CG Power accounts may be restated

PRESS TRUST OF INDIA
NEW DELHI

The Ministry of Corporate Affairs (MCA) wants fraud-hit CG Power and Industrial Solutions to restate accounts of the past five fiscal years reflecting the actual financial position of the firm, including receivables from companies linked to erstwhile promoter Gautam Thapar, according to sources.

The new management of the company, soon after the fraud came to light, had on August 30 expressed the desire to restate financial accounts for the last five years and it will now expedite the process.

Sources said the MCA had filed a petition before the Mumbai-bench of the National Company Law Tribunal (NCLT) seeking permission to re-open the books of account and recast the financial statements of CG Power and its subsidiary firms for the past five fiscal years beginning 2014-15.

Looking at rating agencies' methodologies: Sitharaman

Finance Minister cites instances of firms that collapse despite high ratings

SPECIAL CORRESPONDENT
CHENNAI

Finance Minister Nirmala Sitharaman and N. Kamakodi, MD and CEO, City Union Bank, in Chennai on Saturday ▪ BIJOY GHOSH

Union Finance Minister Nirmala Sitharaman said her Ministry was looking at the manner in which credit rating agencies were rating firms and assets and whether the methodology was conducive for businesses.

"I have met a few credit rating agencies to understand the way in which they rate the company or assets and whether it was consistent with what was happening in the economy," she said while delivering the sixth G. Ramachandran Memorial Lecture organised by The Southern India Chamber of Commerce and Industry.

Without taking names, Ms. Sitharaman pointed out instances where a company was given the highest rating of AAA and collapsed within a week thereafter. "So, do you really take the rating as an indicator or just a broad advisory or keep that as a holy book and say your rating is supreme," she wondered.

So, there was a churn happening in the way ratings were being done and also in the manner in which banks were assessing risks in terms of asset quality. The Finance Minister emphasised that churn was also happening across the spectrum, including in the bureaucracy, as well as the way in which businesses were being conducted compared with the 1970s.

She said the government was looking to strengthen the powers of regulators such as RBI and SEBI so that they can perform their supervisory roles better, referring to the crisis at Punjab and Maharashtra Cooperative Bank and at IL&FS.

She also said the churn happening now would be good for the economy in the long term as India moves towards the target of becoming a $5 trillion economy.

At another event, Ms. Sitharaman said banks should work on the three core guiding principles of consistency, stability and trust before scaling up their operations.

Addressing the 116th Foundation Day of City Union Bank Ltd., she said "Scaling up is like a contagious disease. But institutions like banks should understand their core strengths and weaknesses. City Union Bank, with its conventional wisdom, has worked with consistency, stability and trust" to earn a reputation.

"We always quote the example of multinational companies for growth. But here we have a bank with an unblemished record. I was surprised to note it did not have even a single day's labour strike in the last 115 years. It is time that we talk about the success of a bank from Tamil Nadu," she said.

Offshore funds, ETFs pull out $1.4 bn in September quarter

Category witnesses net outflow of $5.2 billion in one year

SPECIAL CORRESPONDENT
MUMBAI

The assets of these funds fell to $49.1 bn in the Sept. quarter from $52.9 bn in the previous quarter. ▪ PAUL NORONHA

India-focussed offshore funds and exchange-traded funds (ETFs) witnessed the sixth consecutive quarter of outflows, losing net assets worth $1.4 billion during the quarter ended September 2019, according to a study.

As per the latest study by Morningstar, the outflow was higher than the net outflow of $941 million during the previous quarter. Over the last one-year period ended September 2019, the category witnessed net outflow of $5.2 billion.

This assumes significance as India-focussed offshore funds and ETFs are some of the prominent investment vehicles through which foreign investors invest in Indian equity markets.

As per the report, these funds witnessed net outflow of $1 billion through the quarter while the ETFs, that saw net inflow of $384 million in the previous quarter, saw a net outflow of $321 million for the quarter ended September 2019. The continued net outflows dented the asset base of these funds and ETFs, with the assets falling to $49.1 billion during the quarter, from $52.9 billion recorded in the previous quarter.

The outflows come amid an overall negative trend in equity markets as the benchmark Sensex fell 1.85% during the quarter with the broader indices, representing mid-cap and small-cap segments, shedding 4.76% and 7.5%, respectively.

All three categories – global, emerging market and Asia/Asia-Pacific – of regionally diversified equity funds and ETFs were net sellers of Indian equities for the quarter ended September 2019.

