Coming in 5 years: 100 new airports and 1,000 more routes

India's plans to expedite airport development still trails that of China's, which has set a goal of 450 commercial airports by 2035

BLOOMBERG
New Delhi, 30 October

India is planning to open 100 additional airports by 2024, as part of a plan to revive economic growth in Asia's third-largest economy, according to people with knowledge of the matter.

The proposal, which includes starting 1,000 routes connecting smaller towns and villages, was discussed at a meeting last week to review infrastructure needed by 2025, the people said, asking not to be identified as the discussion is private. Steps to start a plane-lease financing business in the country was also discussed, they said.

With economic activity at a six-year low and prospects of further slowdown looming, Prime Minister Narendra Modi is keen to double down on infrastructure projects in a bid to revive growth and achieve a target of making India a $5 trillion economy by 2025. Last month, the government cut corporate tax rates, putting India on par with some of the lowest in Asia, to help compete with the likes of Vietnam and Indonesia for investments amid global trade tensions.

India's plans to expedite airport development still trails that of China's, which has set a goal of having 450 commercial airports by 2035, almost double the number at the end of 2018. A spokesman at India's civil aviation ministry was not immediately available for a comment.

The proposal by India's state think tank also includes boosting the number of locally trained pilots to 600 a year and double the domestic aircraft fleet to 1,200 during the period, the people said.

The Indian government has committed investments of 1 trillion rupees to build airports in the next 5 years.

Just three years back, only 75 of India's 450 runways were functional, as airlines avoided flying to smaller, World War-era airstrips in smaller towns. But Modi's subsidy program, which partly funds airline losses while capping fares on remote routes, has helped add as many as 38 airports to the nation's aviation map at the start of this year, while contracts were given to airlines to start flights to a further 63 airports with no or limited connectivity.

While the lure of India — with an emerging middle class flying for the first time — has attracted companies such as Singapore Airlines and AirAsia Berhad. to set up local units, provincial taxes in the nation make jet fuel one of the most expensive in the world. The government is aware of the high taxation burden and higher jet fuel prices, and will rationalise the tax regime as soon as next year, the people said.

India will also encourage the use of drones — for which it announced a policy this year allowing unmanned vehicles to fly beyond the line of sight — and sees the number of legal drones reaching a million by 2024, the people said. The country will prepare drone corridors by 2021, and allow delivery of goods by drones by 2023, they said.

POST-MERGER PREPARATIONS

PNB seeks time to offload stake in insurance JV

SOMESH JHA
New Delhi, 30 October

Punjab National Bank (PNB) has written to the Insurance Regulatory and Development Authority of India (Irdai), seeking time for shedding stake in an insurance company, after its amalgamation with Oriental Bank of Commerce (OBC) and United Bank of India.

"We do not want to go for a distress sale, as it will impact the valuation of the insurance company. We have written to the Irdai seeking time window for selling stake in one of the two insurance companies," a senior PNB executive said.

According to Irdai guidelines, a bank cannot hold more than 10 per cent stake in two insurance companies. At present, PNB holds around 30 per cent stake in PNB MetLife India Insurance as a promoter and OBC holds 23 per cent stake in insurance joint venture — Canara HSBC Oriental Bank of Commerce Life Insurance Company. Following the merger, which will come into effect from April 1, 2020, PNB will take over OBC and United Bank. "The plan is to reduce stake in Canara HSBC Oriental Bank of Commerce Life Insurance to below 10 per cent," the official said.

Similarly, Union Bank, which will take over Andhra Bank and Corporation Bank will also have to reduce stake in one of the two insurance companies as a result of the amalgamation. Union Bank holds around 46 per cent stake in Star Union Dai-ichi Life Insurance and Andhra Bank is a part of IndiaFirst Life Insurance with 30 per cent stake.

"We may look to exit from IndiaFirst Life Insurance by sale to other partners or public sector banks," a bank executive belonging to one of the three banks said.

At the time of amalgamation of Bank of Baroda (BoB) with Vijaya Bank and Dena Bank, the Irdai had refused allowing BoB to offer more than three insurance products to its customers. During the BoB merger, which came into effect from April 1, customers holding insurance policies of the other two banks were asked to switch to insurance products offered by BoB, the anchor bank. Customers with life insurance products were given a time of six months to switch over to life insurance offered by BoB, while for non-life and general insurance, customers were required to choose BoB products from April 1.

Can creditor sell assets of firms in liquidation? NCLAT to decide

SBI had approached the tribunal to sell assets of a firm, undergoing liquidation, back to promoters

AASHISH ARYAN
New Delhi, 30 October

The judgment is likely to have a big impact on the insolvency process and will clarify if errant promoters have one last shot at regaining control of their company and its assets

The National Company Law Appellate Tribunal (NCLAT) has reserved its judgment on whether a secured financial creditor can sell the assets of a corporate debtor back to the promoter if there are no resolution plans and the firm has to be liquidated.

The judgment is likely to have a big impact on the insolvency process and will decide if errant promoters have one last shot at regaining control of their company and its assets, experts said.

