go to the JMM.

A pre-poll alliance in Jharkhand to challenge the BJP appears difficult. The only option left is a post-poll alliance that may not be as effective.

The only challenge for the BJP is to keep its own house in order. JMM spokesperson Suprio Bhattacharya said the BJP was banking on leaders from "outside" for electoral gains, by inducting them.

"This will cause resentment among its own cadre and leaders, and the party will have to pay a heavy price," he added.

Bhagat and former IPS officer-turned-Congressman Arun Oraon were considered a bête noire in the party, with a common base in Lohardaga. Now, both are in the BJP.

Sukhdeo Bhagat *(right)* gave a huge jolt to the Congress by crossing over to the BJP

Islamic State leader Baghdadi dead: Reports

Will broadcast footage from the US raid, says Iraqi state media

REUTERS
Baghdad/Washington, 27 October

Islamic State leader Abu Bakr al-Baghdadi is believed to have been killed in a US military operation in Syria, sources in Syria, Iraq and Iran said on Sunday, as US President Donald Trump prepared to make a "major statement" at the White House.

A US official, speaking on condition of anonymity, told Reuters that Baghdadi was targeted in the overnight raid but was unable to say whether the operation was successful. A commander of one of the militant factions in the northwestern Syrian province of Idlib said Baghdadi was believed to have been killed in a raid after midnight on Saturday involving helicopters, warplanes and a ground clash in the village of Brisha near the Turkish border.

Two Iraqi security sources and two Iranian officials said they had received confirmation from inside Syria that Baghdadi had been killed.

"Our sources from inside Syria have confirmed to the Iraqi intelligence team tasked with pursuing Baghdadi that he has been killed alongside his personal bodyguard in Idlib after his hiding place was discovered when he tried to get his family out of Idlib towards the Turkish border," one of the Iraqi officials said.

Abu Bakr al-Baghdadi FILE PHOTO

Iraqi state television said it would broadcast footage from the raid. US magazine Newsweek, which first reported the news, said it had been told by a US Army official briefed on the raid that Baghdadi was dead. It said the operation was carried out by special operations forces after receiving actionable intelligence. The Pentagon did not immediately respond to a request for comment.

The Britain-based war monitor the Syrian Observatory for Human Rights said nine people were killed during the two-hour raid, including two women and likely at least one child.

Turkey says coordinated with US on raid

Turkey on Sunday said there was "coordination" between Ankara and Washington before the operation which US media reports said targeted and killed Islamic State chief Abu Bakr al-Baghdadi.

"Prior to the US Operation in Idlib Province of Syria last night, information exchange and coordination between the military authorities of both countries took place," the Turkish defence ministry said in a tweet. The elusive chief of IS was believed to be dead after a US military raid in the Idlib region. The helicopters targeted a home and a car outside the village of Barisha, the UK-based Syrian Observatory for Human Rights said, in the operation which killed nine people. AFP

Paved way for Baghdadi raid: Iraq intel official

Iraq's intelligence service provided the US-led coalition with the exact coordinates of Islamic State leader Abu Bakr al-Baghdadi's location, paving the way for the raid that reportedly killed him, an Iraqi intelligence official told *Reuters* on Sunday. The agency learned of Baghdadi's location from documents found at a secret location in Iraq's western desert after arresting an Iraqi man and woman, the official said.

"We have been constantly coordinating with the CIA, providing valuable information that the Iraqi National Intelligence Service has on Baghdadi's movements and place of hiding," the official said. REUTERS

IN BRIEF

Texas shooting outside Dallas results in at least 2 deaths

Two people have been killed in a shooting at an off-campus Texas A&M University-Commerce party that also left at least 14 others injured, a sheriff's official said. The shooting took place just before midnight Saturday in Greenville, around 15 miles (24 kilometers) southwest of the Commerce campus, Chief Deputy Buddy Oxford of the Hunt County Sheriff's Office said. The shooter remains at large, Oxford said. He said the shooting began around 15 minutes after deputies arrived outside the venue, responding to reports of illegal parking. Deputies heard gunshots coming from the back of the building, but could not tell whether the shots were fired from inside or outside, Oxford said. AP/PTI

Warned Trump on impeachment, says former WH chief of staff

President Donald Trump's former chief of staff, John Kelly, says he advised the president not to fill the job with someone who wouldn't be honest with him and provide a check on his impulses because he would end up being impeached. "That was almost 11 months ago, and I have an awful lot of, to say the least, second thoughts about leaving," Kelly said. "It pains me to see what's going on because I believe if I was still there or someone like me was there, he would not be kind of, all over the place." "I said, whatever you do just don't hire a 'yes man,' someone who won't tell you the truth — don't do that. Because if you do, I believe you will be impeached," Kelly recalled in an interview at the Sea Island Summit. AP/PTI

Stop holding UK hostage: Govt

UK PM Boris Johnson. More than three years since Britain voted to leave the EU, the divided country and its parliament are still debating over it FILE PHOTO

REUTERS
London, 27 October

Boris Johnson's government stepped up pressure on lawmakers on Sunday to back the prime minister's bid to hold an early election and break the Brexit impasse, saying Britain was being held "hostage" by parliament.

But with the main opposition Labour Party waiting for the European Union to grant a Brexit delay and two other parties launching their own bid for an even earlier election, the government's bid so far looks set to fail.

Britain was due to leave the EU on Thursday, but despite the government arguing this is still the legal default date, few expect Johnson to meet his "do or die" promise to deliver Brexit on October 31 after the bloc agreed to another delay.

More than three years since Britain voted to leave the EU, the divided country and its parliament are still debating over how, when and even whether Britain, Britain's biggest policy shift for more than 40 years, should happen.

All Britain's political parties agree an election is needed to break the standoff over Brexit, but do not see eye-to-eye on its timing. For many lawmakers, an attempt by Johnson to set the terms of a new election raises concerns that he might renege.

But a source at Johnson's Downing Street office said the prime minister would do all he can to force an election to "get Brexit done", including considering options offered by other opposition parties.

"Parliament cannot hold the country hostage any longer," Johnson said late on Saturday. "Millions of businesses and people cannot plan their futures, this paralysis is causing real damage and the country must move on in 2020." His culture minister, Nicky Morgan, doubled down on the message on Sunday, warning lawmakers that Thursday was still "the default leaving date". "So that should focus minds," she told *Sky News*.

UK Opposition parties suggest Dec 9 vote

Two British opposition parties want to hold elections even earlier than Prime Minister Boris Johnson has proposed as they try to ensure the country doesn't leave the European Union without an agreement.

The Scottish National Party and the Liberal Democrats say they will push for a December 9 election, three days earlier than Johnson has proposed and years earlier than the next scheduled vote in 2022.

They also plan to ask EU leaders to extend the Brexit deadline to at least January 31 to provide more time to debate Johnson's withdrawal agreement. REUTERS

HONG KONG PROTESTS CONTINUES

A protester receives medical attention after being hit with a pepper spray as he is being detained during an anti-government protest in Hong Kong's tourism district of Tsim Sha Tsui, in China, on Sunday PHOTO: PTI

BS SUDOKU

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Very Hard: ★★★★★

Solution tomorrow

HOW TO PLAY

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SOLUTION TO #2879

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VALUE OF ₹1 LAKH INVESTED IN VARIOUS ASSET CLASSES

	SENSEX	GOLD	SILVER	FD (SBI)	PPF
1-YEAR	1,15,933	1,21,403	1,21,446	1,06,650	1,08,000
1-YEAR POST-TAX RETURNS	1,15,933*	1,14,983	1,15,012	1,04,655	1,08,000
5-YEAR	1,45,462	1,42,847	1,20,707	1,50,366	1,51,757
5-YEAR POST-TAX RETURNS	1,45,462*	1,38,562	1,18,636	1,33,507	1,51,757

*Note: Cumulative equity gains up to ₹1,00,000 in a financial year are tax-free. All post-tax returns are calculated for an individual in the 30 per cent tax bracket, without considering the indexation benefit

As on October 25 2019, in ₹; compiled by BS Research Bureau

Take a joint loan to buy property

Besides increasing the eligibility, tax benefits will also double

SARBAJEET K SEN

In 2013, when Aditya Nitsure, 40, software engineer and Smita Barve, 37, a private sector employee bought a property on a joint home loan from LIC Housing Finance, their main reason was the rate of interest. Says Nisture: "There was an offer of a lower interest rate of 10 per cent on a joint loan of ₹44 lakh. Currently, the rate is 9.5 per cent. It also increased our eligibility."

