

17 ECONOMY

GOLD	RUPEE	OIL	SILVER
₹38,706	71.28	\$61.83	₹45,498

*Indian basket as on November 7, 2019

SENSEX: 40,323.61 ▼ 330.13 NIFTY: 11,908.15 ▼ 103.90 NIKKEI: 23,391.87 ▲ 61.55 HANG SENG: 27,651.14 ▼ 196.09 FTSE: 7,380.98 ▼ 25.43 DAX: 13,260.78 ▼ 28.68

*International market data till 1900 IST

DEMONETISATION THREE YEARS AFTER

Cash in circulation up 25.6% to record high of ₹22.57L cr

GEORGE MATHEW
MUMBAI, NOVEMBER 8

THREE YEARS after the government announced the demonetisation of Rs 500 and Rs 1,000 notes on November 8, 2016, the currency in circulation (CIC) has jumped by 25.6 per cent to a record high of Rs 22.57 lakh crore as on November 1, 2019, from Rs 17.97 lakh crore as on November 4, 2016.

The Rs 4,60,000-crore rise in the currency in the system in the past three years indicates that cash is still ruling the roost in the financial system despite the big push in digital transactions and less cash economy. CIC has increased by Rs 2,84,799 crore in the last 12 months alone, as per the data available from the Reserve Bank of India (RBI).

After Rs 500 and Rs 1,000 notes were withdrawn from the system in November 2016, CIC fell to around Rs 9 lakh crore in January 2017. Cash in the system has been steadily rising even though the government and the RBI pushed for a "less cash society", digitisation of payments and slapped restrictions on the use of cash in various transactions.

After the notes were withdrawn from circulation on November 8, 2016, nearly all of that money came back to the banking system. The RBI received Rs 15.310 lakh crore of Rs 500 and Rs 1,000 notes, or 99.3 per cent of the Rs 15.417-lakh crore worth of notes, which were in circulation as on November 8, 2016.

However, a senior banker said the rise in CIC in absolute numbers is not the reflection of reality. "What needs to be taken into account is the currency to GDP ratio, which had come down after demonetisation. But this would have gone up of late with the decline in the growth," he said.

According to a recent RBI study on digital payments, although digital payments have been growing gradually in recent years, both in value and volume terms across countries, the data suggests that during the same time CIC to GDP ratio has increased in consonance with the overall economic growth.

"Several anomalies, however, are visible in the trend: first, the spread and intensity of use of digital payments does not seem to have any specific relationship with how developed a country is," it said.

"An increase in digital payments to GDP ratio over a period of time does not seem to automatically imply a fall in the currency to GDP ratio of the country," the RBI study said. Currency to GDP ratio, which dipped below 10 per cent after demonetisation, had gone above 12 per cent as of March 2018.

Moreover, the RBI's Vision Document on payment systems says, "While no specific target is considered for CIC, the enhanced availability of

EXPLAINED

Nowhere near a 'less cash' society

THE RS 4,60,000-CRORE rise in the currency in the system in the past three years indicates that cash is still ruling the roost in the financial system despite the big push in digital transactions and less cash economy. Cash in circulation has increased by Rs 2,84,799 crore in the last 12 months alone, as per the data available from the Reserve Bank of India.

PoS (point of sale) infrastructure is expected to reduce demand for cash and thus over time achieve reduction in CIC as a percentage of GDP."

The sudden withdrawal of notes in November 2016 roiled the economy, with demand falling, businesses facing a crisis and GDP growth declining nearly 1.5 per cent. Many small units were hit hard and shut shutters after the note ban. It also created a liquidity shortage.

Cash transactions through ATMs were also rising steadily. From Rs 2,00,648 crore in January 2017, debit card transactions through ATMs and PoS terminals rose to Rs 2,95,783 crore in January 2018, Rs 3,16,808 crore in January 2019 and Rs 3,45,492 crore in August 2019, as per the RBI data. Significantly, as much as Rs 2.87 lakh crore was cash withdrawal through ATMs in August.

Ramaswamy Venkatachalam, MD-banking and payments, FIS, said: "The real challenge in the digital payments network is to create a trustworthy robust ecosystem for our consumers. While we are making efforts to move towards a cashless economy, we have to ensure that we back the innovations with robust security infrastructure. While we need innovations to continue our march towards a cashless economy, we have to ensure secure and safe transactions to keep the transaction volume growing."

Experts are expecting a boom in the digital payment industry. "From being primarily a cash-obsessed economy, India's digital transformation story is new but exciting. The evolution of the industry has been triggered by increasing internet and smartphone penetration," said Jasal Shah, managing director and CEO, Velocity MR.

