Economy

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STRUCTURAL REFORMS
KV Subramanian, CEA

The (corporate) tax rate cut is a historic change which clearly signals the intent of the government to implement structural reforms that are necessary for high growth rate.

Quick View

Generating cos' outstanding dues

OUTSTANDING DUES OWED by distribution utilities to power producers rose around 57% to ₹78,020 crore in August 2019 as compared to the same month last year, reflecting a growing stress in the sector. Distribution companies owed a total of ₹49,669 crore to power generation companies in August 2018.

Govt move on single-use plastics

TOURISM MINISTER PRAHLAD Patel on Wednesday said single-use plastic will not be allowed on the premises of historical monuments and within 100 metre of them. The announcement comes days after Prime Minister Narendra Modi appealed to the nation to shun single-use plastics. The government has, however, shelved the plan to outlaw single-use plastics on the 150th anniversary of the birth of Mahatma Gandhi.

Bio-toilets in 95% rail coaches

THE RAILWAYS HAS completed installation of bio-toilets in 95% of its coaches and in the next three months, the entire network will be covered, Railway Board chairman VK Yadav said on Wednesday at the launch of a cleanliness survey.

CREDIT FLOW BOOST

Govt mulls extra funds infusion into PSBs

BANIKINKAR PATTANAYAK
New Delhi, October 2

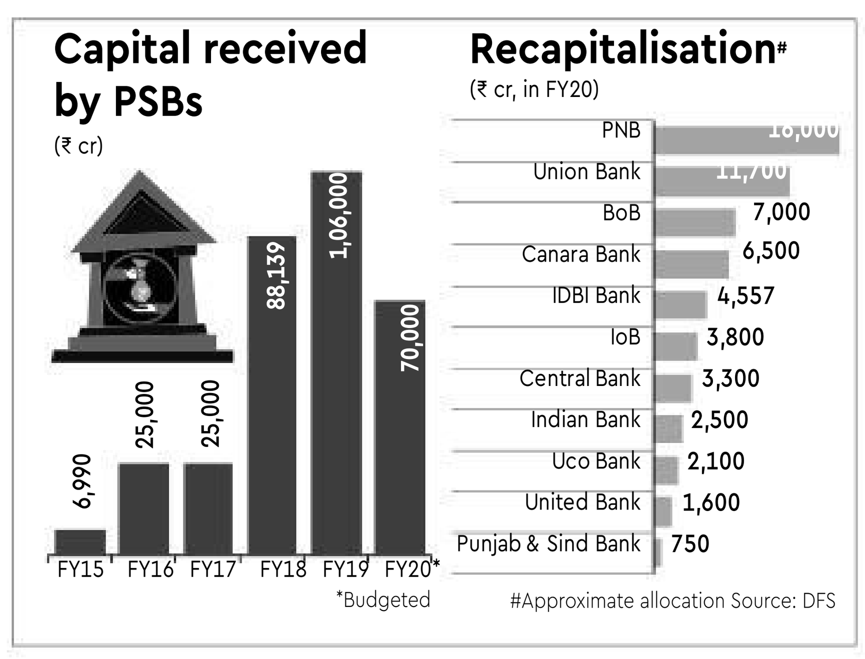
HAVING ANNOUNCED AN upfront capital infusion of the budgeted ₹70,000 crore into public-sector banks (PSBs) this fiscal, the government is contemplating additional infusion in FY20 to further shore up their capital base and bolster the ability to step up lending, sources told *FE*.

The finance ministry has already allocated ₹59,807 crore for infusion this fiscal and is likely to do the rest soon. The Department of Financial Services is likely to place the supplementary demand soon for the additional capital.

The plan is part of the government's efforts to strengthen PSBs and stimulate faltering consumption and the economic growth through a greater flow of credit at reasonable rates. Moreover, adequate capital will lend comfort to the 10 PSBs that will be amalgamated to create four larger entities. Already the government has directed PSBs to hold loan outreach programmes in 400 districts ahead of Diwali festivities.

While the precise amount of extra infusion is not immediately clear, according to one of the sources, the finance ministry has indicated that it would pump in more should there be a pressing need for it. Last month, the government said the infusion of ₹70,000 crore would enable PSBs to lend an additional ₹5 lakh crore.

Since the infusion will be through recap bonds, which are essentially off-Budget items, it won't immediately upset the Centre's fiscal math, especially at a time when the government has estimated gross revenue forgone of ₹1.45 lakh crore in FY20 due to a sharp cut in corporation tax rates. However, such recap bonds add to the country's stock of debt and interest on



them is paid from the Budget.