While Nisture and Barve got a lower rate, one of the main reasons for going a joint home loan is eligibility. It allows the family to buy a bigger house, and many times even in a better locality. So, if you are a young couple looking to buy a home and both are earning members, clubbing both spouses' income makes a lot of sense. "The cost of buying real estate is high, and home ownership may often elude some families on a single income. However, with your spouse as a co-borrower, it may be possible for you to leverage your combined incomes and individual credit scores to borrow more at a lower interest rate," says Adhil Shetty, CEO, Bankbazaar.com. However, a home loan is a long commitment of repayment running over the years and needs financial disciple. There could be events midway that can impact the borrowers. The advantages include:

Larger loan amount: This is the most obvious benefit when you jointly file a loan application, the eligibility becomes bigger. Hence, the lender can sanction a bigger loan amount clubbing the incomes of both husband and wife. For instance, if you want to purchase a property of ₹1 crore, and need a loan of ₹80 lakh for 20 years. The equated monthly instalment at 8.5 per cent interest would be around ₹70,000. Since the bank would usually allow 50 per cent of the take-home salary to be used as EMI, you need to earn around ₹1.4 lakh a month (post-tax and other benefits). If your wife is an earning member, her salary will come in handy. You can buy a better and more spacious house by taking a higher loan, irrespective of the fact that you may have a lower income individually.

Faster loan repayment: When you avail of a joint loan, repayment can be faster. Given that there is no restriction on prepayment of the overall loan amount, a person can choose the best possible option to pay. Spouses can make pre-payments from their bonuses, the variable payments that they receive from their employers, as well as other sources of income, from time to time. This will enable them to try closing the loan account at the earliest, and also help reduce the interest burden.

Lower registration cost for women: Several banks offer lower interest rates to women applicants. Further, across some states, women get the facility to avail of the lower stamp duty fee for the purpose of registration of the house/flat. The stamp duty fee differs from state to state. "By having your wife as the primary applicant in a joint home loan, you can substantially save on the overall cost. You can enjoy a concessional interest rate for a home loan as well as the stamp duty fee for the property registration," says Raj Khosla, founder and managing director of MyMoneyMantra.com

Smita Barve and Aditya Nisture

"There was an offer of a lower interest rate of 10 per cent on a joint loan of ₹44 lakh. Currently, the rate is 9.5 per cent. It also increased our eligibility."

ADITYA NITSURE

Software engineer

Tax benefit: Getting higher tax concession while taking joint loans adds to a bigger advantage for couples taking loan altogether. A couple can avail combined tax benefit of ₹7 lakh. That is, ₹3 lakh (₹1.5 lakh deduction each) under Section 80C and ₹4 lakh (₹2 lakh each) for interest payments under Section 24(b).

While the thought of owning your own home is exciting, there are things you should be careful about while taking the joint loan or during the tenure of the loan.

Impact of default on credit score: Both husband and wife share equal liabilities and obligations as co-borrowers of a joint home loan. Hence, in case of any reason, such as loss of a job, one of the spouse's part in repayment does not come in leading to default, the credit records of both partners get impacted. "As co-applicants, a couple takes joint responsibility of repaying the loan in full. Failure to repay by one partner will impact the credit scores of both partners," says Shetty.

Divorce or death: If partners decide to divorce during the pendency of the loan, it is important for both to understand that the loan still needs to be paid and figure out ways to pay up in full. "To recover its dues, the bank can repossess the property and, where necessary, also initiate necessary legal action against the borrowers. Therefore, co-borrowing spouses would do well to arrive at a clear agreement beforehand on how they will manage their debts should they need to split in the future," says Shetty. In the unfortunate event of the death of one of the partners, the surviving partner is responsible for the timely payment of instalments.

Follow these simple rules: It is important to make a will so as to avoid legal obligations if the owner dies during the loan repayment tenure. Also, while this may be difficult to imagine when the marriage is going well, one should consider signing a legal agreement about the share of the property, repayment of the loan, and other key factors. This will help the spouses in case they get divorced during the loan tenure.

It is also advisable while taking a loan that one should also buy an adequate loan protection cover. A term loan to cover large liabilities is a must for those who have dependants and are likely to leave behind liabilities in case of untimely demise. The insurance cover will ensure that the burden of home loan does not fall on one spouse in case of death. "Buying a home loan insurance to cover repayment obligations is strongly recommended. Furthermore, execute a legal agreement specifying liability distribution in case of disputes," Khosla advises.

Be judicious in asset allocation

Both debt and equity look unattractive at the moment, but one cannot stop investing

MARKET INSIGHT

DEVANGSHU DATTA

The situation in India's debt markets is puzzling. The Reserve Bank of India (RBI) has cut rates multiple times in succession. That should in general, be good for debt investors (and for equity). However, the RBI admits that the policy rate cuts have not been transmitted. Bond yields have barely fallen while banks have marginally reduced commercial rates.

At the same time, there has been an increasing trend of defaults. According to a *Bloomberg* study, there have been a record ₹7,600 crore worth of defaults in 2019, and the defaulting entities have roughly 17x that amount outstanding in loans. What's more, the credit rating agencies have failed to flag these risks, with many defaulters having excellent ratings. This means we have few benchmarks beyond market gossip to judge if a given corporate is about to default.

Sentiment has been affected across the financial sector. The recent mess in PMC Bank shocked depositors, for instance. The RBI's data for March 2019 versus March 2018 shows that NPAs in public sector banks have reduced mainly due to write offs on bad loans. Gross NPAs at around ₹7 trillion was still above 12.5 per cent to advances despite ₹1.7 trillion being written off. Provisioning had actually increased, to ₹4.25 trillion from ₹3.99 trillion in March 2018. Write-offs were twice the amount of loan recoveries. Given a slowdown that is now in its sixth quarter, it's not surprising that corporates are struggling to service loans.

There is a huge drop in commercial credit. New lending as a proportion of gross domestic product (GDP) may dip to 6.6 per cent this fiscal year from 9.5 per cent in 2018-19 owing to a large squeeze in credit from non-banking financial companies (NBFCs). Again, drawing upon the RBI data, credit (bank and non-bank) to commercial sector dropped from ₹7.36 trillion in April-September 2018 to ₹909 billion in Apr-September 2019. That's 87 per cent reduction. It's inconceivable that growth rates can be maintained if this trend of a credit squeeze continues.

So we have lower policy rates, coupled to a trend of defaults and a corporate slowdown as the financial sector turns cautious. Where does that leave a debt investor? If you go by policy rate cuts, at some stage this should result in transmission to commercial rates. In that case, medium-term and long-term debt funds should do well.

But the trend of defaults and the lack of transmission are both red flags that suggest debt funds are actively dangerous assets. It's hard to judge if a given fund is exposed to default by a specific entity and every long-term and medium-term debt fund is surely exposed to contagion. Short-term funds are not exposed because they deal in money market instruments. However, it's equally true that short-term funds don't possess too much upside even if rates do continue falling.

One of the reasons why rate cuts have not translated into lower bond yields and lower commercial rates is simply the government's rising need for borrowed funds. There are estimates that the Fiscal Deficit may be overshot considerably.

The corporate tax cut is projected to lead to a drop of ₹1.4 trillion in direct tax collections, while Goods and Services Tax is expected to undershoot Budget estimates by at least the same amount, probably more. Government borrowings will crowd out other demand, especially where corporate bonds look risky. Also, the sheer quantum of government borrowing (Centre plus States) is large enough to ensure yields don't fall.

Rate cuts have not translated into lower bond yields & commercial rates are due to the govt's rising need for borrowed funds

On balance, debt is looking really risky despite the rate cuts. Equity presents a different type of paradox. There are good, even great companies, operating across the Indian landscape.

However, the elite list is over-valued, perhaps massively over-valued, given so many quarters of sub-par growth. Smaller firms are struggling and more at risk, although they have also seen corrections. There isn't a single sector which looks like being an outperformer. Even the export-oriented IT service firms have issued gloomy advisories pointing at reduced demand as the world economy slows down.

As asset classes, debt and equity both look unattractive at the moment. But an investor cannot avoid exposure to both and it would be sensible to continue investing. Going into the new Samvat, you'll need to be very judicious in asset allocation to navigate the apparent dangers. Happy investing!

OVERDRAFT ON LAP REDUCES BORROWING COST

BINDISHA SARANG

- You can take a Loan Against Property (LAP) on a residential or commercial property owned by you provided it has not been put up as security for any other purpose
- You can take the full loan amount as a lump sum and repay it as an EMI, or you can take it as an overdraft account
- The overdraft option lets you use the funds when needed, so you pay lower charges
- Banks offer fixed as well as floating interest-rate options. Interest rates are cheaper than on personal loans
- With a LAP, you can get a loan of 40-75 per cent of the property's market value, with a maximum tenure of 15 years

LOAN AGAINST SECURITIES - RATES & CHARGES

Lender	Interest rate (%)	Processing fee
Axis Bank	10.5-12.75	0.15%
Canara Bank	14.85	₹100-250
UCO Bank	11.65	₹250
Federal Bank	12.5-13	Up to 0.25%
Oriental Bank of Commerce	10.35	Minimum ₹50
IIFL	12-18	0.25%-1%
Tata Capital	10.5 onwards	Up to 1%
Bajaj Finserv	9.5-12	0.1%-1%
Indian Bank	10.95	0.308%
Lakshmi Vilas Bank	11.55	0.250%
Kotak Mahindra Bank	9.25-13	Up to 2%
Citi Bank	10.75-13.25	Up to 1%

*Processing fee is percentage of loan amount, except where it is an absolute number.
Source: Paisabazaar.com

Needed: A sinking fund for expenses

It ensures that you don't mess up the monthly budget

BINDISHA SARANG

Most readers would be familiar with the concept of an emergency fund, but few would perhaps know about a sinking fund, much less have one. But keeping aside a part of your monthly income to set up this fund will put you in much better control of your finances.

