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14 pages in 1 section
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COMPANIES P3

DEEP DISCOUNT ISN'T EASE OF DOING BUSINESS: GOVT TO E-COM PLAYERS

WORLD P5

EU AGREES TO EXTEND BREXIT TILL JAN 31

PUBLISHED SIMULTANEOUSLY FROM AHMEDABAD, BENGALURU, BHUBANESWAR, CHANDIGARH, CHENNAI, HYDERABAD, KOCHI, KOLKATA, LUCKNOW, MUMBAI, NEW DELHI AND PUNE

How markets performed last week

	Index on Oct 25, '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

P CHIDAMBARAM TAKEN TO AIIMS, DISCHARGED LATER

Former finance minister and senior Congress leader P Chidambaram, who is currently in the custody of the Enforcement Directorate in the INX Media case, was taken to AIIMS on Monday after he complained of stomach ache and other related issues. Sources said Chidambaram was earlier taken to RML Hospital in the morning. He was later discharged. PTI

BS SPECIALS ON TUESDAY

MARKETS IN SAMVAT 2076:
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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

STRATEGY:
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Yes, a model perfected by the transport and freight industry is gaining popularity in the eat-in business
SHUBHOMOY SIKDAR writes

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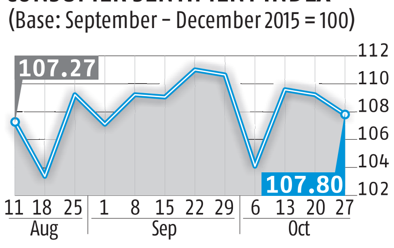
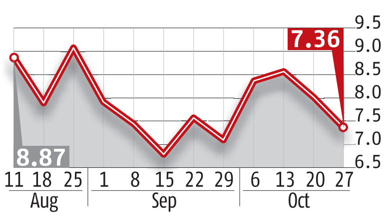
How Vasundhara, Chouhan and Raman Singh are placed in the post-defeat scenario
RADHIKA RAMASESHAN writes

THE CMIE TRACKER

CONSUMER SENTIMENT INDEX
(Base: September - December 2015 = 100)



UNEMPLOYMENT RATE (%)



Source: CMIE

REAL WAGE RATE FALLS IN CORPORATE INDIA 8

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%**	₹1.1 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

FinMin may reject call for spectrum fee holiday

DoT wants moratorium on all telcos for paying airwave dues

ARUP ROYCHOUDHURY & SURAJEET DAS GUPTA
New Delhi, 28 October

The finance ministry is likely to reject a telecom industry demand for a two-year moratorium on payment for spectrum bought in previous auctions, according to an official in the know. This would come as a double whammy for telcos reeling from severe financial stress.

Recently, in an unrelated development, the Supreme Court had upheld the government's definition of adjusted gross revenue (AGR) and directed telecom operators to pay up the pending licence fee and other charges that could add up to an estimated ₹1.33 trillion.

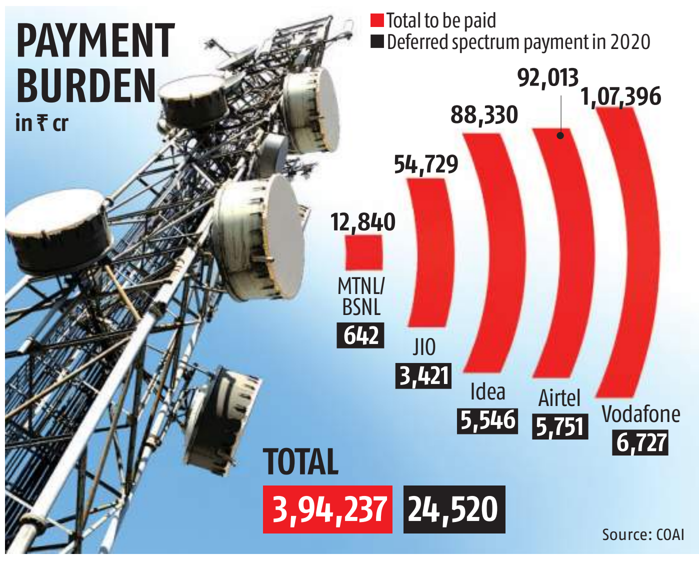
Last month, Vodafone Idea had sought relief from the government in paying out the spectrum dues. Subsequently, the Department of Telecom (DoT) was considering a two-year moratorium for all telcos — Bharti Airtel, Vodafone Idea and Reliance Jio — in paying the dues for spectrum auctioned earlier.