OECD proposes minimum tax for global firms

ENSECONOMIC BUREAU
NEW DELHI, NOVEMBER 8

PUTTING FORWARD the right for jurisdictions to "tax back" where other jurisdictions have not exercised their primary taxing rights, the Organisation for Economic Co-operation and Development (OECD) has floated a consultation paper for Global Anti-Base Erosion (GloBE) proposal under Pillar Two, proposing a minimum rate of tax for all internationally operating businesses.

This implies that not only tech companies, but also most multinationals, which have intangible assets as profit drivers, would be covered under the tax ambit.

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limited only to digital companies, have been invited till December 2, following which a public consultation meeting would be held on December 9.

"A minimum tax rate on income reduces the incentive for taxpayers to engage in profit shifting and establishes a floor for tax

INFOSYS, TCS, SBI AND HDFC BANK AMONG AFFECTED

Post India's outlook revision, Moody's downgrades 21 firms

ENSECONOMIC BUREAU
NEW DELHI, NOVEMBER 8

AFTER CHANGING the outlook of India's sovereign ratings to negative from stable and affirming the Baa2 foreign-currency and local-currency long-term issuer ratings on Friday, Moody's Investors Service downgraded the outlook for 21 companies. These companies belong to the infrastructure, oil and gas, and information technology sectors.

Rating outlook was cut to negative from stable for Infosys, TCS, State Bank of India and HDFC Bank, along with other financial institutions, corporates and sovereign-linked infrastructure companies.

Moody's revised the outlook for ratings of eight companies — Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Indian Oil Corporation, Oil and Natural Gas Corporation, Oil India, Petronet LNG, Infosys and Tata Consultancy Services — to negative from stable.

Shares of all the companies that witnessed a downgrade in outlook and are listed on the stock exchanges saw share prices fall by up to 5.2 per cent. While the shares of HPCL fell 5.2 per cent, ONGC and TCS saw their shares fall by 2.6 per cent and 2.5 per cent, respectively. GAIL and Petronet LNG saw their

DECLINE IN SHARE PRICES AFTER OUTLOOK DOWNGRADE

Company	Fall in share price (%)
HPCL	5.2
Petronet LNG	5
GAIL	3.9
Adani Transmission	3.9
ONGC	2.6
TCS	2.5
Adani Green Energy	2.25
BPCL	2.03
NTPC	1.8
Infosys	1.6

*List includes names of 10 firms that saw the biggest fall after Moody's downgrade

share prices fall 3.9 per cent and 5 per cent, respectively.

Moody's revised the outlook of six financial institutions to negative from stable: EXIM India, HDFC Bank, Hero FinCorp, HUDCO, Indian Railway Finance Corporation, and SBI, while maintaining stable outlook for Bank of India, Canara Bank, Oriental Bank of Commerce, Syndicate Bank and

Union Bank of India.

Among the infrastructure companies, the ratings outlook was revised down for NTPC, NHPC, National Highways Authority of India, GAIL, and Power Grid Corporation to negative from stable.

Moody's revised down ratings outlook to negative from stable for Adani Green Energy Restricted Group, comprising Wardha Solar (Maharashtra) Pvt Ltd, Kodangal Solar Park Pvt Ltd, Adani Renewable Energy Ltd, and Adani Transmission Restricted Group, comprising Raipur-Rajnandgaon-Warora Transmission Ltd, Sipat Transmission Ltd, Chhattisgarh-WR Transmission Ltd, and Hadoti Power Transmission Service Ltd, Barmer Power Transmission Service, Thar Power Transmission Service Ltd and Adani Transmission (Rajasthan) Ltd.

"Ratings of IOCL, BPCL and OIL incorporate our expectation of support from the Indian government. Therefore, a downgrade of the rating of the sovereign to Baa3 from Baa2 will result in a downgrade of the respective Baa2 ratings of these companies," said Vikas Halan, senior vice-president and lead analyst for the Indian oil and gas companies at Moody's.

"Ratings for Infosys and TCS are constrained to no more than

two notches above the sovereign rating. Therefore a sovereign rating downgrade will also result in downgrade of the A3 ratings of Infosys and TCS," said Kaustubh Chaubal, vice-president and senior credit officer, Moody's.

There was a change in outlook to negative for the ratings of NTPC, NHPC, NHAH, Power Grid and GAIL.

"We have changed the ratings outlook for NTPC, NHPC and NHAH because these firms' ratings incorporate our expectation of support from the government. Consequently, if the sovereign rating is downgraded to Baa3 from Baa2, we will downgrade the ratings of these companies accordingly," said Abhishek Tyagi, vice-president and senior analyst, Moody's.