Fund your predictable expenses: Sinking fund is the money we keep aside for predictable expenses that are not incurred monthly but may come at a date in the future. In the case of some expenses, we expect them but don't know when they will arise. Says Mumbai-based certified financial planner Pankaj Mathpal: "A sinking fund is simply a strategic way to save money by setting a little bit aside each month. For instance, in a humid place like Mumbai, the air conditioner needs to be replaced every fourth or fifth year. If you are lucky, it may last longer. You don't know the exact day, but it has to be replaced someday in the future. Maybe you want to renovate your house every three or five years to keep up with your family's changing needs." Planning for Diwali expenses or the yearly visit to your hometown can also be done using a sinking fund.

ACHIEVING TARGETS BECOMES EASY

Goal	Amount (₹)	Years	SIP amount (₹)	Expected rate of return (%)	Total collected (₹)	Surplus (₹)
Home Renovation	7,50,000 (10% of home value)	5	12,500	12	10,13,793	2,63,793
Gadgets	Rolling amount	2	5,000	7	1,28,860	8,860
Specific Gadget — Laptop	60,000	2	2,500	7	64,430	4,430
Specific Gadget — Repairs mobile	7500 (50% of gadget value)	1	625	7	7,781	281

Even out cash outflows: By setting aside a little bit each month, you can spend big without hurting your cash flows. Says Mrin Agarwal, financial educator and director, Finsafe India: "The cost gets spread out over the entire year rather than hitting your budget hard in one month." In short, sinking funds spread out your significant expenses over a long period. For instance, if you know you have a ULIP premium of ₹24,000 coming every November, instead of taking a huge chunk out of your October salary or using your credit card, save a little in a sinking fund every month so that you can pay the lump sum in November without too much stress.

Not the same as emergency fund: Don't confuse a sinking fund with an emergency fund. The latter is kept aside for unexpected events such as a job loss or a medical emergency. According to Mumbai-based certified financial planner Kiran Telang, "In an emergency fund, you usually keep a minimum of six months' expenses set aside. This includes monthly living expenses, lifestyle expenses, as well as EMIs for your loans. A sinking fund can be used to pay for planned expenses such as a holiday or annual expenses like school fees."

May invest in less liquid assets: Do not use your savings account to set up a sinking fund. Says Agarwal: "Since the money is easily accessible, you could divert the funds to meet other needs. Also, it hardly gives any return." Mathpal, too, is of the view that assets in a sinking fund should not be very liquid. "I am not saying they should be in an illiquid instrument like Public Provident Fund (PPF), but they should not be as liquid as an emergency fund either. Here, you need some liquidity, but you must also earn decent returns."

To set up a sinking fund, some planners suggest just increasing the amount being invested via systematic investment plans (SIPs) to set up an emergency fund. Says Telang: "To keep the two types of funds separate, you may have separate SIPs. Those in low tax brackets may use recurring deposits to set up a sinking fund, while others may start an SIP in a debt mutual fund." The instruments used can also vary depending on your time horizon. Says Mathpal: "For expenses between one and three years, invest in debt-oriented hybrid funds. For a time horizon of more than three years, equity-oriented hybrid funds like dynamic asset allocation or balanced advantage funds work well."

Use best estimates: For things like a vacation or home renovation, it's easy to estimate the cost. Divide the amount by the number of months left until you plan to use the fund, and set up an SIP accordingly. Expenses on gadget repair or replacement, yearly dental work, or car maintenance can, however, vary. Says Telang: "Even if you do not know the exact cost, it's still a good idea to set up a sinking fund for a major expense. That way, at least a part of the expense will get covered."

The size of the sinking fund you need will be specific to each goal. But certain thumb rules help. When it comes to renovation, the rule of thumb is not to spend more than 10 per cent of the value of your property. So, if your house is worth ₹75 lakh, do not spend more than ₹7.5 lakh on a renovation. That would be ₹12,500 a month. At the end of five years, you will get the required ₹7.5 lakh, along with a small surplus.

If the cost of repairing a gadget is more than half its price, it is better to go for a new one. You must ideally create a sinking fund to buy a new device, but when the time arises, see if only a repair will do. Says Telang: "For gadgets, you can put aside ₹5,000-10,000 as SIP, since every year something or the other breaks, needs repairs or renovation."

BRIEF CASE ● M J ANTONY

A weekly selection of key court orders

ONGC contract workers' claim to be reviewed

The Supreme Court (SC) has revived a question looming over a 1994 notification on contract labour in Oil and Natural Gas Corporation (ONGC) units, and impleaded trade unions to decide the issue anew. The central government's notification had prohibited 13 categories of work under Section 10(1) of the Contract Labour (Regulation and Abolition) Act. It was challenged in the Uttarakhand High Court (HC) by the public sector corporation. The HC allowed ONGC's petition and quashed the notification. Appealing against the order, the ONGC Labour Union defended the notification in the SC. The union alleged it was not heard by the HC, which went by one-sided arguments of ONGC. The apex court stated that the HC had drawn wrong inferences, given that it had not studied the background. "The prohibition notification undoubtedly impacts the livelihood of contract labourers, but unfortunately neither the ONGC Labour Union nor other recognised unions in the ONGC were represented or heard in the high court," the apex court underlined. Therefore, the SC asked the HC to take up the case again, and implead ONGC labour unions in Uttarakhand, Gujarat, Assam, Maharashtra and Andhra Pradesh. The HC was asked to conclude the case within four months of completing the formalities.

BPCL's appeal in arbitration dismissed

The Supreme Court last week dismissed the appeal of public sector oil company BPCL against the judgment of the Bombay High Court, which had held that the arbitrator had jurisdiction to consider the counter-claim made by Go Airlines (India), relating to CENVAT credit. The HC had set aside the order passed by the arbitrator. The dispute arose over the Aviation Fuel Supply Agreement between the two parties, when BPCL raised a claim for interest on delayed payments of the fuel supplied. The airlines did not accept any amount payable towards interest. The matter was referred for arbitration by a former Supreme Court judge. She rejected the counter-claim on CENVAT. The HC and the apex court held that rejection of the counter-claim at the threshold, on the ground that the arbitrator has no jurisdiction, would not be proper. The arbitration will proceed and determine this among other issues.

Rushing to high courts discouraged

In cases where there is a remedy for a litigant under the Code of Civil Procedure and the forum is a civil court, they should not rush to the high court. The latter, on its part, should not entertain such petitions — not merely as a measure of self-imposed restriction but as a matter of discipline and prudence. The apex court observed this in its judgment on the Virudhunagar Hindu Dharma Sabai vs Tuticorin Educational Society case. In this peculiar case, election to the executive committee of a society led to innumerable petitions and appeals in a number of courts, including the Madras HC. In order to cut short the litigation, the SC appointed a commissioner to conduct the election, according to the court's guidelines.

IPAB requires emergency treatment: Delhi HC

The Delhi HC last week reiterated its concern over the non-functioning of the Intellectual Property Rights Appellate Board (IPAB), because of the government's neglect. "The manner in which the IPAB has been functioning during the last 15 years shows that at every stage, there has been delay in appointments made to the IPAB — both of judicial members and technical members," the HC lamented. It added: "Further, adequate infrastructure and autonomy is also not granted to the IPAB in order to make its functioning efficient and smooth." These remarks came in an order in the Novartis AG vs Union of India case. The pharma company moved HC, alleging that its patent case was not moving because the working of the board had come to a standstill — given there was no chairman and only one technical member was available. There is no judicial member. Responding to the complaint, the court stated: "Under these circumstances, some emergency steps need to be taken by the government to ensure that the IPAB functions in an efficient and smooth manner, for the purpose it has been constituted."

