IN BRIEF

Maruti Suzuki cuts production for ninth month in a row

Maruti Suzuki India (MSI) reduced its production by 20.7 per cent in October, making it the ninth straight month when the country's largest carmaker lowered its output. The company produced a total of 1,19,337 units in October as against 1,50,497 units in the year-ago month, MSI said in a regulatory filing. Passenger vehicles' production last month stood at 1,17,383 units as against 1,48,318 units in October 2018, a decline of 20.85 per cent, it added. Production of mini and compact segment cars, including Alto, New WagonR, Celerio, Ignis, Swift, Baleno and Dzire stood at 85,064 units as against 1,08,462 units in October last year, down 21.57 per cent. Production of utility vehicles such as Vitara Brezza, Ertiga and S-Cross however increased marginally to 22,736 units as compared with 22,526 units a year ago. Mid-sized sedan Ciaz saw its production fall to 1,922 units in October from 3,513 units in the same month last year. PTI

Treat Airtel, Tata Tele as separate firms: DoT to circle heads

The telecom department has directed all circle heads to treat Bharti Airtel and Tata Teleservices as separate entities, as it is in process to challenge their merger in the Supreme Court, according to an official source. The Department of Telecom (DoT) has also asked all its entities to deal customer acquisition process and all compliance related issues of both the firms as separate companies. The department has written to all telecom circles heads on November 6 that it has not yet taken on record the transfer or merger of the demerged undertakings of TTSL to Bharti Airtel and Bharti Hexacom and transfer or merger of the demerged undertakings of TTML to Bharti Airtel," a source said. PTI

Shree Renuka Sugars Q2 profit at ₹2,739 crore

Shree Renuka Sugars on Sunday posted consolidated net profit of ₹2,739.6 crore for the second quarter ended September 30. The sugar producer had reported a net loss of ₹432.7 crore in the corresponding quarter previous financial year. Sequentially, it had posted a loss of ₹411.7 crore for June quarter this financial year. Total income was at ₹1,413 crore during July-September of 2019-20, up from ₹1,001 crore in same period of 2018-19, Shree Renuka said in a regulatory filing. PTI

Four of top 10 companies lose ₹55,682 cr in m-cap

Four of the top 10 most valued companies suffered a combined erosion of ₹55,681.8 crore in market valuation last week, with Tata Consultancy Services (TCS) and HUL taking the sharpest hit. Reliance Industries Limited (RIL) and ITC were the other frontline companies that suffered a drop in their market capitalisation (m-cap) for the week ended Friday, while ICICI Bank, HDFC Ltd, HDFC Bank, Infosys, Kotak Mahindra Bank and SBI were on the gainers side. However, the cumulative gain by these firms, which was at ₹54,875.04 crore, was less than the total loss by the four companies. The valuation of TCS tumbled ₹26,900.6 crore to ₹622,401.90 crore, making it the top loser among the pack. PTI

NCLT directs starting insolvency against AVP Buildtech

The National Company Law Tribunal (NCLT) has directed to initiate insolvency proceedings against Delhi-based real estate firm AVP Buildtech Ltd by admitting a plea of a flat buyer claiming refund. A two-member NCLT bench has appointed an interim resolution professional (IRP) to run the affairs of the company and also declared moratorium, prohibiting the lenders from recovering any amount during this period. "We are of the considered view that the financial creditor has succeeded in establishing a case of triggering the corporate insolvency resolution process," said the NCLT. PTI

AirAsia to fly many flights connecting Ahmedabad

AirAsia India will fly daily on the Ahmedabad-Bengaluru route and start multiple flights connecting the commercial capital of Gujarat with other major destinations like Delhi, Goa and Hyderabad by the month end, an official said. Ahmedabad will become the 21st destination on the airline's network after the beginning of services on the Ahmedabad-Bengaluru route from November 22. "We will soon be launching Ahmedabad-Delhi by next month, with increased frequency to 3X daily, further down the line. Alongside that, we will also be increasing the Ahmedabad-Bengaluru frequency to 2x daily," Sanjay Kumar, the chief operating officer, AirAsia India, said. PTI

MobiKwik aims to disburse ₹15K crore this financial year

Digital payments firm MobiKwik has witnessed strong growth in its lending business and aims to disburse loans worth ₹1,500 crore in FY20 through its platform. The firm, which competes with the likes of Paytm in the fintech space, has already disbursed over 100,000 "digital loans" in September this year. "We started our digital lending journey more than a year ago, and disbursed over 100,000 fully digital loans in September. We are well on track to disburse over ₹1,500 crore across 1.2 million loans in FY20," MobiKwik Co-founder and CEO Bipin Preet Singh said. PTI