The percentage allocation to Indian equities fell across the board in the portfolios of all these three kinds of funds.

Indigo paints a high-reward strategy

Youth's example leads firm to growth path; paints company eyes ₹850 cr. in FY20

LALATENDU MISHRA
MUMBAI

Hemant Jalan

Kerala youth Pradeep M.G.'s ambition to achieve a ₹1-crore target in sales for Indigo Paints so that he may win a Hero Honda bike costing ₹55,000 as incentive, has helped the company in framing a highly-motivated employee reward and retention programme.

It was at a depot review meeting in Kerala in 2007 that Mr. Pradeep, then 27, stood up and wanted to know the incentive for achieving a ₹1-crore annual sales target.

"Then an average salesperson was doing about ₹25 lakh in annual sales. And suddenly this new boy stood up and asked me what he would get if he achieved ₹1 crore in sales target.

"I thought, 'was he alright'? He said he just wanted a Hero Honda Passion bike. I inquired about the cost and immediately gave him an undertaking and forgot about it," said Hemant Jalan, founder and MD, Indigo Paints.

"After 11 months, he called up and told me he could achieve ₹92 lakh in sales and if he could still get the bike without reaching the target. I said 'no. You can only get a bicycle.' And this boy worked hard and achieved his target. He got his dream bike in May 2008," he recalled.

"I [then] realised, if one person can do it, others can also be motivated to do it by setting their own targets and getting the rewards they wanted. Since then, we started adding huge incentives to wages to create high achievers and performers."

Having understood from Mr. Pradeep's achievement that a highly motivated sales person can be four times more productive than the normal staff, Indigo institutionalised this high incentive scheme in 2009. The company developed a differentiated people's strategy that rewarded high performers and promoted youngsters to high-responsibility jobs.

Better staff retention

In the process, it had been able to achieve a high rate of employee retention and had been growing over 40% year-on-year for 10 years compared with the industry's growth rate of 11%.

"From 2009, we have been growing at a CAGR of over 40%. The revenue has grown from ₹12 crore in FY09 to ₹600 crore in FY19. In FY20, we will close with a turnover of ₹850 crore," said Mr. Jalan.

Indigo Paints, in which Sequoia Capital had invested ₹150 crore, has a flat organisational structure with just two layers compared with six to seven layers in traditional companies.

Here people are more empowered and are self-motivated, Mr. Jalan said.

"They have a very high variable component of pay and thus, automatically become motivated to ensure that they earn more. Across our 600-odd employees, 85 have stock options and one can encash them after four years. People who have sold stock options have taken home between ₹30 lakh and ₹50 lakh, which is highly rewarding," he said.

"We don't keep after them; their spouses keep monitoring so that they take home more money," Mr. Jalan said.

India Inc. holds on to cash, cuts capex despite lower tax rate

Top 1,000 listed firms to save up to ₹65,000 crore from tax cuts, says Ind-Ra

PIYUSH PANDEY
MUMBAI

Every penny counts: Companies such as Hindalco and Tata Steel have cut down on capital expenditure. ▪ AFP

The top 1,000 listed entities will save up to ₹65,000 crore from the tax cut measures announced in FY20, which will include ₹9,000 crore savings for banks and ₹6,000 crore for the struggling non-banks, according to estimates by India Ratings and Research.

However, companies are seen holding on to cash and cutting down on capital expenditure (capex) in the remaining part of this fiscal.

Hindalco Industries has cut down its capex of ₹2,700 crore committed for this fiscal to ₹2,300 crore in the first quarter. The company further cut its capex to ₹2,000 crore after the end of the second quarter.

"We have reduced our capex to ₹2,000 crore and most of it will go towards our downstream expansion," Satish Pai, MD, Hindalco Industries, told *The Hindu*. On debt reduction, he said, "We have net debt of ₹40,710 crore. At current LME (London Metals Exchange) prices, we will not be able to repay any debt."

Tata Steel has reduced its capex guidance to ₹8,000 crore from ₹11,000 crore committed at the start of this fiscal.

"Capex numbers may see more reduction in the coming quarters," said Tata Steel Group CFO Koushik Chatterjee.

"The slowdown had an impact on the working capital." In the prevailing conditions, JSW Steel has deferred its capex of ₹4,700 crore to the next fiscal.

Reliance Industries, which drove India Inc.'s capital expenditure in the last three years with investments exceeding ₹3.5 lakh crore, has reached the fag end of its capex cycle.