Signing order without hearing is unfair: HC

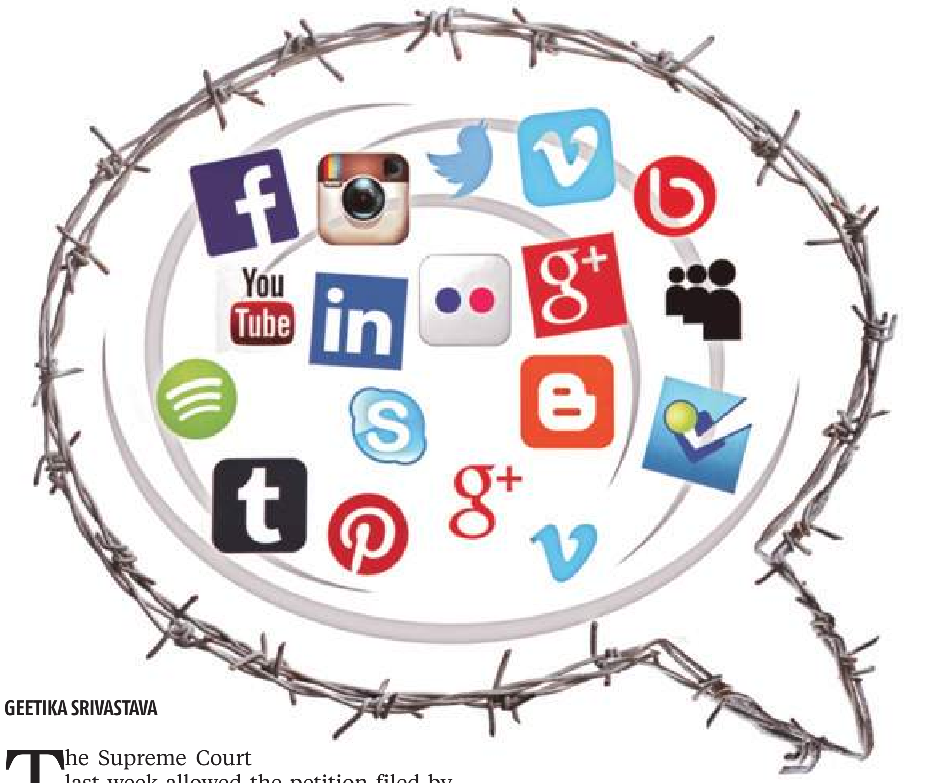
The Bombay HC has set aside an order of the National Anti-Profiteering Authority, constituted under the Goods and Services Tax Act, as one member of the panel did not attend the hearings but only signed the order later. The HC stated that it was in violation of the principle of natural justice. The case arose out of a complaint by a consumer, who alleged that McDonald's had not passed on the benefit of a lower GST to consumers. The matter was heard by the chairman and two members, who passed an order. The fourth member merely signed the order without hearing the arguments. The firm challenged it before the HC. It stated in the judgment of Hardcastle Restaurants Ltd vs Union of India that as the three members had heard the firm and the fourth member only joined in for signing the order, "it has resulted in violation of the principles of natural justice and fairness, and is liable to be set aside". The court rejected the argument of the authorities that signing of the order by the fourth member was "superfluous", when the other three had signed it.

Travel agency restrained in trademark row

In a trademark case, the Delhi HC has passed a permanent injunction against a travel agency. In the order pertaining to the Make My Trip Ltd vs Make My Travel (India) Ltd case, the former complained that the opposite party was using similar names such as 'Make My Travel', the MMT logo, and domain name, among other things. The judgement observed that the adoption of the mark by Make My Travel was "without any cogent explanation, and prima facie appeared to be dishonest". In case the latter was permitted to continue using the infringing marks, grave and serious prejudice was likely to be caused to Make My Trip. The court did not accept the rival's submission that Make My Trip had acquiesced in the use of the infringing marks and had allowed it to continue its use of the marks. The court emphasised that in order to claim defence of acquiescence, there should be tacit or express assent by the trademark holder to another, and in a way encouraging the opposite party to continue with the business. That was not the case here.

Decrypting the intermediary norms

Arguments on data decryption have fuelled a debate on primacy of national security over individual privacy



GEETIKA SRIVASTAVA

The Supreme Court last week allowed the petition filed by Facebook Inc to transfer all cases concerning regulation of social media, pending in three different high courts, to itself. This marks the beginning of a decisive phase for the legal interpretation of intermediary guidelines, as well as the resolution of contentious issues surrounding data decryption. Experts say the next 2-3 months could potentially have far-reaching implications for tech businesses in the country.

The bone of contention has been interpretation of the IT [Intermediaries Guidelines (Amendment) Rules] 2018, which lays out certain conditions for social media intermediaries operating in India. These have been fiercely contested by the social media giants, on multiple grounds.

One of the most contentious issues is that of data decryption, which would allow the Centre to trace the origin of content that could be fake news, hate speech, or linked to terror.

The Centre's stance is in alignment with Section 69 of the Information Technology Act, 2000 (IT Act), based on which an intermediary is supposed to provide 'all facilities and technical assistance' to the government to decrypt data. The same was supplemented by the IT Rules, 2009 under Section 2(g), which states that these decryption facilities must be provided by such platforms to the 'extent possible'.

Facebook Inc has argued that messages on its mobile application WhatsApp are secured by end-to-end encryption. The technology works like this: Once users sends a message, they generate a key. Only the intended recipient of the message has the unique public key to unlock it, and the company says it does not have access to this key. The 'extent possible' provision in the Rules, Facebook argues, could only mean the ability of the platform to decrypt the same, which, in this case, it lacks.

The argument has, therefore, transformed into a matter of national security versus individual privacy. "National security is paramount, but after the Puttaswamy case, 'Right to Privacy' has been declared a fundamental right. This case tests the applicability of this right vis-à-vis the former," says Dhruv Suri, partner at PSA Legal.

Many groups have argued that these guidelines could have a chilling impact on the freedom of speech under Article 19. "We cannot jeopardise the right to privacy of citizens of this country, either. There should not be a situation where the government has easy access to each and every chat just because the Rules are vague," says Kazim Rizvi, founding director of The Dialogue, a policy think-tank.

The Centre says the liability to decrypt always lay with intermediaries under provisions of the IT Act. However, firms cannot create a mechanism of encryption and, subsequently, say that they cannot decrypt. "The intermediaries, however, say they don't have a problem with decryption, but the government must do it," adds Suri.

Policy experts have argued that end-to-end encryption is not a technology restricted to intermediaries, and forcing them to decrypt would lead to criminals creating a new encrypted service. As the government has widened the scope of those who could request access to "any government agency", they say this could potentially be a mass surveillance threat.

As the Centre has only prescribed a limit of 72 hours to take down a post that it deems as "threatening public health or safety" (which many have argued is a vague term), it could prove to be quite onerous for social media platforms.

In the Shreya Singhal case, the Apex Court had laid down that it was against pre-censorship and any kind of blanket ban. "Actual knowledge of the content being illegal needs to be established," says Simranjeet Singh, partner at Athena Legal.

Companies argue that the guidelines pose problems for smaller businesses as well as start-ups. While the IT Act is silent, the draft Rules say intermediaries with over 5 million users must be locally incorporated. This, along with the fact that the Rules seem to have an extra-territorial application, have been argued to be violations of the parent Act. "The government must keep in mind that Rules, being secondary legislation, cannot override the main legislation, which is the IT Act," says Pavan Duggal, advocate, Supreme Court.

Such Rules may also act as a barrier to the markets. Further, stringent decryption mechanisms are extremely hard to set up for start-ups. "These Rules may affect venture funding in India, and could also pose risks to start-ups trying to establish their businesses with limited resources," says Manuj Garg, co-founder of myUpchar.com.

The case, therefore, boils down to proportionality, as laid down in the Puttaswamy case. The Centre says it will come up with the final guidelines in another couple of months. Whether the guidelines turn out proportional to the threat, is what remains to be seen.

KEY PROVISIONS UNDER DRAFT GUIDELINES

- **Intermediaries with over** 5 million users must be locally incorporated, with a physical address in India
- **They must provide** response to a request from a government agency within 72 hours
- **They must use currently** available technological tools to identify and remove unlawful content
- **They must remove** any content that harms public health or safety
- **They must be able to** decrypt and trace origin of the content

Changing the face of the competition law

RUCHIKA CHITRAVANSHI

Amendments to the Competition Act, which were long overdue, are finally on the horizon. After close to a decade, the Centre is taking steps to tweak the law in tune with the new-age digital economy, while also easing provisions to reduce the burden of litigation. Together, they should serve to create a more business-friendly regime.

NITI Aayog Vice-Chairman Rajiv Kumar recently highlighted the need for the Competition Commission of India (CCI) to develop oversight capabilities on data-related businesses, so as to prevent the amassing of power in a single conglomerate.

Though alteration to the threshold of "deal size" — a parameter for deciding whether a case comes under the ambit of the competition law — is one step towards keeping the law in pace with the new-age economy, the CCI is now in the process of identifying highly dynamic and evolving sectors, such as telecom, to study anti-competitive behaviour and how the markets might get distorted.