The government had infused ₹1.06 lakh-crore capital into the PSBs last fiscal, compared with ₹88,139 crore in FY18. In fact, the Modi government had provided roughly ₹2.5 lakh-crore capital in its first term. The government last month said Oriental Bank of Commerce and United Bank would be merged into Punjab National Bank to create the country's largest state-run bank after SBI. Similarly, Syndicate Bank will be amalgamated with Canara Bank and Union Bank, Andhra Bank and Corporation Bank will be merged. Allahabad Bank will also be merged with Indian Bank.

Recently, citing stress in the shadow banking space, Moody's cut India's GDP growth projection for the calendar year 2019 by as much as 60 basis points to 6.2%. Earlier this week, the global rating agency said among the 13 Asia-Pacific economies, India's banking system is the most vulnerable to the deterioration in corporate debt repayment capacity, along with Indonesia's.

Having risen at a double-digit pace in recent months, non-food credit growth slid to 9.9% as of August 30, against 12.2% a year earlier, according to the latest RBI data. Similarly, loans to exporters continue to contract, although the central bank has now relaxed the priority-sector lending norms for exporters to ensure a greater flow of credit to them.

However, with the turnaround in the bad loan cycle, high provision cover of over 75% of PSBs and record recovery, their balance sheets are healthier than before. These lenders are, therefore, in a position to boost lending, the finance ministry said recently. It also said loans to some key sectors remained robust, with disbursement of ₹11.83 lakh crore for the MSME sector in FY19, against ₹8.53 lakh crore in FY18. Banks lent ₹2.19 lakh crore as home loans in FY19, against ₹1.81 lakh crore in FY18.

According to a recent Crisil report, PSBs — which make up for roughly 80% of bad loans in the banking system — will see their gross NPAs shrinking by as much as 400 bps to 10.6% by March 2020 from 14.6% in March 2018.

Separately, the government recently told Parliament that gross NPAs of state-run banks dropped to ₹8,06,412 crore as of March 2019 from the peak of ₹8,95,601 crore a year earlier, highlighting the improvement in the PSBs' asset quality.

US commerce secy to meet Goyal today amid deal buzz

FE BUREAU
New Delhi, October 2

US COMMERCE SECRETARY Wilbur Ross will meet commerce and industry minister Piyush Goyal here on Thursday, a source told *FE*, amid growing expectations that the two sides would soon firm up a "limited deal" after months of negotiations. Ross is also expected to meet finance minister Nirmala Sitharaman separately.

Differences over American demands that India scrap or sharply cut duties on seven ICT products – including high-end cell phones and smart watches –, remove price caps on medical devices like stents and offer greater market access in agriculture and dairy, among


Wilbur Ross

others, are learnt to have delayed the trade deal. The "limited deal" was expected to be announced after Prime Minister Narendra Modi's meeting with US President Donald Trump in New York on September 24. Ross' visit to New Delhi is expected to help narrow the differences.

While the US has been seeking greater concessions from India, it is reluctant to respond commensurately with its offers and address India's concerns. Instead, it is still using the issue of its trade deficit with India to extract more from New Delhi, a source had told *FE* last week.

ICAI to investigate auditors' role in PMC Bank crisis

FE BUREAU
New Delhi, October 2

THE INSTITUTE OF Chartered Accountants of India (ICAI), the body that regulates chartered accountants, on Wednesday said it has initiated an investigation into the role of auditors in the Punjab & Maharashtra Cooperative (PMC) Bank crisis, and will take disciplinary action against its members if found to be involved in the controversy.

The ICAI said it is aware of reports about major financial irregularities and failure of internal control systems leading to downfall of PMC Bank, and considering the magnitude of the crisis, the association in consonance with its role as a 'regulator' has triggered its "disciplinary mechanism".

Under this, the ICAI has written to the bank and the regulatory agencies, including the vigilance department of the Reserve Bank of India and the commissioner of Maharashtra co-operative societies, requesting them to provide requisite details of their findings along with details of any member/firm allegedly involved.

"ICAI has also written to the statutory auditor of PMC Bank pertaining to financial years 2017-18 and 2018-19 seeking clarification on the matter. ICAI would be actively pursuing the issue with the concerned regulators so as to examine the matter in detail and would take action through its proactive disciplinary process against any member, if found to be involved in the matter," it said.

