

Subsidy on kerosene may go by FY21

SHINE JACOB
New Delhi, 6 October

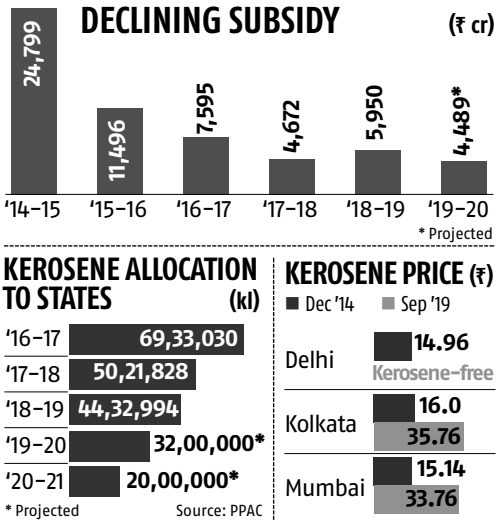
The government is planning to bring down the allocation of subsidised kerosene that it makes to states to 2 million kilolitres (kl) by 2020-21 and phase out subsidy on the fuel in the same period. As of September, subsidy on kerosene was as low as ₹5.48 a litre and at the current level of international crude oil and product prices, the government may be able to do away with subsidy in about 22 months. The subsidy on kerosene has come down by ₹18,849 crore in the past five years, from ₹24,799 crore in 2014-15 to ₹5,950 crore during the financial year 2018-19 (FY19). “Our plan is to bring allocation down to 3.2-3.3 million kl by 2019-20 and further reduce it to 2 million kl by 2020-21,” said an official close to the development. On a monthly basis, the government has been increasing the price of subsidised kerosene by 25 paise to phase out the subsidy. A major reason for the decline in the consumption of kerosene was an increase in the number of liquefied



petroleum gas (LPG) consumers in rural India after the government launched the Pradhan Mantri Ujjwala Yojana (PMUY), commonly called Ujjwala, in 2016. For the entire FY20, the government has budgeted ₹4,489 crore as kerosene subsidy, which was ₹940 crore in the first quarter. The decision by various states and Union territories — including

Delhi, Haryana, Punjab, Andhra Pradesh, Chandigarh, Daman and Diu, Dadar and Nagar Haveli, Andaman and Nicobar Islands, and Puducherry — to turn kerosene-free has also helped bring the consumption down. The price of kerosene has increased over 123 per cent in Kolkata and Mumbai since December 2014 to reach ₹35.76 a litre

and ₹33.76 a litre, respectively. Officials indicate that several states have also opted for a voluntary cut on consumption. According to the data available with the Petroleum Planning and Analysis Cell (PPAC), kerosene consumption between April and August 2019 has shown a negative growth of 19.5 per cent as compared to the same period last year.



AN 'OVERDUE HUG'



Congress General Secretary Priyanka Gandhi Vadra greets Bangladeshi PM Sheikh Hasina during a meeting at Hyderabad House in New Delhi on Sunday. Gandhi later tweeted it was an “overdue hug from Sheikh Hasina ji whom I have been waiting to meet again for a long time”.

PHOTO: PTI

Andhra continues to curtail renewable power, flouting court order

SHREYA JAI
New Delhi, 6 October

The Andhra Pradesh government continues to curtail renewable power in the state, despite a high court (HC) order to the contrary. Close to 7,500 Mw of wind and solar power capacity is facing delayed payment and also curtailment in supply from the state since July. Industry executives contend the state is, at the same time, purchasing from the short-term power market and at high rates, of ₹5 a unit and above. A senior executive in a wind power company alleged the curtailment is done verbally. And, especially during the peak supply period of wind power plants. A state through its power distribution companies (discoms) schedules supply at the regional load dispatch centre (RLDC). In any curtailment, a written application is to be given in advance. “There has been no formal notice from the state to the Southern RLDC or to the developers.