IT companies look to cut jobs at mid, senior levels

As hiring in US rises, with resulting cost pressure, these staffers in India are at risk; advent of digital tech another reason

DEBASIS MOHAPATRA
Bengaluru, 10 November

HEADCOUNT

- 5-8% of total headcount is likely to face redundancy, mostly in mid and senior levels, in the coming quarters
- Margin pressure in legacy business, aggressive hiring of locals in the US seen as key reasons
- Emergence of new technologies has created demand for young engineers
- Cognizant & Infosys have already announced cost optimisation measures

Information technology (IT) services companies, with large Indian presence, are looking at reducing their employee count by 5 to 8 per cent in the coming quarters, mostly at the middle to senior levels.

Sector experts say rising pressure on margins owing to price discounts on the core business, increased hiring in the US and emergence of new technology areas are key reasons for such cost cutting.

"It (reduction of personnel) is happening across all tier-I IT services companies. Employees in the senior project manager or delivery manager kind of roles, where the annual salary range is ₹20-40 lakh, are facing the maximum risk," said Kris Lakshmikanth, founder-head at executive search firm Head Hunters India. "Typically, a large company is likely to reduce 10,000-20,000 people or 5 to 8 per cent of total employee count in phases."

This has already begun — Cognizant has said it plans to cut by around 12,000 staffers in the next few quarters. "What we are trying to do is to get back to the employee pyramid which has been eroded in the recent past. We will hire more fresh graduates and are increasing our freshers' intake by 30 per cent over last year. So, we are getting the pyramid right, with less middle and senior management," said Brian Humphires, global chief executive, in an interaction. The US-headquartered entity has a little more than 70 per cent of its employees in India; it is eyeing a net cost saving of $350-400 million from various cost optimisations.

Infosys, this country's second-largest in IT services, is targeting $100-150 million in cost savings this financial year. "There are 21 tracks we are looking at for cost optimisation. We are focused on improving the bottom-end of the pyramid, which had become more barrel-shaped, by hiring freshers," Nilanjan Roy, chief financial officer, said last week in an analyst meet.

Apart from adding more of new graduates, all big IT firms are aggressively localising their workforce in the US, from where they drawing at least 65 per cent of total revenue.

For instance, Infosys has hired 10,000 locals in the US over the past three years and plans to add another 1,000 Americans by 2023. Wipro's current localisation level in the US is over 65 per cent.

"While IT firms are reducing headcount in India, they are hiring in the US. The cost of hiring an American worker is close to three times as compared to an Indian engineer. That is the reason all top-tier IT companies are cutting costs," said another executive at a personnel consultancy.

"All these companies, including TCS, Wipro and HCL, are facing such cost pressure."

Emergence of new technology areas — digital technology in sector parlance — is another factor.

"Senior managers on the delivery side of the business and (doing) less interface with clients are the vulnerable lot in the current situation. Top management is seeing them as redundant, due to their less familiarity with new-age technologies," said Lakshmikanth of Head Hunters India.

IT results mixed bag, but hiring remains robust

Revival of spending by BFS & retail clients may take some more time

DEAL BOOK

Companies	Deal wins	Net QoQ employee additions
TCS	$6.4 bn (net new)	14,097
Infosys	$2.8 bn (large deals)	7,457
Wipro	–	6,603
Tech Mahindra	$1.49 bn	5,749
HCL Tech	15 transformational deals	3,223

Source: Companies

ROMITA MAJUMDAR
Mumbai, 10 November

Hiring continued to remain robust in the IT sector, which was driven by strong deal wins, even though IT services companies reported mixed numbers in the September quarter.

In the first six months of FY20, the IT services space saw net addition of 64,442 jobs, around 27 higher than the corresponding period in the previous financial year.

TCS led the pack in terms of net hiring of people, adding 14,097 in Q2FY20 alone followed by Infosys, which added 7,457 during this period. Both the companies claimed to have signed deals with the highest total contract value (TCV).

Overall, performance of the sector was bit of patchy with rising costs and depreciating rupee eating into the margins of some companies while verticals such as retail and banking and financial services (BFS) remained a pain point for most.

Analysts tracking the sector are of the opinion that while the next two quarters (H2, FY-20) are expected to be generally soft, the sector is expected to perform better in FY21 and beyond when revenues from the recent deal wins start flowing into their balance sheet. "Lower profitability is due to a couple of factors like increase in US operations cost structure in the form of higher subcontracting and higher localisation due to talent shortage as well as tightening of the visa regime. There are also transition costs in large deals," noted Kawaljeet Saluja, Research analyst, Kotak Institutional Equities.