Airport expansion

Talking about private sector capital expenditure, S.N. Subrahmanyan, MD and CEO, L&T, said, "Capex is happening in the expansion of some airports because there is no space. There is no significant capex happening in the private sector."

Telecom major Vodafone Idea has reduced its capex for this fiscal to ₹13,000 crore from the ₹17,000 crore announced earlier.

Tea — an industry trapped in its legacy

The sector is undergoing churn and the factors at play are more structural than cyclical

INDRANI DUTTA
KOLKATA

Quality is affected by the ageing of tea bushes in this centuries-old industry. Till September, about 3,325.7 hectares have been replanted under the Medium Term Framework 2017-20. ▪ AFP

The Indian tea industry closed 2018 with a crop of 1,339 million kg. Production is on an upswing this year too.

Earlier, this would have gladdened the industry and the Tea Board of India alike. In today's context, there may only be two cheers for a rising crop in India – the second-largest tea producer after China. The Indian tea industry is going through a churn and the factors at play are more structural in nature than cyclical, changing the industry construct.

Some of the world's best teas are grown in Assam, Darjeeling, Nilgiris, Sikkim and Kangra. The labour-intensive industry, employs over 11 lakh workers in the organised sector, half of whom are women.

The emergence of the small tea-growers as a dominant force in the industry, along with the scarcity of labour and its cost (65% of cost) in the organised industry, are two of the major threats before the organised industry – also known as the estate segment. Prices have not moved in tandem with inflation, causing financial stress. The industry too has been found wanting.

Lately the organised sector's production has shown a declining trend and small tea-growers now have a larger share of the pie. Between January and September 2019, the estate segment's share in total crop fell to 50.9% against 52% a year ago.

Consumption

Contrary to the popular imagery of India being a tea-drinking nation, its per capita tea consumption is low at 786 gm. A burgeoning population has ensured that 80% of the crop is consumed domestically, but per capita consumption remains a pain-point for the industry and the regulator. "Not only do more Indians need to consume tea, but more Indians need to consume more teas," said Mudit Kumar, President, Tea Association of India. According to him, demand-supply mismatch has led to stagnant prices.

Overall tea prices remained soft in the first half of fiscal 2020. According to a report by ICRA, while higher production will help absorb costs, the overall soft price trends will impact on the tea companies' bottomline.

NEWS ANALYSIS

The All India Tea Auction price in the first half of 2019-20 has risen by 3.02% to ₹148.8 per kg. This is not enough according to the industry, which says that while wages (in Assam and West Bengal which account for 75% of the output) have risen by 12% since 2009, along with prices of other inputs, all of which have risen at a faster clip than the 3% rise in tea prices. "A majority of the estates are losing money and if prices do not increase, operations will not be sustainable," said Vivek Goenka, Indian Tea Association Chairman.

Aware of the need to put in place a mechanism for fair price-discovery, the Tea Board has taken some measures. These included actions like foreclosing the tea season in December to curb production of indifferent qualities of teas and initiating auction reforms. To keep abreast of technology, the Tea Board has upgraded the e-auction infrastructure which includes cloud hosting and making the software compatible with the latest technology. An e-auction platform for Jorhat in Assam, with value-added services, is being developed.

Quality is also affected by the aging tea bushes in this centuries-old industry. Till September 2019, around 3,325.7 hectares have been uprooted and replanted during the government's medium term framework (MTF-2017-20).

Given the domestic consumption pattern, exports have attained criticality. In 2018, India's tea exports stood at 256 million kg. Tea Board Deputy Chairman and CEO Arun Kumar Ray feels that this could rise in future as Indian exporters are scoring gains overseas despite the decline in the overall exports market.

The way forward

The industry has to gear up to face its challenges. Whether that be through adopting mechanisation or by adapting to new ways of doing business. "There is no way out but to increasingly adopt machine harvesting," said Harkirat Singh Sidhu, a tea technologist.

"For too long the industry has adopted a laid-back way of functioning whether that be in replanting and rejuvenating the tea-bushes (most are over 50 years old) or innovating ways of marketing tea and adding value or by unleashing alternative revenue streams," said a senior planter unwilling to be named.

Recently, a start-up, which sells teas at attractive prices here and abroad, delivered a lecture to the organised tea industry as to how he went about his business. According Kausshal Dugarr, founder Tea Box, "The industry is unable to look beyond its legacy." The traditional industry, perhaps, would do well to listen and find ways to sell a produce that is the world's second-most consumed beverage after water.