The state informs the project developers verbally about the curtailment,” said a senior industry executive. Data accessed by *Business Standard* revealed the state is curtailing wind power during the evening peak supply hours (6 pm to 9 pm). Solar power developers say close to 70 per cent of segment capacity in the state is being curtailed, despite the must-run status given to renewable power. Responding to this, energy department spokesperson Chandra Sekhar Reddy, in an emailed reply, said, “Dispatch and curtailments are done by the State Load Dispatch Centre under Electricity Act, 2003.” He said the discoms could not pay power generator dues since July 2018 and the arrears stood at about ₹20,000 crore in June. “The state government cleared ₹4,600 crore of those dues relating to NTPC and central generating stations in September.” Also, Andhra has been active in the short-term power market from last week. The state has purchased



In the average revenue requirement filing for the year 2019-20, the Andhra discoms estimate a loss of ₹9,415 crore

at rates ₹2.8-5.5 a unit (kwh). The average wind power rate in the state is ₹4.8 a unit; for solar, ₹4.5 a unit. In July, the new YSR Congress-led state government decided to review the rates of all renewable power projects awarded by the previous Chandrababu Naidu government. It also formed a High Level Negotiation Committee (HLNC) to “review, nego-

tiate and bring down” rates of such projects, citing poor financial health of its discoms as the reason. As companies protested, the government curtailed purchases of renewable power. Project developers petitioned the HC of Andhra Pradesh, which ruled in favour of the companies. In an order dated September 24, the court dismissed the HLNC that

Minister raps Andhra, TN and Jharkhand

The Union minister for power and new and renewable energy, R K Singh, has written a critical letter to three states — Andhra Pradesh, Tamil Nadu and Jharkhand — on the poor performance of their power distribution companies (discoms) under the UDAY (Ujjwal Discom Assurance Yojana) scheme. Singh said review of power distribution reform schemes reveals the performance of these states’ discoms has deteriorated. The three state governments have been unable to bring down losses or improve the cost-revenue gap. Payables to power generators remains high. “Continuance of such a trend would have adverse impact on the state’s finances, besides causing stress in the power and banking sectors,” he has said, asking the states to intervene and make their discoms financially healthy.

SHREYA JAI

the revenue gap, the discoms did not apply for any customer rate hike. Additionally, a subsidy of ₹7,064 crore was approved by the regulator for free electricity to agricultural consumers. R K Singh, the Union minister for power and new and renewable energy, in his latest letter to the state, says discoms in Andhra are incurring an annual loss of ₹1,563 crore and have failed to meet the target of reducing the cost-revenue gap to zero, as stipulated under the UDAY scheme. “At present, Andhra discoms are losing 39 paise for every unit of electricity procured. The discoms appear to be in a precarious position in terms of their current situation of operations and finances,” goes the letter. This is the third letter from the Union ministry to the state, asking for intervention in the poor state of affairs on power supply and renewable power projects. Earlier, Singh had written for a review of state discoms, rather than blaming renewable power for the poor financial health.

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700 MHz auction...



Even though the spectrum is neutral and can be deployed for any services irrespective of the band, the equipment and other devices require more sophistication to suit the premium 700 MHz band, considered so because of its better indoor penetration. Experts feel that the companies’ spending on new equipment and network deployment will be huge and at the moment they simply aren’t ready or willing. Unless the penetration of the premium services is addressed, it will not serve the desired purpose. According to industry estimates, Vodafone Idea has 1,650 MHz spectrum and 340 million users; Bharti Airtel has 1,500 MHz and 320 million subscribers; and Reliance Jio has 1,100 MHz spectrum and 350 million users. The mobile service providers will now only buy the spectrum when their licences are close to expiring in the near future. “If a company’s majority spectrum is in the 900 MHz band, it would be keen on buying more spectrum in that band for better continuity of services or only those airwaves where its spectrum is about to expire. Currently, the companies do not have the appetite to buy spare spectrum for the future,” said Rajan S Mathews, director general, Cellular Operators Association of India. Industry sources said that even with a 40 per cent cut from the previous base price of ₹11,485 crore to ₹6,568 crore, it is still high for the 700 MHz band. The premium 700 MHz spectrum went unsold in the 2016 spectrum auctions because of its price. The bidders thought it was overpriced and demanded a reduction in its base price from the Telecom Regulatory Authority of India (Trai). “It is still very expensive and the ecosystem is not in place. There are only a handful of used cases in that spectrum and that too in the US and South Korea, none in India,” said a company executive. Given that the average revenue

per user is ₹74, according to the latest Trai data, then why, he asked, should telecom companies make such hefty investments when the return on investment is likely to be lukewarm? Trai came out with its recommendations for the 5G auctions in August 2018 and the sale is expected by the end of the year or early next year. The Union government expects to garner ₹5.06 trillion and the process of selection of the auctioneer is underway.