The change in outlook for the backed senior secured notes issued by Adani Green Energy Restricted Group reflects its dependence on sovereign owned entities, such as Solar Energy Corporation of India, for more than 70 per cent of the offtake from its power projects, it said.

"Meanwhile, the negative outlook on Adani Transmission Restricted Group's (P) Baa2 rating, reflects the fact that virtually all of the restricted group's operations are based in India," said Spencer Ng, vice-president and senior analyst, Moody's.

'Biz optimism for Dec qtr falls 19.5% amid slowdown'

Corporate India is forecasting deteriorating growth for the October-December period this year as optimism for new orders and sales prices has hit the lowest level in nearly 18 years, the Dun & Bradstreet Composite Business Optimism Index said

OPTIMISM FOR NEW ORDERS stood at 35 per cent — down 22 percentage points as against the previous quarter



59% was the optimism for net profits, a decline of 7 percentage points, compared to the September quarter

56.4 The Index for the December quarter this year fell 19.5 per cent, compared to the year-ago period



THE INDEX fell sharply with India Inc forecasting deteriorating growth

OPTIMISM FOR NEW ORDERS and sales prices are the lowest in nearly 18 years indicating the severity of the slowdown in demand, said Manish Sinha, managing director—India, Dun & Bradstreet

OTHER DEMAND INDICATORS like vehicle sales, domestic air passenger traffic, petroleum consumption and rural wages have performed poorly, Sinha said

FLOODS in many states during the monsoon appear to have impacted rural demand which had been already subdued

NO REVIVAL YET
The government has taken measures to counter these economic headwinds, but our respondents are not seeing signs of revival as yet. We expect further actions in the coming months, Sinha said

WHAT IS THIS INDEX?

The Dun & Bradstreet Composite Business Optimism Index measures the pulse of the business community and serves as a benchmark for investors. It is arrived at on the basis of a quarterly survey of business expectations

'Equity fund inflows fall 8.8% in October'

ENSECONOMIC BUREAU
MUMBAI, NOVEMBER 8

EVEN AS the Sensex jumped to a new peak in the month of October, the net equity mutual fund inflow during the month declined to Rs 6,026 crore, down 8.8 per cent from Rs 6,609 crore in the previous month.

However, liquid funds witnessed an inflow of Rs 93,202 crore as against an outflow of Rs 140,731 crore in September.

SIP (Systematic Investment Plan) inflow also witnessed a minor fall in October, the Association of Mutual Funds in India (AMFI) said on Friday.

The SIP flow dipped to Rs

The SIP flow dipped to Rs 8,245 crore from Rs 8,262 crore. Total number of SIP accounts, however, surged to 2.18 crore, an addition of 4.74 lakh accounts during the month, as per AMFI data

8,245 crore from Rs 8,262 crore. Total number of SIP accounts, however, surged to 2.18 crore, an addition of 4.74 lakh accounts during the month. The assets under management (AUM) via SIP

mode crossed Rs 3 lakh crore, rising by Rs 14,600 crore in October.

NS Venkatesh, chief executive, AMFI said: "SIP AUM crossing the Rs 3 lakh crore landmark for the first time ever and the continual rise in SIP accounts are a positive reflection of disciplined approach adopted by the retail investor fraternity. We expect equity markets to perform better in the coming quarters, as the positive impact of government initiatives trickles down in the economy, driving further inflows in mutual funds."

Overall, the mutual fund sector witnessed an inflow of Rs 133,481 crore during October this year. The total AUM as on October 31, 2019, were Rs 26.32 lakh crore.

Growth in India will not be an uninterrupted move upwards: Suzuki

REUTERS
NEW DELHI, NOVEMBER 8

SUZUKI MOTOR said it was no longer gung-ho about India's auto market, the world's fourth-largest, where it has seen relentless growth in the past seven years. And the parent of the country's biggest car maker is not alone.

The Japanese automaker issued the warning after it reported a slump in quarterly profit this week on tumbling sales at its Indian unit, Maruti Suzuki, which accounts for half the number of cars sold in India.

Maruti Suzuki India reported October total production of 1,19,337 units, as against 1,50,497 units in September.

"We no longer think that growth in India will be an uninterrupted move upwards," Suzuki President Toshihiro Suzuki cautioned. Maruti's sales, which were growing till January, has slipped every month over February-September 2019.

The auto sector has gone into a tailspin this year as tight liquidity at shadow banks, high taxes and a weak rural economy have sapped consumers' buying power.

Global players like Ford, Volkswagen and Fiat are already re-evaluating their strategy as they struggle to make inroads in a market dominated by small cars. "Car makers are getting very cautious regarding their future investments in India. Most of them

Jan onwards, no charge for NEFT transfer from savings account: RBI

ENSECONOMIC BUREAU
MUMBAI, NOVEMBER 8

THE RESERVE Bank of India (RBI) has mandated banks not to charge savings bank account customers for online transactions in the NEFT (National Electronic Funds Transfer) system with effect from January 2020.