Sanaa Syntex, a Mumbai-based fabric trading company, was admitted for insolvency proceedings in August 2017. The company, however, found no takers, following which the Mumbai Bench of the National Company Law Tribunal (NCLT) ordered its liquidation.

Subsequently, the liquidator moved to sell the company's assets and distribute the realised amounts to the creditors under the rules of the Insolvency and Bankruptcy Code (IBC). The State Bank of India (SBI), a financial creditor to the company, however, took "custody of the immovable mortgaged assets" of the company by "locking the premises of two units of factory situated in Gujarat".

The bank said it wanted to opt out of the liquidation process and realise its dues on its own. The bank had then said it wanted to sell the assets of the company back to the erstwhile promoters as the process was no longer under the IBC.

The Mumbai Bench of the NCLT had, while allowing SBI to opt out of the liquidation process, barred the bank from selling the assets to the promoters or any other persons ineligible under Section 29 (A) of the IBC.

Section 29A of the IBC bars non-performing asset (NPA) holders, including promoters, from taking part in the resolution process.

The bank then approached the NCLAT with a plea that it should be allowed to sell the assets out of the liquidation process and keep the amount realised. The liquidator of the company, however, opposed the bid of the bank and said that allowing such a move would "shake entire dynamics of the claims of other stakeholders".

"It is to be understood that if secured creditor is allowed to realise the secured interests through channels of promoters who are barred under the IBC, the same will corrupt the very purpose of the Code," the liquidator said in a written submission to the NCLAT.

CIBIL: Loans by NBFCs remain under stress

ABHIJIT LELE
Mumbai, 30 October

Loans disbursed by non-banking financial companies (NBFCs) have remained under stress, with a recent portfolio shift to higher-risk unsecured credit, according to a TransUnion CIBIL Report.

There was a general improvement in delinquency rates till the quarter ended June but it did reveal performance deterioration for smaller value personal loans and automobile loans. Breaking down NBFC delinquencies further by loan size, TransUnion CIBIL's analysis found an increase in delinquency for NBFC loans smaller than ₹50,000, which constitute almost 80 per cent of the segment's personal loan origination.

NBFCs have played a key role in consumer credit growth over recent years. They saw slower growth in the September quarter (the second one or Q2 of the financial year) as compared to banks. NBFCs continue to face funding challenges and have been shifting their origination strategy away from larger-value loans to smaller-ticket personal loans.

NBFC 90+ DPD BALANCE DELINQUENCY RATES FOR CONSUMER CREDIT

In %

Q2 2018	2.14
Q3 2018	2.15
Q4 2018	2.24
Q1 2019	2.12
Q2 2019	2.40
YoY change	26 bps

HDFC takes 9.89% stake in Bandhan Bank

PRESS TRUST OF INDIA
New Delhi, 30 October

Mortgage firm HDFC has acquired 9.89 per cent stake in Bandhan Bank as part of scheme of merger.

As many as 159.3 million shares of the bank was transferred to HDFC Ltd, Bandhan Bank said in a regulatory filing.

Earlier this month, the bank merged with Gruh Finance, which brought down the shareholding of the promoter from 82.26 per cent to 60.96 per cent.

The merger was part of the stake dilution exercise to meet the Reserve Bank of India's (RBI) stipulation.

The RBI on Tuesday imposed a penalty of ₹1 crore on Bandhan Bank for not bringing down the promoter shareholding to 40 per cent as per the central bank timeline.

The filing further said the scheme of merger between Gruh Finance, affordable housing finance company promoted by HDFC Ltd, and Bandhan Bank was approved by all the requisite authorities and the shareholders and creditors of both the merging companies.

The effective date of the scheme was October 17.

In accordance with the scheme of merger, 9.89 per cent stake of the total share capital of Bandhan Bank has been alloted to HDFC Ltd, it said.

India Inc spent more on R&D in FY19

Spent ₹8,721 cr compared to ₹7,098 cr in FY18; auto, pharma were leading sectors

SACHIN P MAMPATTA & SHALLY SETH MOHILE
Mumbai, 30 October

Research and development (R&D) spending by India Inc increased in 2018-19 (FY19) over the previous years (led by automobile and pharmaceutical sectors). But, it was still a small percentage of the total sales. In FY19, India Inc spent ₹8,721.3 crore under the R&D head — nearly a fifth more than the amount in 2017-18 (FY18), which was ₹7,098.5 crore.

The details of these expenses are available in the annual reports of companies, usually published by the end of the second quarter of the next financial year. This analysis looked at 440 companies for whom the continuous data is available for the past 10 years.

Even though the R&D expenditure has increased, it is still a small percentage of the total sales.

The total R&D spending is about 11 basis points (bps) as a percentage of net sales.

It was 10 bps in FY18. It was about 13 basis points in FY16 and FY17 for the sample under consideration, showed the data.

Also, a large part of it is driven by a single company which accounted for nearly half (48.4 per cent) of the total expenditure for the companies in the sample.

The biggest spender was Tata Motors, with ₹4,224.6 crore assigned under the R&D head. That's about 1.4 per cent of its net sales. A lot of it is because of its foreign subsidiary.