CA Act...

The government, in creating disciplinary mechanisms, could consider bringing in disclosure norms for auditors with respect to non-audit services and fees charged by them. The Companies Act, 2013, provides an exhaustive list of prohibited non-audit services. This was done based on the recommendations of the committee headed by Naresh Chandra and in reaction to the Enron scandal. “Auditors are watchdogs and hold positions of trust. If they are hand-in-glove with companies, they breach that trust with the shareholder,” said a senior analyst. In the European Union, Australia, and the UK, auditors are not allowed to provide non-audit services like taxation, restructuring, and valuation to protect the objectivity of the audit. India, in accordance with current rules, allows auditors to give these services. According to the findings and recommendations of a committee of experts on regulating audit firms and networks, there is a need to revisit the list of such services, keeping in view those that can result in conflicts of interest. The committee has suggested empowering by law the National Financial Reporting Authority (NFRA) to impose civil liabilities on international networks if audit failures or frauds happen because of their methodology. The Ministry of Corporate Affairs constituted the NFRA in October last year for making recommendations to the central government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies. While the NFRA has the powers to examine the auditor and audit firm, its jurisdiction is largely limited to listed companies. This is also a reason why the government wants to give more teeth to the Chartered Accountants Act. The Serious Fraud

Investigation Office, under the ministry, has questioned the role of auditors, particularly BSR Co. and Deloitte Haskins & Sells, in recent scams. Deloitte recently moved the Bombay High Court, challenging the constitutional validity of the central government’s petition in the National Company Law Tribunal, seeking the removal of the former auditors to Infrastructure Leasing & Financial Services.

YES Bank...



Further two large domestic mutual fund houses are also in final stages of committing to infusing capital in the bank, the source added. In an interview to *Business Standard* last Thursday, YES Bank MD and CEO Ravneet Gill had said that getting fresh capital is a top priority for the bank. It is gathered that YES Bank may have signed non-binding term-sheets with some of the large PE firms and may conclude more in the coming week. “Currently, these are soft commitments or non-binding offers from potential investors. YES Bank’s management is in consultation with the regulators to understand their comfort in the capital raising process. Once clarity emerges, we will see non-binding offers convert to binding term-sheets,” said an investment banker aware of the development. According to sources what’s favouring YES Bank is its multi-year low valuations at less than 0.5x FY20 book. “With a loan book of over ₹2 trillion, best-in-class technology, talent pool and governance on the mend, YES Bank is turning out to be an attractive bet among Indian private banks,” the investment banker added. One of the apparent reason for YES Bank to opt for rights issue as a mode of raising capital to ensure that current shareholders also get to participate in the fundraising. “The bank is keen on retaining its existing investors,” said an arranger involved with the issuance. Last week, YES Bank’s shares had swung sharply on the stock exchange. On Tuesday, the stock fell 23 per cent

from ₹41.5 to ₹32 after Reliance Nippon Life Mutual Fund invoked and sold 100 million pledged shares of Rana Kapoor. The next day the shares ended 33 per cent higher at ₹42.55. YES Bank co-promoter Rana Kapoor’s entire stake was sold. YES Bank did not comment on the development.

Unilever...

It has also signed up to the Loop platform, which is exploring new ways of delivering and collecting reusable products from consumers’ homes. According to Ellen MacArthur, founder, Ellen MacArthur Foundation, Unilever is already running projects that involve eliminating unnecessary packaging through innovations such as refill, reuse, and concentrates. “These measures are increasing their use of recycled plastic,” she said. The foundation works with business and schools to accelerate the transition to a circular economy (this means keeping plastics circulating constantly around a closed loop system rather than being used once and discarded or leaked into nature) primarily through waste management. In India, apart from introducing innovative packaging solutions and changes in design, HUL has launched pilot projects in 20 cities, including New Delhi, Bengaluru, and Kolkata. Through its partnerships with non-governmental organisations (NGOs), it runs a project in Maharashtra that educates and mobilises children at more than 1,000 schools to reduce plastic pollution. “Segregation and collection of plastic waste, together with building the recycling industry, are critical aspects of a sustainable solution. We have made an ambitious commitment and we believe it is a right step towards our vision of a world where no plastic packaging ends up polluting the environment,” said Sanjiv Mehta, chairman & managing director, HUL. In 2018, HUL has collected, segregated and safely disposed of more than 20,000 tonnes of plastic laminate waste in partnership with NGOs and start-ups in more than 20 cities across India. The Mumbai-based firm plans to scale it up further to cover more cities. HUL is working with the government and is tying up with the United Nations Development Programme for end-to-end pilot projects for plastic waste management.