"We need to be aware of issues faced by certain sectors. As and when we come across a case, we could take a call," says Ashok Kumar Gupta, chairman of CCI. From telecom to e-commerce, the CCI is in the process of creating a series of market studies.

The plan to introduce a commitment and settlement clause — high on the wish list of corporate India — is an indicator of things to come. The government felt it was time to give a way out to erring companies that were willing to make market corrections.

"Some concepts they had missed out on are now being included, after studying global trends. There was a need to fill these gaps," says Anand Pathak, managing partner at P&A Law Offices.

Over the past few months, the government has been moving towards a corporate governance and oversight regime that allows for faster resolution of violations by companies, through decriminalisation of offences under the Companies Act.

The objective is to considerably de-clog the National Company Law Tribunal from frivolous litigations. This will also help release regulatory capacity, which could be deployed to improve corporate governance.

In the same spirit, say experts, the CCI is working towards more optimal use of its regulatory capacity. It also aims to deploy its investigative resources better and serve the intention of the law — to preserve competition.

While industry has cautiously lauded many of the government's ideas towards revamping the competition law, there are concerns over some of the changes that are being proposed. One such move is the merger of the offices of the Director General and the CCI.

Experts say the move is worrisome. "The two offices have to be at arm's length and the DG office cannot be guided by the CCI. Sanctity of the investigation has to be maintained," says Amitabh Kumar, partner at J Sagar Associates.

The amendment would effectively mean the appointment for the DG office will fall in the domain of CCI. The antitrust watchdog, however, wants to create single-point accountability for investigations and implement strict timelines, while staying away from the process of investigation.

The other issue that is high on the to-do list of the Commission is to rise up to challenges faced by policymakers, with the rapid growth and influence of the digital economy. The Competition Act, for the first time, would add a deal value test in its quiver. Deals, such as Facebook's multi-billion-dollar acquisition of WhatsApp, which fell outside the purview of CCI, will now require government nod following amendments to the Competition Act.

"Bringing deal value is good, but thresholds should not be diluted," points out Kumar. Some experts, like Kumar, are not happy with the dilution some provisions of the competition law.

Kumar says niche companies could create monopolies and thresholds have to be dynamic in certain sectors. At present, the Commission looks into a deal when an acquired company has a turnover of at least ₹1,000 crore and assets worth ₹350 crore or more.

However, with data becoming a valuable commodity, the Commission is also amending its laws to cover this aspect of the new-age economy. It will look into the deal size of any acquisition beyond a certain threshold.

How the competition law deals with data-based businesses is something the Commission is still grappling with, according to experts.

CCI'S PERFORMANCE: A MIXED VIEW

	2016-17	2017-18
Alleged anti-competitive conduct noticed	161	72
Prima facie order passed	167	74
Investigations completed by DG	23	36
Orders passed in anti-competitive conduct	78	72
Amount of penalty levied (in ₹ crore)	288.28	436.65

Source: CCI

'Govt, businesses want greater tax certainty'

The Organization for Economic Co-operation and Development (OECD) has been at the forefront of international negotiations in adopting a "Unified Approach" to tax large and highly profitable multinational enterprises, including digital companies. The OECD is seeking public comments on its proposals to arrive at a global framework to tax firms based on where they have significant consumer-facing activities and generate their profits. **GRACE PEREZ-NAVARRO**, deputy director of the OECD's Centre for Tax Policy and Administration, tells **Sudipto Dey** how the proposed tax regime would look like. Edited excerpts:

Q&A

How would the new global tax regime look like if the proposals are accepted by all countries?
There are fundamental changes that are being proposed. For highly digitised and consumer-facing businesses, we are proposing to look at the enterprise as a whole for taxation, as distinct from traditional arm's length transfer-pricing principles, which are based on a separate-entity approach.

Another big change is that we would apply a formula-based approach to tax profits, as distinct from an arm's length principle using facts and circumstances. That would simplify the process of tax calculation, which is very complicated now. These two are very important differences (from the current regime).

Many countries have to give up some part of their tax jurisdiction rights (to agree to the proposals). Do you see that as a challenge?
Yes, it is a challenge to get 134 countries and jurisdictions to agree. It is also a challenge to make countries give up some of their fair tax rights. But we find countries are willing to do this if they get in exchange greater tax certainty, better dispute prevention, and binding dispute resolution mechanisms. The tax certainty component is a very important part of the package.

The fact is if we do not reach an agreement, we would have a proliferation of unilateral measures, which will stifle investment and growth and lead to increased compliance costs for companies. Businesses may then spend more on compliance than innovation.

What has been the feedback of companies to these proposals?
During the BEPS (Base Erosion and Profit Shifting) project, we had a lot of companies opposing that project. Paradoxically, we find a lot of support from companies, including big digital companies and non-digital ones. And the reason is that they want tax certainty, and not dealing with different measures across the world. They want stability in the international tax system increased. In our public consultations, we received tax proposals from big businesses — this is a first. They all want certainty (in tax interpretations) with standardised rules, and spend less time on compliance.

So, these proposals will apply to even brick-and-mortar, non-digital companies?
The proposal we have put forward in the "Unified Approach" applies not only to digital companies but also large consumer-facing businesses. We recognise that while the big focus is on digital companies, there are some unresolved issues with large non-digital companies. After discussion with a lot of countries we looked at what it is about digital companies that is enabling them to engage heavily in an economy without having a physical presence. A lot of that has to do with engagement with the consumer. So, our proposals would capture some traditional businesses — mostly business-to-consumer but also some business-to-business activity.

The new tax regime is not only about consumption, but also of sustained and significant economic activity.

The current tax regime is marred by litigation. Could you give us a sense of how you plan to address that issue?
Circumscribing the application of the rules to large multinationals limits the number of taxpayers caught in the new rules. (The proposal is to apply the new rules to companies that are over and above the euro 750 million turnover threshold. This threshold is under negotiation among countries). More importantly, we are trying to incorporate as part of the package binding dispute-resolution mechanisms to ensure that there is no lengthy, costly litigation.

How hopeful are you of a consensus on all issues, and by when?
First, we are trying to get a high-level political commitment to the way forward. We hope by January next year we get the political agreement on the outline of the architecture even if we have not sorted out the technical details. By June we hope to have a political commitment to the whole package. Our deadline is November 2020 — at the time of the G20 meet — where we present the final solution. The questions around implementation will come after that. All the core components and the key elements (of the new tax regime), including the carve-outs, the binding dispute resolution mechanism, should be ready by June next year.

So you expect all the countries to sign a joint agreement (once they arrive at a consensus)?
We feel there should be a separate agreement that will enable all countries to jump into the pool at the same time. But this is still under discussion.

Seeking quality in tough times

Investors seem to have little to complain about Samvat 2075, as it ended with double-digit returns compared to a mid-single digit performance in the previous Hindu calendar year. However, the better show by leading benchmarks Sensex and Nifty masks the pain in sectoral indices, as well as in the small- and mid-cap companies, which registered their second straight year of negative returns. The Nifty SmallCap, for example, has shed 33 per cent over the last couple of years, including 10 per cent in the previous Samvat. In comparison, the Sensex and Nifty have generated positive returns in the range of 13-18 per cent. The preference for large-caps has come in the aftermath of the IL&FS crisis, a slowing economy, and demand woes. While value has emerged in some pockets, investors continue to seek refuge in safety and quality. The list of stocks mentioned here, therefore, is tilted towards those companies that exhibit earnings visibility, stability in cash flows and return ratios. The kicker for the market hereon, as a whole, could come through if the ongoing reforms, tax cuts, further fall in interest rates and a likely pick-up in investment/consumption cycle boost GDP growth. This could be a trigger for earnings growth as well as a market wide re-rating.