The government had in 2017 allowed telcos to stretch the tenure of instalments for spectrum payment to 16 years from 10 earlier. But top officials of UK-based Vodafone had met DoT Secretary Anshu Prakash in September, wanting a two-year holiday on spectrum charges which are due for FY20 and FY21.

A senior finance ministry official pointed out that given the challenging fiscal situation this year, the government is banking on non-tax revenue items to make up for some of the anticipated tax revenue shortfall. "So any relaxation or waiver cannot be given on spectrum fee," he said.

After Telecom Minister Ravi Shankar Prasad's recent assurance that the government was looking at spectrum pricing reforms, the finance ministry's move could upset the industry hoping for some respite. Telcos together will have to pay ₹49,040 crore (₹24,520 crore per annum) to the government as spectrum payments over the next two years.

Revenues from telcos are a significant portion of the non-tax revenues of the government. Revenues from other communications services, including fees and proceeds from spectrum sales, have been budgeted at ₹50,520 crores during the current year. In 2018-19, the Budget Estimate under the same head was ₹48,660 crore, but the Revised Estimate was lower at ₹39,245 crore. Turn to Page 13



Source: COAI

TELCOS' BROADBAND STRENGTH MAY BE HIT

Last week's the Supreme Court (SC) verdict on adjusted gross revenue (AGR) of telcos can have a larger impact on the broadband network strength of operators, noted analysts, saying the payment will impact their ability to spend on tower tenancy. As of last week, the SC gave telecom companies three months to comply with its order, upholding the government's definition of the AGR and asked them to file a compliance report after depositing the money. The SC had on Thursday said there would be no extension of deadline. It had also said telecom companies would have to pay the fine and penalties, apart from the AGR dues. The payout by telcos could rise to an estimated ₹1.33 trillion once spectrum usage charges linked to AGR are taken into account. ROMITA MAJUMDAR writes 2

Infy assures clients in whistle-blower case

Analysts say client relations are good, but allegations reveal internal dissent

DEBASIS MOHAPATRA
Bengaluru, 28 October

Infosys has written to clients, apprising them of the developing situation on whistle-blower allegations and subsequent investigations by the company and regulators, said sources in the company.

Analysts said the relationship of the Bengaluru-headquartered information technology (IT) major with its clients was unlikely to be affected by the recent developments, but the complaints of the whistle-blowers reflected internal dissent in the company.

"From the point of view of clients this will have little or no impact," said Peter Bendor-Samuel, founder and chief executive officer (CEO) of global IT outsourcing consultancy firm Everest Group, adding: "They don't care about accounting practices and where the CEO is travelling. Their experience with Infosys has been good and that is what they care about."

He added current whistle-blower allegations were reflective of the internal dissent in the company and this did not augur well for Infosys. "Internal wounds can be clearly perceived from the non-accounting portions of the whistle-blowers' letter," said Bendor-Samuel, adding: "Protracted infighting distracts the IT firm from the heavy lifting of transformation which it must continue to push through if it has to emerge as a leader in this new market."

An anonymous group called Ethical Employees, in a letter on September 20, alleged that Infosys' current management was taking "unethical" steps to inflate short-term revenue and profit. It also flagged concerns about several zero-margins deals, which were closed by the current management "flouting norms".

The letter was made public last Monday, after which Infosys' stock price was badly hit, though it has recovered a bit in the last trading session. The IT major is currently facing investigations from the Securities and Exchange Board of India and the US SEC, apart from class-action suits from some US-based law firms.