RBI should permit variable interest rate deposit scheme: PNB MD & CEO

After amalgamation of PNB with OBC and United Bank of India, what will the structure of the organisation look like?

If you look at the integration exercise, there are three sides to it: Business, information technology, and employees. Employee integration further has two dimensions to it: Salary and perks, which will be equal; service conditions will remain the same, so there won’t be an issue. The second one is emotional integration and we will have to ensure this over a period of time that there is a feeling of positivity at the time of amalgamation. Beyond these three factors, the biggest challenge would be to meet market-level expectations and modelling a proper risk control and compliance mechanism within the organisation. There should be a road map regarding risk appetite of the bank, depending upon the market conditions and how it is going to lay down its policy for assessment and appetite. Since the organisation is so huge, there will be some decentralisation through which there will be different departments for compliance and control.

How will that work out? In public sector banks, both the functions of control and compliance are being done by business units, like zonal offices. When the organisation becomes outsized, it becomes somewhat tough to handle. The road map will be, after amalgamation, how control and compliance can be decentralised, with over 11,000 branches and more than 100,000 employees. We will segregate the compliance role, and at the zonal level, we will bring about a separate entity, which will ensure compliance at the circle and branch offices. We will go one layer down in the initial stage and see how it is being monitored and look at the future.



In a decentralised structure, what will be the impact on the headcount of the bank? Initially, we will draw from the existing lot. Then we will look at efficiency parameters and assess the requirement of employees.

What happens to corporate loan accounts? Do the terms attached to it change after the merger? If corporate accounts are under a consortium, covenants are harmonised already. But in a multiple banking arrangement, there are issues. We will try to harmonise multiple covenants arising out of borrowers who have taken loans through multiple banking arrangement from OBC, United Bank of India, and PNB. But such cases are fewer in number.

What about subsidiaries that the three banks have? OBC and United Bank of India have no subsidiaries and only PNB has. OBC has a joint venture in Canara HSBC Oriental Bank of Commerce Life Insurance and we have one in PNB MetLife. We will look at the regulatory guidelines and accordingly, plan.

So can a bank have stake in one insurance company, according to regulatory requirements? It can have stake in one insurance company and less than 10 per cent stake in the other.

It is understood that the complete merger of Bank of Baroda, Vijaya Bank, and Dena Bank will take place by December 2020. Is this how long

amalgamation takes? It depends on how long you take to integrate technology, as human resources and business integration can happen immediately. If you prepare pre-migration activity meticulously, integration time can be reduced. We will be holding talks with Infosys in the coming days and prepare a road map on the timeline.

What about branch overlap? The overlap will only be between PNB and OBC and not with United Bank of India.

What will be the share of overlap? That will be difficult to share right now. It will mostly be in Haryana, Punjab, and Delhi.

Will you offer voluntary retirement scheme (VRS) to employees? There is no requirement of the VRS window. We need all employees.

How do you see policy rate action by the RBI and a sharp downgrade in gross domestic product estimate by the regulator? Economic growth is not solely dependent on the repo rate. And the government has taken important steps to address it, especially the corporate tax cut, which will bring new investments in infrastructure projects. The stress in the non-banking financial sector has eased out, compared to the situation we had in October-November 2018. Bankers have since reached out to the NBFC for lending. The government has also cleared certain misgivings in the automobile sector. Policy rate has come down heavily in the past one year and from October 1, banks have introduced repo rate-linked products in retail and micro, small and medium enterprise (MSME) loans. Hence, transmission of rate is automatic. All this has created positive sentiment and we seek an uptick in retail and MSME credit.