Saluja added that while earnings before interest and taxes (Ebit) margins were largely in line on a sequential basis, they declined 50-380 bps on a year-on-year (YoY) basis. TCS' Ebit margin was relatively flat at 24 per cent, mainly due to increase hiring costs. Even though Infosys surpassed margin expectations, it was primarily driven by its near peak employee utilisation numbers. Among the top tier firms, Wipro surprised the Street with improved margins led by lower expenses and subcontracting costs. For Tech Mahindra, the management has indicated that H2 margins will remain subdued due to transition costs.

According to experts, the overall spending has pockets of softness, especially in financial services in Europe, capital markets in the US and the retail vertical and large deal momentum. Since most headwinds are across retail and financial verticals, Tech Mahindra looks better poised for growth compared to others as it has lower exposure to these sectors.

The banking, financial services and insurance (BFSI), a key vertical, grew in the range of 3 to 10 per cent YoY for tier-I companies. TCS, Infosys (on organic basis) and Wipro reported modest growth in the vertical with low expectations of improvement in spending by banking clients.

Among the top five IT firms, Tech Mahindra is said to be better poised for growth in the coming quarters compared to others as it has lower exposure to the retail and BFS verticals.

A common concern across-the-board has been the pricing pressure in legacy, increasing employee cost due to higher localisation, and lack of pricing power in case of new deals.

"Margin pressure that firms have been facing is largely due to the absence of natural hedge from rupee depreciation that used to balance the wage hikes (usually given in H1), large deal transition investments and increasing onsite costs," said Amit Chandra, research analyst, HDFC Securities. "But large deals tend to be less profitable in the first couple of years and then start giving returns," he added.

Digital services continued to be one of the strong growth segments for the IT services players. In Q2, Infosys reported a 31 per cent YoY growth in digital that accounted for 25 per cent of its overall revenues, driven by cloud, data and analytics, internet of things (IoT) and customer experience (CX). TCS reported 25 per cent growth in digital with a strong emphasis on longer duration and large-ticket deals. However, TCS' growth in digital services seems to have moderated a bit owing to a larger revenue base, according to the management.

More flights for Saudi Arabia as Centre hikes seat quota by 78%

ANEESH PHADNIS
Mumbai, 10 November

India and Saudi Arabia have revised their air services agreement, enabling an increase in flights between the two countries.

The weekly seat quota for the carriers of the two countries has been increased from 28,000 to 50,000 as part of the MoU signed in Riyadh on October 29. The increase in seats will take place in a phased manner.

According to the civil aviation ministry, the seat quota will rise to 36,000 in the first instance and then to 44,000 and 50,000 in the next two phases after certain conditions are met.

Indian carriers will continue to get unlimited access at Dammam airport, in the capital of Saudi Arabia's Eastern Province.

While India has turned down demands from West Asian states including Qatar and the UAE for an increase in seats — last month the government had declined the UAE's proposal for more flights — it made an exception for Saudi Arabia. As India-Saudi relations are on an upswing with co-operation in various areas, Indian carriers did not oppose the proposal to hike the quota. This is because of limited traffic through Saudi Arabia, with most of the passenger flow being point to point. This is unlike airports like Abu Dhabi, Dubai, Doha, or Muscat, which serve as hubs for Indians travelling to Africa, Europe, and the US.

The weekly seat quota for the carriers of the two countries has been increased from 28,000 to 50,000 as part of the MoU signed in Riyadh on October 29

The increase in seat entitlement will also help airlines from both the countries to grow their traffic and improve loads. Currently around 30 per cent of passenger traffic between India and Saudi Arabia is through other Gulf hubs.

Among the Indian carriers, Air India, Air India Express, IndiGo, and SpiceJet operate flights to Saudi Arabia while Saudi Arabian Airlines and Flynas are the two carriers operating in India. Flynas added the Riyadh-Lucknow, Dammam-Lucknow, and Riyadh-Kozhikode routes last month. Around 5 million passengers flew between the two countries last year and the market hasn't not grown because of the closure of Jet Airways.

According to sources, Indian and Saudi carriers are utilising over 80 per cent of the current entitlement of 28,000 seats. SpiceJet will launch flights between Delhi and Riyadh in winter, with both SpiceJet and IndiGo planning to add services to Dammam.