"I'm not surprised that Tata Motors tops the charts among all the companies. It is largely due to Jaguar Land Rover. The company has been pumping large amounts into the subsidiary," said Mahantesh Sabarad, head of retail research at SBICAPS Securities.

Since acquiring JLR in 2008, Tata Motors has been incurring a capital expenditure in excess of £2.8 billion every year (over ₹25,000 crore at the current exchange rate). Of this, a big chunk is accounted for by R&D.

Tata Motors' focus areas include developing clean technology vehicles and implementing required safety features, as well as emission standards under Bharat Stage VI (BSVI), said the company in a response to an email.

"We also made substantial investments in clean and sustainable mass transportation and small commercial vehicles for last-mile connectivity. These investments focus on improving cost of ownership. In the last couple of years, the focus has been on BSVI developments," said a Tata Motors spokesperson.

Other big spenders include metal companies as well as the health care segment.

The health care sector has been amongst the biggest spenders on R&D traditionally. The sector spent ₹1,740 crore in FY19. Biocon is among them. It spent ₹320.6 crore this year. It is up 67.2 per cent over the previous year. It had spent ₹191.8 crore in FY18.

Kiran Mazumdar-Shaw, chairperson and managing director, Biocon, said R&D spending would be around 13-15 per cent of revenue.

Other big spenders on the sectoral list include industrials, energy, and consumer staples.

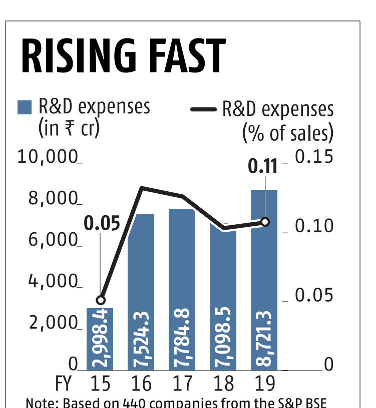
India spends less on R&D than key emerging market peers.

The latest available World Bank data shows that Brazil spent 1.3 per cent of its gross domestic product (GDP) on R&D in 2016. In 2017, Russia spent 1.1 per cent of GDP and China spent 2.1 per cent of GDP.

India's overall spending on R&D is 0.6 per cent of GDP in 2015. It is higher in developed countries such as the United States (2.8 per cent in 2017) and Japan (3.2 per cent in 2017).

Globally, for major companies such as Microsoft or Johnson & Johnson, it can be upwards of 10 per cent of sales.

With inputs from Samreen Ahmad



Note: Based on 440 companies from the S&P BSE 500 index
Sources: Capitaline, *BS* calculations

Private players likely to add steam to eastern DFC

SHINE JACOB
New Delhi, 30 October

DFCCIL is likely to float a request for quotation within two months for this stretch covering 263.7 km

The last leg of the Eastern Dedicated Freight Corridor (EDFC) — from Sonnagar to Gomoh — may get a fresh lease of life now, with the Dedicated Freight Corridor Corporation of India (DFCCIL) initiating talks with corporates to develop the stretch on a public private partnership (PPP) model.

At least 23 domestic and global private sector majors — including Reliance Industries (RIL), Tata Projects, Adani Ports and Logistics, GMR Infrastructure, Mitsui, Siemens, and KEC International — participated in a roadshow held by DFCC in Delhi, on Wednesday.

DFCCIL is likely to float a request for quotation within two months for this stretch covering 263.7 km, said Anurag Sachan, managing director of DFCCIL.

In addition to infrastructure players, consumers such as NTPC and financing agencies such as the World Bank and Japan International Cooperation Agency (JICA), were also part of the meet. The World Bank is funding part of Eastern DFC through a loan of $2.36 billion, while JICA is funding parts Western DFC by offering ₹38,722 crore in credit.

This stretch will be part of the last 538 km of the EDFC from Sonnagar (Bihar) to Dankuni (West Bengal), which is expected to cost ₹15,000 crore. For the remainder of the EDFC, the World Bank has extended a loan.

DFCCIL has come out with an annuity model, based on which the private partner will get a minimum yearly return of around ₹2,140 crore for the private players, irrespective of the traffic handled by the EDFC.

"Over 90 per cent of the land has been acquired for the project. A similar outreach programme for foreign investors was held a few months ago," Sachan told *Business Standard*. The company expects 98 per cent of the land to be acquired by the time of signing of the contracts.

Another DFCCIL source said a 194-km area of EDFC, between New Bhadan and Khurja, was likely to be commissioned by March 2020. Majority of traffic in the route will include coal and iron.

"The advantage for private players, being part of this PPP, will be an internal rate of return at 14 per cent, and the concessionaire would receive fixed annuity payments from DFCCIL for a period of 15 years after the commercial operation date of the project," said another official.

If public sector majors like NTPC or Coal India show any interest, the possibilities of a joint venture cannot be ruled out. Commissioning of the two dedicated corridors is vital for increasing the share of Railways in the country's overall freight, from 33 per cent to around 50 per cent by 2030.

Based on an estimate, EDFC may carry close to 264 million tonnes (mt) of traffic and WDFC another 284 mt over a period of 20 years. The section is also projected to handle 100 rakes per day in both directions by FY45.