Global analysts said some of the allegations made by the whistle-blowers were petty and accounting for large deals was often complicated, with no one correct method. Infosys CEO Salil Parekh was still highly regarded by clients. Turn to Page 13

WHAT EXPERTS SAY

- Whistle-blower allegations reflect internal dissent
- Some allegations made by whistle-blower are quite trivial
- There is no concern among the clients
- **CEO SALIL PAREKH'S** efforts to make Infosys a strong player have been appreciated
- No indication of Parekh leaving Infosys over these allegations

"AS OF NOW, IT IS BUSINESS AS USUAL. SALIL PAREKH HAS BROUGHT IN A CLEAR VISION FOR INFOSYS AND HIS EFFORTS HAVE MADE THE COMPANY A STRONGER PLAYER"
HANSA IYENGAR,
SENIOR ANALYST, OVUM RESEARCH

"FROM A CLIENT POINT OF VIEW, THIS WILL HAVE LITTLE TO NO IMPACT. THEY (CLIENTS) DON'T CARE ABOUT ACCOUNTING PRACTICES AND THE CEO TRAVEL"
PETER BENDOR-SAMUEL,
FOUNDER & CEO, EVEREST GROUP

DGCA warns IndiGo of grounding 16 A320neos

ANEESH PHADNIS
Mumbai, 28 October

IndiGo has been instructed by the civil aviation regulator to change engines on 16 of its Airbus A320neos, following three instances of aircraft turning back. The regulator has warned the airline the aircraft would have to be grounded if the changes are not completed in the next 15 days.

IndiGo has a fleet of 245, including 89 A320neos. These are powered by Pratt & Whitney (PW) engines and have been facing low-pressure turbine issues, main gearbox failure, and engine vibration, resulting in schedule disruptions. While modifications have been carried out, the regulator wants IndiGo to take more steps.

"We have decided that all aircraft with unmodified LPT engines, which have clocked more than 2,900 hours, have to be fitted with one modified LPT engine in the next 15 days," said Director General of Civil Aviation Arun Kumar.

The action follows the analysis of the three incidents between October 24 and 26 due to LPT failure. A team of Directorate General of Civil Aviation officials met the airline's senior management on Monday. "IndiGo has been instructed to ensure no Airbus A320neo which has two PW 1100 series engine of more than 3,000 hours engine life each should be operated. IndiGo has been given a fortnight to comply with the instructions," said Kumar.

While the IndiGo management had last week said it saw improvement in engine performance and reduction in snags, the regulator took a strict view and possible grounding of planes.

In a statement on Monday, IndiGo said, "We are continuing to work with the authorities and will take necessary action, as required, going forward."

"We can see significant overall improvement. The in-flight shutdown rate has come down to 0.01 per 1,000 engine flight hours," the airline's Chief Operating Officer Wolfgang Prock-Schauer informed analysts after the second-quarter results. Turn to Page 13

HITTING AIR POCKET

- **IndiGo has a fleet of 245 planes,** including 89 A320neo aircraft
- **A320neo aircraft** are powered by P&W-manufactured engine
- **While modifications have been carried out** in the engines to address the problems, DGCA wants IndiGo to take further steps
- **Airline hopes DGCA** will ease restriction, giving it greater flexibility to plan international flights

COAL DEMAND-SUPPLY MISMATCH LOOMS

Coal supply could play a dampener both for the power sector and industry at a time when the government is targeting double-digit growth and a $5-trillion economy. While the power demand is rising with enhanced electricity connectivity and improving supply metrics, domestic coal supply continues to remain a laggard as several states and power generators are depending on imported coal. The 19th Electric Power Survey by the Central Electricity Authority projects peak power demand of 299 gigawatt (Gw) by 2026-27. Apart from the existing coal-based capacity, it takes into account 47.85 Gw at various stages of construction. The total coal requirement for 2021-22 and 2026-27 has been estimated as 735 million tonne (mt) and 877 mt, respectively, including imported coal of 50 mt. SHREYA JAI reports 4

PMO lens on spike in gold smuggling

SHRIMI CHOUDHARY
New Delhi, 28 October

A spike in gold coming into the country illegally through special economic zones (SEZs) has attracted the attention of the Prime Minister's Office (PMO), which has sought a report from the Central Board of Indirect Taxes and Customs (CBIC).

The report should contain details about official gold imports, its usage in the domestic market, smuggling trends, possible curbs to mitigate the negative impact of gold imports on the trade deficit, and the current account deficits, said sources in the government.

In the current fiscal year (2019-20 or FY20), the country's gold imports till August touched $14.5 billion, according to the commerce ministry data. Since January, the import of the precious metal has recorded double-digit growth, except in February. About 1,400 kg of gold being smuggled in was seized by the Customs till September.