The crisis at PMC Bank is understood to have been precipitated as it was funding a clutch of companies, mainly in the troubled real estate sector. Housing Development & Infrastructure (HDIL) was one of these companies. Earlier this year, HDIL was dragged to the insolvency tribunal by Bank of India to recover its loans. Later, HDIL arrived at a settlement with the bank to stay out of NCLT.

India open defecation-free, country's stature on rise: Modi

PRESS TRUST OF INDIA
Ahmedabad, October 2

PRIME MINISTER NARENDRA Modi on Wednesday declared that India is now open defecation-free, adding the country's stature is on the rise on the world stage. Making the remarks at two separate public events, Modi also said a glimpse of the respect India has globally was seen during the 'Howdy-Modi' event in Houston.

Speaking at an event organised by BJP's state unit to felicitate him for his speech at the UN General Assembly, Modi said the world can see that India is at the forefront of several positive changes taking

place globally.

"Respect for India is increasing all over. One can experience the change," he added. "The strength and the value of Indian passport has increased. The world sees those holding Indian passport with respect," Modi said.

Modi said the recent 'HowdyModi' event in the US has become a talking point among world leaders he met after that programme.

"The fact that US President Donald Trump came to the Indian event and stayed there for such a long time was great.

"After speeches, when I requested him, he came for a round of stadium without considering security protocol. I thank him and all those who organised the event," Modi said. "In a way, the world is looking at India with great eagerness. The world was curious about India, a country with a vibrant democracy and it is hopeful that India's participation will be most significant whenever there are opportunities to bring about global changes," he said.

From the Front Page

As NCLT processes drag on, PSBs put ₹25,000-crore NPAs on sale

BOTH ASSETS were named in the Reserve Bank of India's (RBI) first list of large NPAs that were taken to the insolvency courts and are still languishing there.

IDBI Bank had the second-largest sale list with assets worth ₹9,756 crore. SBI put up assets worth ₹1,034 crore for sale, while Union Bank of India (UBI) sought buyers for its ₹1,212-crore exposure to Adlabs Entertainment. Several large NPAs have been unable to see full resolution and, as a result, banks' stressed books and provisions have been bulging.

ARCs bought quite a few assets from banks in 2018, but the emergence of a liquidity crisis later that year led to fewer deals being struck this year. "The liquidity crisis hit all NBFCs (non-banking finance companies), and ARCs, falling under that category, were hit by the contagion," a senior executive with a large PSB said.

Stress resolution has become a key factor for banks' ability to get re-rated. After SBI reported elevated slippages in Q1, analysts said more stress may be getting added to the book in the quarters ahead. "We now expect slippages of ₹50,000 crore in FY20 against ₹40,000 crore earlier with credit costs of 145 basis points (bps) in FY20, and increase our normalised credit costs to 100 bps for FY21-22," Nomura wrote in a post-results note.

Singapore 'fake news' law to crack down on free speech

ANY COMPANY found in breach of the law and refuses to comply with corrective orders issued by the government could face fines of up to S$1 million ($722,282), while individuals may serve up to 10 years in prison.

It will cost S$200 to file a court appeal to challenge a minister's decision.

The new law had overwhelmingly won support in parliament in May with a 72 to 9 vote. According a notification published in the government gazette on Tuesday, the Ministry for Communications and Information has appointed the Info-communications Media Development Authority as the responsible body for enforcing the law. BLOOMBERG

IndiGo feud in court of arbitration

IN A regulatory filing, InterGlobe Aviation, which runs IndiGo Airlines, said Bhatia and his InterGlobe Enterprises (IGE) have submitted a request for arbitration to the London Court of International Arbitration (LCIA) on October 1.

Gangwal, his wife Shobha, and their Chinkerpoo Family Trust are respondents to the fresh litigation filed by Bhatia.

According to the arbitration proceedings, RG Group will provide a written response setting out their own position following which the arbitrators would be appointed. In LCIA, the arbitrators can be appointed by LCIA or by the parties or by the arbitrators chosen by the two parties.

IGAL, too, has been named as a respondent in the arbitration proposal as it is a party to the SHA executed on April 23, 2015. However, Bhatia has not demanded any monetary compensation from the IGAL.

"The dipsutes relates to claims of the IGE Group against the RG Group regarding, inter-alia, compliance with the Shareholders Agreement and the articles of association of the company and damages," the IGAL said in a BSE filing.