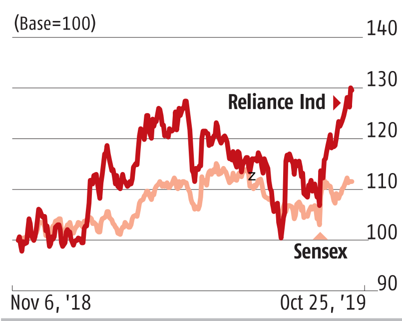
Ram Prasad Sahu, Hamsini Karthik, Ujjval Jauhari and Shreepad S Aute

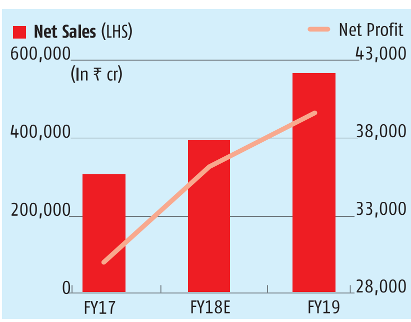
TOP LARGE CAP PICKS

RELIANCE INDUSTRIES

Price (₹)	1,431
Target price (₹)	1,610
PE (x)	21.4

12.5%



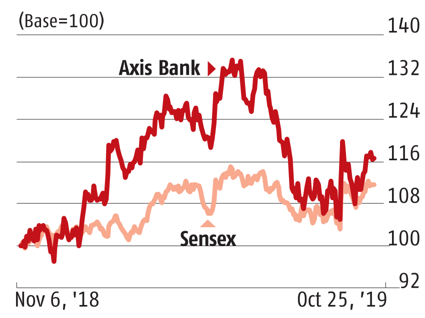


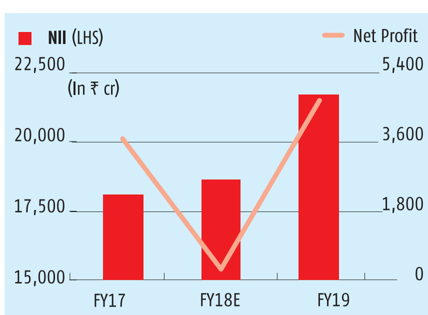
- Reliance Industries' (RIL's) prospects are being driven by higher growth in consumer and retail, and digital services. Their shares are expected to rise to 50 per cent in the coming years (from 33 per cent in Q2FY20), led by market share gains
- In the medium term, growth for digital services will be aided by RIL's focus on kirana digitalisation. Likely hike in telecom tariffs should boost revenues and margins of the wireless business
- Refining business to gain from implementation of International Maritime Organization regulations on sulphur content
- Petrochemicals segment to benefit from start of the petcoke gasification project (currently under stabilisation phase) and should help from the second half of FY20
- With major capex behind, RIL now looking to become zero net-debt company by March 2021
- Value unlocking in retail and digital businesses the other triggers

AXIS BANK

Price (₹)	708
Target price (₹)	865
Price to book (x)	2.7

22.2%



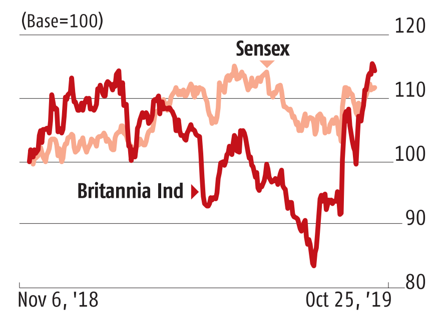


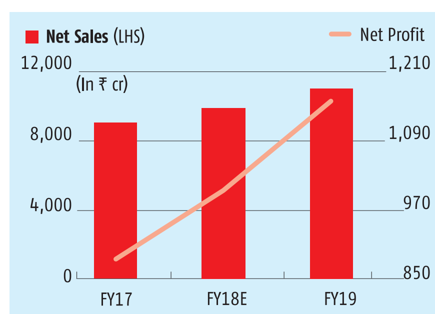
- Having demonstrated its commitment to remaining on the path of stabilising asset quality, it won back some lost investor faith after September quarter (Q2) results
- Core interest income growing 16 per cent year-on-year in Q2 and strong loan growth, particularly retail loans (now over half of loan book), are key positives
- As for asset quality, bank's ability to curb the share of low-rated corporate loan accounts to less than 2 per cent of the total book a positive signal
- Recently concluded capital raising positions the lender to grow attractively once demand revives
- Valuations attractive at 2x its FY21 book

BRITANNIA INDUSTRIES

Price (₹)	3,267
Target price (₹)	4,030
PE (x)	67.7

23.4%



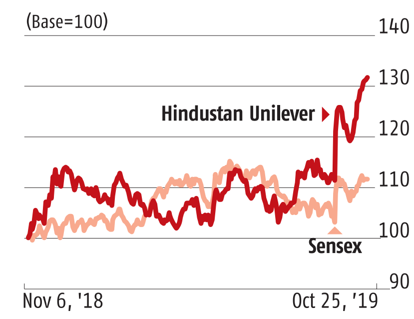


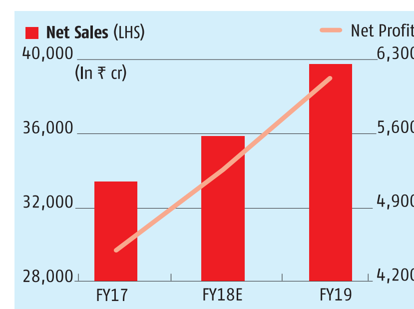
- Though the biscuit segment is witnessing some slowdown due to shift in price points at the lower end of the pyramid, analysts believe it is a temporary phase
- Higher share of premium products (cookies at 35-40 per cent of sales) and relatively lower dependence on the wholesale channel should help Britannia recover faster than the sector
- Britannia expected to gain market share friven by new launches, innovations, wider distribution, and better pricing
- Improvement in overall realisations should improve margin profile
- Steps to reduce inter-corporate deposit exposure should also lift sentiment

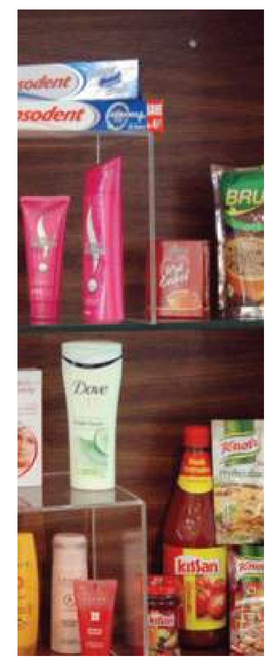
HINDUSTAN UNILEVER

Price (₹)	2,143
Target price (₹)	2,422
PE (x)	76.6

13.0%





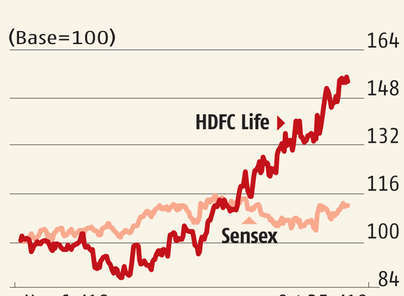


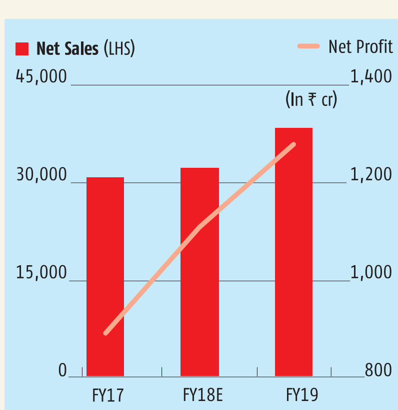
- Leader in the FMCG space with presence across home care, personal care, food and refreshment categories
- A 5-per-cent volume growth in Q2 amid weak demand underlines company's brand power as well as its market position
- Biggest beneficiary of the expected demand recovery in rural India, which accounts for close to 40 per cent of its revenues
- Gaining traction in home and personal care segments, with focus on premiumisation, new launches such as 'Love & Care' fabric wash, and market development
- Implementation of Goods and Services Tax and strong distribution network will help improve market share across segments
- GlaxoSmithKline Consumer Healthcare's acquisition to increase presence in food category, and improve margins and earnings
- Healthy return ratios of over 80 per cent and dividend payout of around 79 per cent in FY19 the other positives

HDFC LIFE INSURANCE COMPANY

Price (₹)	610
Target price (₹)	733
PE (x)	96.2

20.2%



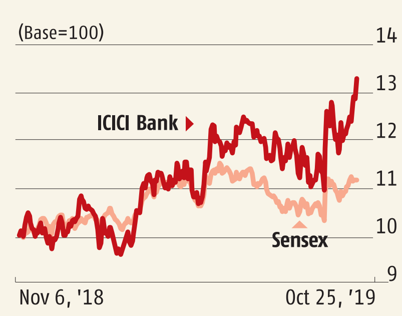


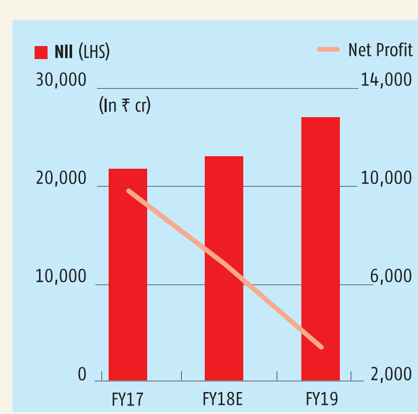
- The recently concluded September quarter was a good one for the insurer. With a favourable product mix and eye on profitability, HDFC Life stands out in the pack
- With focus on retail products catering to individuals, margins earned on value of new business increased by 130 basis points year-on-year to 26.3 per cent in the quarter, the best in the industry
- Despite the slowdown in unit-linked insurance plan (ULIP) products and a higher focus on non-par products, analysts believe the company is well placed to grow its premiums at over 40 per cent in FY20
- The stock is trading at 4 times its FY21 embedded value, which is a reasonable premium for this quality stock