The central bank had earlier done away with charges on fund transfers through RTGS and NEFT routes to boost digital transactions and asked banks to pass on the benefits to customers. The Real Time Gross Settlement System (RTGS) is meant for large-value instantaneous fund transfers while the NEFT is used for fund transfers up to Rs 2 lakh. The RBI used to levy minimum charges on banks for transactions routed through RTGS and NEFT system for other fund transfers. Banks, in turn, levied charges on their customers.

In October, the RBI said it will make it easier for people to transfer money as NEFT will soon be available 24 hours as opposed to working hours on weekdays as of now. The revised timings will be effective from December this year.

At present, NEFT is available only till 7:45 pm on working days. Also, NEFT does not work on the second and fourth Saturday of the month.

Meanwhile, in a statement on Friday, the RBI said it has decided to permit all authorised payment systems and instruments (non-

RBI raises limit for borrowing from MFIs

Mumbai: The Reserve Bank of India (RBI) on Friday increased the household income limits for borrowers of NBFC-MFIs from Rs 1 lakh to Rs 1.25 lakh for the rural areas with an aim to strengthen credit to those in the bottom of the economic pyramid. PTI

bank PPIs, cards and UPI) for linking with National Electronic Toll Collection (NETC) FASTags. "Going forward, this will facilitate the use of FASTags for parking, fuel, etc., payments in an interoperable environment," the RBI said.

In order to further empower every citizen with an exceptional payment experience and provide them access to a bouquet of options, the RBI has proposed to operationalise the Acceptance Development Fund to increase acceptance infrastructure with effect from January 1, 2020.

It has also decided to constitute a committee to assess the need for plurality of QR codes and merits of their co-existence or convergence from both systemic and consumer viewpoints.

The RBI said digital payments constituted a high 96 per cent of total non-cash retail payments during the period October 2018 to September 2019.

SBI slashes deposit rates by up to 75 bps, MCLR by 5 bps

ENSECONOMIC BUREAU
MUMBAI, NOVEMBER 8

STATE BANK of India on Friday reduced its marginal cost of funds based lending rate (MCLR) by 5 basis points across all tenors and sharply slashed the deposit rates between 15 and 75 basis points.

This is the seventh consecutive cut in lending rates by the bank this financial year. With this reduction, the one-year MCLR, to which most of its loan prices are linked, will come down to 8 per cent, the bank said in a statement.

The bank also revised its interest rates on term deposits on account of adequate liquidity in the system. The new deposit rates will also be effective from November 10. It has reduced interest rate on retail term deposit by 15 basis points for one year to less than two years' tenor. Bulk term deposit in-

terest rates have been reduced by 30 to 75 bps across tenors, the bank said.

On October 9, close on the heels of the Reserve Bank's fifth cut in repo rate, SBI slashed the interest rate on savings bank deposits (with balances up to Rs 1 lakh) by 25 basis points from 3.5 per cent to 3.25 per cent with effect from November 1, 2019. The bank then also slashed its retail term deposit and bulk term deposit interest rates by 10 bps and 30 bps respectively for '1 year to less than 2 years' tenor with effect from October 10, 2019. It has also reduced the MCLR (Marginal cost of funds based lending rate) by 10 basis points, making home and personal loans cheaper.

SBI had earlier linked the interest rate on savings account deposits with balance of over Rs 1 lakh to repo rate. Currently, it stands at 3 per cent.

Q2 RESULTS

M&M group profit dips 24%

Mumbai: Mahindra & Mahindra and Mahindra Vehicle Manufacturers's consolidated net profit for the quarter ended September 30 fell 24 per cent to Rs 1,355 crore on the back of continued slowdown in the sector leading to de-growth across segments. Revenues from operations fell 15 per cent to Rs 10,935 crore, compared to the the year-ago period. Ebitda saw a YoY decline of 16.7 per cent in the September quarter to Rs 1,541 crore. FE

Ashok Leyland profit dips 93%

Chennai: Hit hard by months-long slowdown in the commercial vehicle sector, Hinduja Group flagship Ashok Leyland (ALL) has reported a 92.6 per cent drop in net profit to Rs 39 crore for the quarter ended September 30, 2019, against Rs 528 crore in the same quarter last financial year.

With the volume (sales) plummeting to 44 per cent in the September quarter of the current financial year, the Ebitda margin declined sharply to 5.8 per cent from 10.9 per cent in the year-ago quarter. FE