However, the communication did not give the amount of damages sought from Gangwal for making their feud public. On July 9, Gangwal, who owns 37.02% stake in the budget carrier, had written to the Sebi and MCA alleging corporate governance violations by Bhatia who controls 37.92% shares.

Gangwal had questioned the execution of RPTs, rejection of his EGM requisition, misleading of shareholders by the CEO and overarching control of the IGE group in the airline's management. Bhatia had refuted all allegations and called it an attempt to dilute the controlling rights of the IGE group over IndiGo.

The rights of IGE group over IndiGo are embedded in the agreement and the AoA. While the agreement expires on October 27, 2019 – the fourth anniversary of the initial public offering, the AoA continues in perpetuity.

Besides having the rights to appoint five of the 10 directors, the IGE group can appoint key management personnel including the chairman, MD, president and CEO.

The fight between the co-promoters refuses to die even though the company's annual general meeting on August 27 sailed through peacefully with all resolutions passed by the majority of shareholders.

Just three days later, Gangwal had fired another missive to the Sebi, reiterating his demand for removal of controlling rights exercised by Bhatia-controlled IGE group on the airline's functioning.

Overhang of pledged shares ends for Yes Bank as lenders sell

FOLLOWING THE sharp fall in Yes Bank's shares over the past few months, lenders had sought more cash cover against amounts borrowed by Rana Kapoor. With Tuesday's action, the bank said the entire pledge stands extinguished and all sale under the same duly completed.

As a further assurance to investors, the bank stated its financial and operating metrics are intrinsically sound and stable and its liquidity position in excess of regulatory requirements. Yes Bank said its liquidity coverage ratio is in excess of 125% as on September 30 2019, against the minimum regulatory requirement of 100%.

Following the statement issued by Yes Bank, Yes Capital and Morgan Credits (MCPL) also issued letters on Wednesday evening stating that the shares were pledged by Rana Kapoor to support the borrowings of MCPL, which is owned by his three daughters. The proceeds from the earlier sale of Yes Bank shares held by MCPL and YCPL were used to repay outstanding NCDs of YCPL and little over 61% outstanding NCDs of MCPL till September 30, 2019. "The decision to divest our shares at undervalued share price levels, considerably below the book value was taken under compelling circumstances with the sole purpose deleveraging MCPL and YCPL," the letter stated.

Referring to the sale of shares on October 1, they said that the proceeds from the sale were being appropriated towards prepaying the balance outstanding NCDs of MCPL subscribed by RNAM, thus, bringing the leverage down to negligible levels. The total prepayments (including accrued interest) to RNAM by MCPL amount to approximately ₹1,145 crore well before due date of April 2021.

It further stated its gross advances totalled approximately ₹2.32 lakh crore as on September 30, 2019, with a higher share of retail advances compared with ₹2.42 lakh crore as on June 30, 2019.

Yes Bank's deposits aggregated approximately ₹2.09 lakh crore as on September 30, 2019, while its CASA (current account savings account) ratio has improved to around 30.8% against 30.2% in the previous quarter. The availability of information related to the September quarter ahead of the official results announcement was subject to approval by the audit committee of the board, the board of directors and review by the statutory auditors of the bank, it stated.

After AP, UP's turn now to flout renewable PPAs

OF THE 650 MW, about 440 MW are supplied by companies, which quoted the lowest tariff in the maiden reverse auction for wind power held in 2017.

The PPAs for these units owned by Renew Power, Mytrah Energy, Sembcorp and Inox Wind were signed with Central government-owned PTC India and Solar Energy Corporation of India (SECI). These firms were supposed to supply to states which wanted renewable energy at low rates.

According to industry sources, to keep these wind plants running, PTC India is now exploring the option of supplying power from these units to other states. "The development is really shocking to us. We will be talking to our industry counterparts on Thursday to decide the next course of action," Siva Girish Arepalli, chief commercial officer, Mytrah, told FE.

Recently, the Andhra Pradesh High Court has struck down the controversial July 1 order by the state government asking a high-level committee to

renegotiate the state's PPAs with renewable power producers, terming it illegal. The court has, however, asked the state electricity regulator APERC to decide on the matter within six weeks. In the meantime, the discoms will however need to pay the reduced price of ₹2.43-2.44 per unit to the renewable units.