ICICI BANK

Price (₹)	469
Target price (₹)	502
Price to book (x)	2.6

7.0%



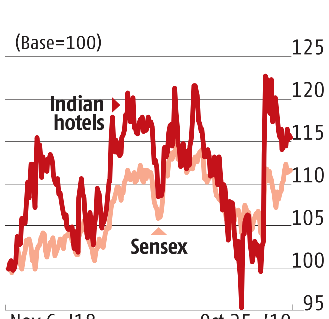


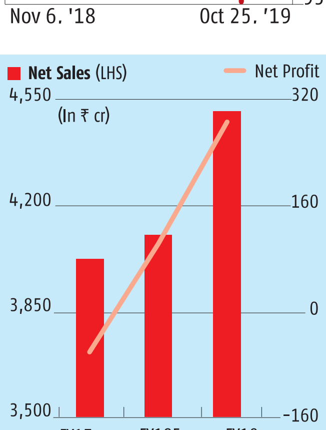
- With the new management having demonstrated success in terms of bringing stability to operations and cleaning up the bank's books, a lot goes in favour of ICICI Bank
- ICICI Bank most recommended stock in the sector at present, with attractive valuations of 1.7 times its FY21 book
- Being the first mover among troubled banks four years ago to chase retail loans, share of these loans have swiftly risen from 45 per cent in FY15, to 60 per cent today
- With asset quality issues well behind, it should gain the most among private peers, when courts pronounce their verdict on large cases lined up for resolution. This should further boost the financials

INDIAN HOTELS

Price (₹)	151
Target price (₹)	215
PE (x)	62.6

42.4%



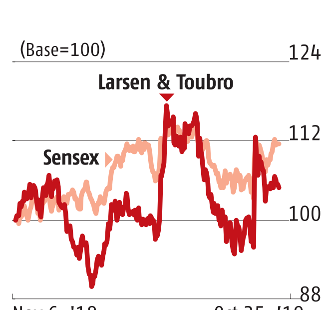


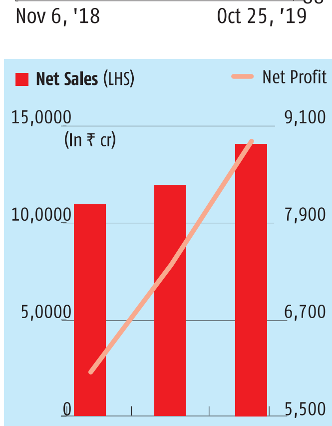
- Has a diverse portfolio across key locations, with expansions largely through the asset-light management contract route
- With 65 per cent occupancy and expectations of improvement in demand amid moderate supply, room rentals likely to pick up
- Strategic partnership with GIC to expand luxury portfolio while keeping debt levels in control
- Repositioning of Ginger Hotels to help improve occupancies and revenue
- Improvement in global operations, cost control efforts should help boost margins

LARSEN & TOUBRO

Price (₹)	1,425
Target price (₹)	1,875
PE (x)	22.4

31.6%



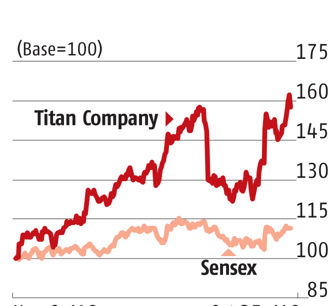


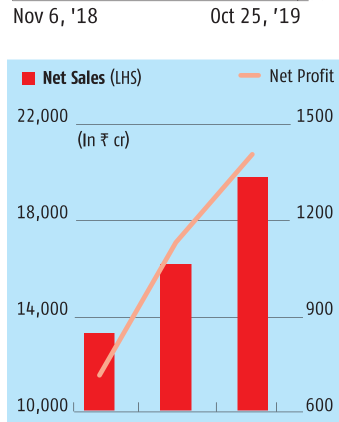
- L&T's order flow remains strong amid a challenging environment, led by its overseas business
- Order backlog of over ₹3 trillion and a healthy pipeline during H2FY20 to help sustain top line momentum amid near-term macro uncertainties
- Services businesses, too, providing strong momentum to L&T's consolidated revenue and profit
- Analysts say the management's discipline to balance growth and debt will help L&T sustain its competitive edge and mitigate risks, as its internation presence grows
- Remains top pick of most analysts

TITAN COMPANY

Price (₹)	1,334
Target price (₹)	NA
PE (x)	84.3

NA



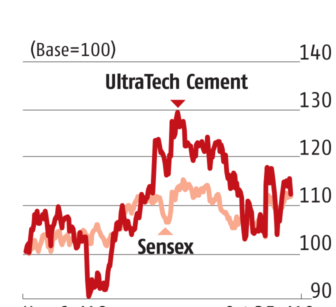


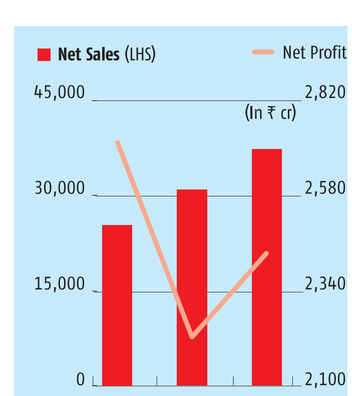
- Though subdued jewellery sales in Q2 cloud near-term prospects, long-term potential stays intact
- Strong brand, store additions, market share gains with GST and new launches are long-term growth levers
- Expected strong same-store-sales growth will propel operating margin and earnings
- Month-on-month improvement in retail sales in August and September to continue, led by festive and wedding seasons
- Decision to pass on tax cut benefits to consumers should further drive growth in near term

ULTRATECH CEMENT

Price (₹)	4,194
Target price (₹)	5,000
PE (x)	47.3

19.2%





- UltraTech's timely capacity expansions should lead to strong gains once cement demand picks up
- Limited limestone deposits in India likely to slow down expansions by peers in years to come
- Cement demand, which remained sluggish in first half of FY20 on account of general elections and monsoon, should pick up with the government's focus on housing for all, higher infrastructure spending, and higher rural spends
- Falling energy and logistics costs bode well for margins
- Company's plan to monetise non-core overseas assets to help pare debt

Price is current market price as on October 25, 2019; Current price-to-earnings (P/E) and price-to-book (P/BV) is based on trailing-12 month financials ended June 2019 (or September 2019, where results have been declared) and the latest share price; figures inside arrows indicate potential upside for the next 12 months, based on target price of brokerages; For banks, NII is net interest income;
Sources: Motilal Oswal Securities, HDFC Securities, Reliance Securities, Centrum Broking, Axis Direct, Prabhudhas Lilladher, Anand Rathi, IIFL, Nirmal Bang, Religare Broking, Sharekhan by BNP Paribas and JM Financial

Data compiled by *BS* Research Bureau

Corporate greed the fodder for terrorism

Nexus between corporates and the underworld now in the spotlight

PAVAN LALL
Mumbai, 27 October

The arrest of Humayun Merchant, a close aide of late gangster Muhammad Iqbal Memon, alias Iqbal Mirchi, by the Enforcement Directorate (ED), has once again turned the spotlight on the unholy nexus between the underworld and the powers that be.

Days before Merchant's arrest and the confiscation of property involved in alleged money laundering, the ED had questioned former aviation minister Praful Patel. Patel's reality firm Millennium Developers allegedly built CeeJay House, a building in Worli (Mumbai), with undeclared assets owned by Mirchi, who was one of the top associates of India's public enemy No. 1 — Dawood Ibrahim.

History shows that links between corporate powerhouses and terror financing are not new. Nor are they restricted to industries such as cinema or real estate — sectors that were slow to be classified as official business verticals and, hence, slow to get legitimate financing.

Aviation is another industry that has thrown up such allegedly dubious connections. The now-grounded Jet Airways was once subjected to a multi-pronged scrutiny of the nature of its true ownership and sources of funding. The speculation was that the Naresh Goyal-led airline was being funded by Dawood Ibrahim and his henchman, Chhota Shakeel.

The accusations could not be proved and while some cases were dismissed, others are still in court and Goyal remains under investigation by the Serious Fraud Investigation Office (SFIO) as well as income tax authorities.

Political and economic commentator Swaminathan Gurumurthy, who is also a part-time director at the Reserve Bank of India, says: "There is no doubt that there is high level of political involvement wherever terror financing is present."

He goes on to say that there are several past examples of individuals and firms with links to criminal factions, and adds that companies have started crossing lines that they never did earlier and that this culture needed to change.