Following this, the CBIC had submitted a comprehensive report a few days back, explaining the causes behind increased gold smuggling. Turn to Page 13

CURB ON GOLD EXPORT SCHEME?

CBIC has submitted a report on illegal activities around gold import

- PMO is reviewing the existing gold export scheme and SEZ policy
- Report talks about the methods adopted to abuse the export schemes
- Traders import gold through SEZs but export jewellery with zero gold content
- Fake import data along with quality of imported gold being compromised is a challenge
- Involvement of foreign nationals is also a matter of concern for the Customs

FIIs cut stake in private banks in second qtr of FY20

Deeper cuts seen in mid-sized players owing to concerns over SME segment

JASH KRIPLANI
Mumbai, 28 October

Foreign institutional investors (FIIs) have trimmed their holdings in 12 private banks in the September quarter amid concerns over a build-up of stress in mid-sized companies and small and medium enterprises (SMEs).

Within the BSE-500 universe, mid-sized private banks are the ones to see deeper cuts in FII stakes. For instance, Karnataka Bank saw its FII stake reduced by 167 basis points (bps) to 13.7 per cent in the September quarter from 15.37 per cent in the June quarter.

Federal Bank (246 bps), City Union Bank (133 bps), ICICI Bank (117 bps), HDFC Bank (80 bps), DCB Bank (43 bps), Kotak Mahindra Bank (37 bps), and RBL Bank (20 bps) are the other banks in which FIIs have pruned their stakes.

Among the above, DCB Bank and Karnataka Bank have reported a rise in slippages in the SME loan book in the September quarter.

Management commentary from some of the other private banks also pointed to pressure in SMEs owing to delayed payments by borrowers.

In a recent note, foreign broking house Macquarie pointed out that some foreign investors held an "all-round pessimistic" view of Indian banks.

"Investors are worried about second order impacts from new stress emerging in the mid-corporate and SME space, as well as rub off effect on retail asset quality," the Macquarie note read.

The report was based on interactions with 40-odd investors based out of Singapore and Hong Kong.

Analysts say the slowdown in the economy is likely to weigh on the SME segment, and this will, in turn, have a negative impact on banks with loan exposures to such companies.

For private banks, the share of non-performing assets in advances to MSMEs has increased to 2.91 per cent in 2018-19 from 2.69 per cent in the previous financial year.

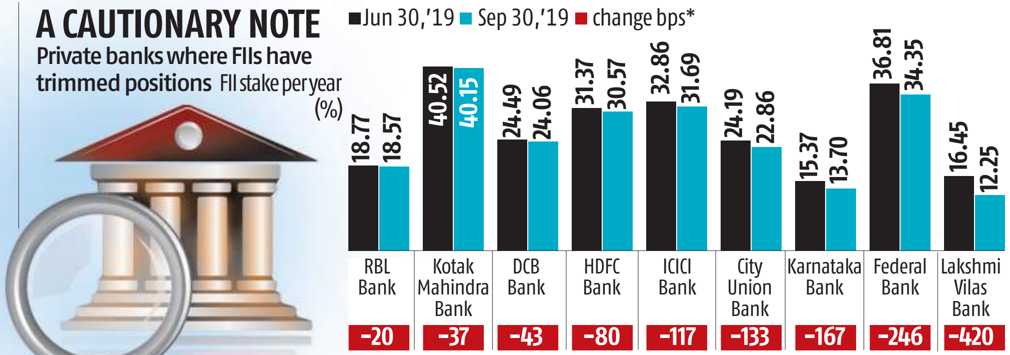
Analysts say compared to bigger banks, mid-sized banks will find it more challenging to deal with large spikes in stress levels.

"Not only are mid-sized banks finding it difficult to sustain higher levels of growth, the risks to their asset quality remain high. So, FIIs would take a short-term cautionary view of such banks," said Abhimanyu Soufat, head of research, IIFL.

He added that bigger private banks would seem more attractive because these were expected to see lower slippages, and an overall improvement in asset quality. Turn to Page 13

A CAUTIONARY NOTE

Private banks where FIIs have trimmed positions FII stake per year (%)



Source: Capitaline