The renewable energy sector is one of the major FDI earners and experts cautioned that apart from hindering FDI inflows, such developments can throw a spanner on the 450 GW renewable energy capacity target, which was recently announced by the Prime Minister Narendra Modi in the United Nations General Assembly. Thanks to the devaluation of the rupee, rising finance costs, government-mandated tariff caps in reverse auctions and cancellation of renewable project tenders, the pace of adding renewable generation capacities already slowed down in FY19 (see chart). The installed renewable capacity now stands at 81.3 GW.

Mines flooded, Coal India output sinks to record low

"THE WORKERS' strike last month also caused output disruption. The target of 660 million tonne production this fiscal looks steep."

Output at Coal India's Talcher coalfields in Odisha is yet to return to its full potential, as its Bharatpur mine remains closed since an accident in July, according to Dikken Mehra, spokesperson for Mahanadi Coalfields, a unit of Coal India that runs the mine.

The flooding at its Dipka mine, which produces more than 30 million tonnes a year of thermal coal and accounts for some 5% of Coal India's overall output, could leave some power plants in eastern and central India scrambling for fuel.

The mine supplies coal to multiple utilities, including NTPC's Sipat plant in the eastern state of Chhattisgarh, where the mine is located, and state-run utilities in western Maharashtra state.

Coal India declined to comment on the extent of the damage or the length of the likely production outage.

An NTPC official said the company's plant in Sipat, which had no stock of coal as of September 30, according to government data, was trying to arrange alternate sources of coal, but the official declined to provide further details.

The outage also comes at an inopportune time as state-run Coal India is due to begin roadshows on Thursday to woo investors ahead of a planned stake sale in the company.

"This is a huge loss for us, and is a big setback to our production goals," said the Coal India official, who asked not to be named as he is not authorized to discuss the matter with media. The official said some expensive mining equipment may be damaged and had been submerged by the flooding that began on Monday, after embankments of a nearby river broke due to heavy rainfall.

Mine outages

Output from Coal India, the world's largest miner by output, has been falling this year as heavy rains have hampered production at many mines in the east. Monsoon rains in India were 10% above average in 2019 — the highest in 25 years — and seasonal rains have continued longer than expected.

The shortage of coal created by the flooding could force the energy hungry nation to boost coal imports this year, at a time when India has been looking to reduce coal shipments to cut its import bill, with coal featuring in the top five commodities imported by India by value.

Coal India said on Tuesday its output for the six months to the end of September fell 6%, with September production dropping 23.5% to the lowest level in months. It wants to produce 660 million tonne during the year ending March 2020, up 8.7% from the 606.9 million tonne it produced in 2018/19.

No MAT credit under new regime: Govt

THESE COMPANIES were already taxed at a concessional 25% rate after this years budget (effective rate around 29%), while the new regime's effective rate is 25.17%. MAT credit can be utilised in years when the tax liability of a firm under the general corporate tax provisions is higher than MAT. Such credit can be carried forward for up to 15 assessment years.

As for firms already paying MAT, which include many IT firms and those in the SEZs, the Wednesday's CBDT circular won't make any difference.

The effective MAT rate was reduced from 21.5% to 17.01% as part of the recent tax reliefs to Corporate India.

The government's net MAT revenue in FY18 was ₹26,427 crore and this was projected to be ₹30,700 crore in FY19.

"The tax rate for some of these (up to ₹400 crore turnover) companies is 26% and the new tax rate under Section 115BAA is 25.17%. An existing company would not be keen in changing its taxation regime wherein the tax savings are much lower than the incentives and deductions foregone," Naveen Wadhwa, DGM at Taxmann, said.

Before the clarification the industry was split on applicability of MAT credit as one section believed that given the new regime has no MAT provision, the pre-existing credit can't be used to offset against future tax liabilities. The other view is that since the law hasn't made any specific amendment to Section 115JAA (the provision governing MAT credit), credit can't be denied to the migrating company and it can be utilised against tax payable under Section 115BAA.

"This could be a huge cost to some companies who will now perhaps consider continuing under the old regime for the time being. This was perhaps done to minimize the costs to the exchequer for the transition," Rohinton Sidhwa, Partner, Deloitte India said. He said the new changes overall are heavily weighed in favour of new companies and new investors.

"This (the CBDT circular) will compel companies having substantial MAT credit to continue under old rates and not to avail new rate of 22%," Ved Jain, former president of Institute of Chartered Accountants of India, said.

Some companies taking MAT credits as assets will have to write these off and take a big hit on profits, negating the purpose of boosting cash flows of firms and encouraging them to invest.