Whether it is the Colombian drug cartels, the Italian mafia, or what was once the underworld in Mumbai, the points of connection almost always involve the use of 'black money' and a few select industries. Colonel Samrendra Mohan Kumar, co-founder of risk consultancy MitKat Advisory, says: "In India, these businesses or industries have historically been the film world, real estate and the aviation business. That is because in these industries the risk of failure is high and liquid cash is required more often," Kumar says.

Apurva Agarwal, managing partner at corporate law firm Universal Legal Advocates, says the Real Estate Regulation and Development Act (RERA) has come down hard on illicit funding of real estate because it contains stringent requirements across various stages of development. "However, it isn't 100 per cent successful and more needs to be done," he adds.

Recently, Finance Minister Nirmala Sitharaman welcomed the integration of the International Monetary Fund's lending policies with specific provisions for anti-money laundering and anti-terror financing steps. Her remarks came during the IMF's annual meeting.

In March this year, the United Nation's Security Council had called upon member states to stiffen the fight against the financing of terrorists and their activities and adopted a resolution on the issue under Chapter VII of the United Nations Charter.

When India had last updated the figures at the United Nations, the number of persons accused of terrorist financing and the number of cases under investigation were 470 and 143 respectively as of 2013. The number of people convicted stood at a mere five.

MONEY MENACE

- History shows links between corporate powerhouses and terror financing not restricted to cinema or real estate alone
- Aviation is another industry, with Jet Airways having been subject to scrutiny of the nature of its true ownership and sources of funding
- Whether it is the Colombian drug cartels, the Italian mafia, or what was once the underworld in Mumbai, the points of connection almost always involve the use of 'black money' and a few select industries
- In March, the UN Security Council called upon member states to stiffen the fight against terror financing
- India's last update at the UN pegged the number of persons accused of terrorist financing and the number of cases under investigation at 470 and 143, respectively

READY FOR REBOOT

Haryana Chief Minister Manohar Lal Khattar and Deputy Chief Minister Dushyant Chautala after taking oath during the swearing-in ceremony, in Chandigarh on Sunday. PHOTO: PTI

Uddhav now has remote control: Sena

PRESS TRUST OF INDIA
Mumbai, 27 October

The Shiv Sena on Sunday said it now had the "remote control of power" in Maharashtra, despite getting fewer seats in the 2019 Assembly polls as compared to 2014.

In his column *Rokhthok* in Sena mouthpiece *Saamana*, Sanjay Raut said, "The Sena won less seats this time, 56 compared to 63 in 2014, but it has the remote control of power."

"The dream that the Shiv Sena will drag itself behind the BJP is busted (after poll results). A cartoon showing a tiger (Sena's identity) holding a lotus (BJP's symbol) in its hand tells a lot about the current scenario. Not taking anyone for granted is the message," Raut wrote in his column.

PM lauds 'maturity' after Ayodhya verdict

PRESS TRUST OF INDIA
New Delhi, 27 October

Ahead of the expected Supreme Court verdict on the Ayodhya case, Prime Minister Narendra Modi on Sunday recalled how the government, political parties, and civil society prevented attempts to create fissures when the 2010 Allahabad High Court ruling on the disputed land in Ayodhya was to be delivered.

He described it as an example of how a united voice could strengthen the country.

In his monthly *Mann ki Baat* address, Modi asked people to jog their memory and recall the days ahead of the Allahabad High Court judgment of September 2010.

"I remember when the Allahabad High Court gave its verdict on Ram Janmabhoomi in September 2010. You could jog your memory a bit and reflect about the atmosphere then. Various kinds of people took to the arena. Various interest groups were playing games to take advantage of that situation in their own way," the prime minister said.

He referred to the "kind of language" used to "generate tension in the atmosphere".

He said some loudmouths had the sole intention of hogging the limelight at that time.

On the one hand, the machinations went on to generate tension. When the decision was delivered, the government, political parties, social organisations, civil society, representatives of all sects and saints, on the other, issued balanced statements. There were attempts to reduce the tension in the socio-political environment, he pointed out.

Prime Minister Narendra Modi celebrates Diwali with jawans in Rajouri district on Sunday PHOTO: PTI

Pak denies use of airspace to Modi's flight

Pakistan on Sunday said it has denied India's request to allow Prime Minister Narendra Modi's VVIP flight to use its airspace for his upcoming visit to Saudi Arabia, citing the alleged human rights violations in Jammu and Kashmir.

In a statement, Foreign Minister Shah Mahmood Qureshi said Pakistan has decided not to allow Prime Minister Modi to use the country's airspace, state-run Radio Pakistan has reported. He said the decision had been taken in context of the "black day" and in view of the alleged human rights violations in Jammu and Kashmir, it added. Qureshi added that the Indian High Commissioner was being informed of this decision in writing. PTI

US-India co-development fiasco forces new approach to DTTI

AJAI SHUKLA
New Delhi, 27 October

The US-India agreement on Thursday to co-develop seven cutting-edge defence systems marks the formal burial of six co-development projects announced with fanfare in 2015, but never concluded.

The agreement marks the reorientation of the US-India Defence Technology and Trade Initiative (DTTI) from a narrow, government-focused approach, to a new realisation that joint development projects be piloted by defence industry on both sides, while the Pentagon and India's Ministry of Defence (MoD) oversee progress and deals with regulatory roadblocks that arise.

US Under Secretary of Defense, Ellen Lord, who visited Delhi this week to co-chair the ninth DTTI meeting with her Indian counterpart, Secretary for Defence Production Subhash Chandra, acknowledged: "In the past, there have been frustrations with progress under DTTI, but… we are making considerable progress."

There are few takers for this, however, given the abandonment of projects taken up earlier (with the exception of aircraft carrier cooperation), and their replacement with seven new co-development projects on Thursday.

The MoD and Pentagon officials have drawn lessons from earlier DTTI failures. A key reason was that, in entering co-development projects, New Delhi and Washington had divergent motivations, with neither side focused on co-developing usable products.

An example is the co-development of "jet engine technology", for which both sides constituted a joint working group (JWG) in 2015. On Thursday, Lord admitted that this had been suspended because "we could not come to an understanding of what exportable technology would be useful to the Indians. And, we did run into a challenge in terms of the US export control".

In fact, there was little that India could ever contribute to this "co-development", with US entities already masters of aero engine technologies. At the same time, Indian scientists and technologists were at an early stage of the learning curve, struggling to develop the Kaveri jet engine.

What the Defence R&D Organisation (DRDO) wanted was US solutions for unsolved technology challenges, such as high temperature alloys and single crystal blades for the "hot end" of the Kaveri.

Meanwhile, the US side expected that working with the DRDO would create a relationship that would lead to building US aero engines in India. US engine makers like Pratt & Whitney, or General Electric, would never part cheaply with intellectual property (IP) that had cost billions to develop over decades. Nor would Washington grant export control licences for critical engine technology. The best that could be hoped for was the transfer of manufacturing line blueprints for building engines in India. That would advantage US fighter vendors in on-going procurements of fighter aircraft for the Indian Air Force and navy.

NEWS ANALYSIS

The MoD understood that this would provide a controversial back door into India's aircraft procurement cycle. New Delhi has also understood that US engine-makers are guided by commercial and not strategic considerations. Although India remains a strategic partner, the US defence industry, which resides in the private sector, would not hand over "hot end" technology to score a success in DTTI.

The new approach to DTTI, and the choice of products and technologies now being co-developed, recognises that the Indian partner must bring credible technological capability to the table. In announcing the co-development of "air-launched, small, unmanned airborne systems (UAS)", Lord acknowledged: "There are some small, very innovative companies here in India that have [this] technology."

Similarly, it was decided to co-develop a "Virtual Augmented Mixed Reality" platform to teach aircraft maintenance, because several Indian start-ups have already developed VAR technology.

A second lesson has been the need for Pentagon-MoD control of DTTI to allow more space for industry-to-industry collaboration. The first step was taken on Monday, when seven American and 20 Indian defence firms attended the new "DTTI Industry Collaboration Forum", chaired by mid-level defence bureaucrats from both sides.

Admitting that this was "helping us better understand challenges and opportunities", Lord said this would be "formalised into an industry-to-industry framework" by the time the two defence and foreign ministers met in the "2+2 dialogue" in December in Washington.

A third lesson has been that the military, rather than the DTTI, is often the better platform for projects involving operational cooperation. The American and Indian navies are now largely driving "aircraft carrier technology cooperation" (ACTC), which involves a US-India partnership in developing the next indigenous aircraft carrier. Lord specifically lauded the "high level of engagement" between the parties.

Finally, there is a recognition of the need for the DTTI to diligently monitor projects and time-targets. The newly signed Statement of Intent specifies "the need for detailed planning and measurable progress on specific short, middle, and long-term DTTI projects that are identified in the document".

US Under Secretary of Defense Ellen Lord, in Delhi to co-chair the ninth DTTI meeting, acknowledged that in the past, there were frustrations with progress under DTTI PHOTO: BLOOMBERG