Under the agreement, Indian carriers have access to four airports in Saudi Arabia while Saudi carriers are allowed to operate to eight Indian airports. Indian carriers have unlimited access to Dammam and the Saudi government has been seeking reciprocal unlimited access for its airlines to one of Indian airports.

The Saudi government has been seeking additional access points in India but the Indian government has not considered these requests.

"Currently traffic between India and Saudi Arabia is dominated by labourers and pilgrims. However, we expect tourists and business travellers to increase as Saudi Arabia is making large investments in infrastructure, developing sectors other than oil and encouraging tourism," said Balu Ramachandran, senior vice-president, Cleartrip.com.

The seat quota between the two countries was revised from 20,000 to 28,000 in December 2016. However, the revised limit came into effect earlier this year after Indian carriers had utilised 80 per cent of the existing quota.

India's civil aviation policy puts riders on increasing seat quotas with countries within 5,000 kilometres. The seat quota with other countries can be upgraded only when Indian carriers utilise 80 per cent of their entitlement.

It's peak season but air tickets are going cheap, thanks to price war

Many analysts had hoped that, with less competition, airlines would regain their pricing power and air fares would move northwards

SURAJEET DAS GUPTA
New Delhi, 10 November

NEWS ANALYSIS

Will airlines fighting a bitter price war even in the peak festival season suffer the same fate as telcos where a similar battle has led to closures and a consolidation of the industry?

The closure of Jet Airways was the first signal that consolidation was underway in a market with eight players in the fray.

Many analysts had hoped that, with less competition, airlines would regain their pricing power and air fares would move northwards. But that expectation seems to have been short lived.

In October, the festival season when demand is at its peak, air fares for metro routes on an average were down by 20-25 per cent for tickets booked in the last seven days, compared with last year's fares, according to industry estimates.

The trend has continued into November, with air fares lower by around 20 per cent on major metro routes booked between zero to seven days.

The last seven days pricing is crucial for airlines as it constitutes about 30 per cent of their ticket sales in metro routes. This is when airlines can charge a stiff premium from customers.

Airlines say that they are keeping their fingers crossed for December — another peak period — when, based on current bookings, the air fares for those who buy early are more or less in line with last year. But what they are waiting for is the last week of November to see if they will be able to push up air fares significantly closer to a passenger taking the flight.

"One key reason for lower fares is full service carriers bringing their fares at par or lower than low cost carriers during even peak seasons like October, forcing low cost carriers to respond. Some airline or the other comes out with a discounted offer even in peak season saying they cannot sell seats and we have no choice but to match," said a chief operating officer of one of the domestic carriers.

The second reason, he says, is that the expected growth in domestic passengers has been affected by the overall economic slowdown. Growth of around 15 per cent annually this financial year has had to be lowered to around 5 per cent. And that has softened air fares too.

CHECK-IN

- CAPA projected 90 new planes will be added in FY20 but due to Jet closure, new capacity addition is flat
- Domestic traffic was projected to grow 14-16 per cent but now up to 5 per cent is likely
- Industry consolidated loss by CAPA was estimated at $550-700 million (this was including Jet)
- October/November fares are lower than last year because of discounts by carriers

The point is reiterated by IndiGo in its analysts' call after the Q2 FY 20 results. Responding to the softness in air fares, IndiGo Chief Executive Officer Ronojoy Dutta pointed out that October is a high season with strong demand due to Dushera and Diwali.

"This October was unusual. In the middle of Dushera, we had one of our competitors do a sale. And now we are in the middle of Diwali and the second competitor does a sale. That says there is weakness otherwise why should all these sales come up?" asked Dutta.

The impact, he said, is simple.

Last quarter, Indigo had a 5.7 per cent unit revenue improvement. Now it is forecasting a flat unit revenue year over year.

The weakness is reflected in the health of airlines. IndiGo made a loss of ₹10.7 billion in Q2 FY 2020, much higher than the ₹6.5 billion the corresponding quarter last year. It has not been able to increase its market share.

Vistara too doubled its losses to the current ₹831 crore in FY19 over the previous year.

The only consolation, such as it is, is that the price war could have been even more severe if Jet had not closed, as competing airlines would still have bought in new planes based on their projected demand of growth.

The Centre for Asia Pacific Aviation, for instance, had projected that there will be an additional 90 planes in FY 2020 (which did not include any increase by Jet Airways) from around 625 planes in FY19 to 715 in FY20. It had estimated that capacity growth would be up by 20 per cent in FY20.

With Jet closing down, airlines have added additional capacity only to absorb the void created by Jet's closure and grab a larger share of a slow growing market. If Jet were still around, the price war would have been even more cut-throat.