Year of reality check

From promoters losing their firms to consumers realising there are no free lunches, 2019 was a year of getting real

ACROSS THE BOARD

SHAILESH DOBHAL

There is still a fortnight to go before 2019 wraps up, but one can see some patterns emerging in the world of Indian business. There were momentous events this year: From scams in financial firms, a former finance and home minister being incarcerated, big brand businesses folding up, promoters fighting one another for control to debt-ridden entrepreneurs losing their firms, and, in some unfortunate cases, even their life. Though it is not possible to club all under the same rubric, there are broadly three trends that define the goings on at India Inc this year.

No free lunches: Thanks to the Insolvency & Bankruptcy Code (IBC) and its stringent provisions, many a storied promoter lost control of their firms this year; from Reliance Communications' Anil Ambani to Jet Airways' Naresh Goyal.

Outside IBC, luck caught up with promoters, such as Yes Bank's Rana Kapoor, who lost control of their marquee creations. Subhash Chandra stepped down as chairman of Zee Entertainment even as the family fights to retain control of one of India's leading entertainment firms. Even the fiscally stretched government finally put the struggling national carrier Air India on sell-or-liquidate course besides putting a host of other "family silvers" on the block — from refiner Bharat Petroleum Corporation Limited, the Shipping Corporation of India to the Container Corporation of India.

Why, even consumers gorging on data in the last three years thanks to Reliance Jio-led below-cost-tariff regime also finally realised that it was too good to be true with across-the-board 10-50 per cent tariff hikes.

Year of scams: Just when one thought it couldn't get any worse in the financial sector after 2018's IL&FS saga, not one but three big and serious scams blew right on our face. Overleveraging and alleged shenanigans by the promoters slowly unravelled the goings on at housing finance firm Dewan Housing Finance Corporation. Regulator-driven curbs on activities of Punjab & Maharashtra Cooperative Bank caused grief to hundreds of thousands of poor and middle-class depositors besides bringing the bank's unholy alliance — with another housing finance firm HDIL's promoters who are behind the bars now — out in the open. And the year is wrapping up with brokerage Karvy in the middle of a storm for alleged violation of securities regulator norms on what constitutes client and proprietary assets, with over 250,000 retail investors and scores of banks caught in the middle.

Industrialist Rahul Bajaj criticised the government for fomenting an environment of fear and got a quick retort

Year of living dangerously: 2019 will be remembered when a top-notch entrepreneur, Café Coffee Day Enterprises' V G Siddhartha, caved in to business pressure and unfortunately committed suicide. It brought to fore the loneliness and helplessness that people at the top of the business pyramid have to endure and manage, not always successfully. It was virtual turning of the tables, when former finance and home minister P Chidambaram was arrested for alleged wrongdoings by the agencies he once used to command, the Central Bureau of Investigation and the Enforcement Directorate. Chidambaram was incarcerated for a full 106 days before the Supreme Court let him out on bail. Luck also caught up with former Ranbaxy and Fortis Hospitals' promoters Malvinder and Shivinder Singh who were arrested for an alleged fraud, besides being hauled up by the Supreme Court for contempt in another case.

Industrialist Rahul Bajaj spoke about the atmosphere of fear in India Inc if they criticised government policies, and got a quick retort from the government and the ruling Bharatiya Janata Party to the effect that all was hunky-dory with the government's handling of the country, economy and the Opposition and what Mr Bajaj was saying was all bunkum!

CHINESE WHISPERS

The search continues

A year after forming the government in Madhya Pradesh, the Congress is still struggling to find a candidate to head its state unit. Chief Minister Kamal Nath (*pictured*), who is also the state unit head, has said over and over again that he would like to give up the second post, but with many power centres in the Madhya Pradesh Congress, the party leadership decided to maintain the status quo. Now, as the government looks safe, the party has begun the search for a state head all over again. The front-runners for the post are Jyotiraditya Scindia, Ajay Singh (son of former chief minister Arjun Singh), Umang Singhar (the tribal face of the party), and Bala Bachchan (state home minister and a confidant of Nath).

Poor construction

Heads might roll in the Uttar Pradesh government after Prime Minister Narendra Modi tripped on the steps of Atal Ghat on the banks of the Ganga in Kanpur last week. The Centre had spent ₹10 crore on the construction of the ghat, but the December 14 incident brought to light the poor quality of construction of the local ghats under the flagship Namami Gange project. Even a cursory glimpse would show the stone-engraved steps are uneven. After the video that captured the unfortunate incident involving the PM was widely shared on social media platforms, it emerged that scores of people had also met with a similar fate. While the episode has left the authorities in Uttar Pradesh red-faced, an inquiry is underway to fix responsibility.

Fight within

The Bharatiya Mazdoor Sangh (BMS) will hold in New Delhi on Thursday a national convention of the employees of central public sector undertakings against the Centre's policy on privatisation, disinvestment, strategic sales of PSUs, mergers in banking and insurance, and the corporatisation of railways and defence production units. The BMS has said it will demand that the government initiates wage negotiations, clears salaries and wages, revives and diversifies sick PSUs, and revises the pension for retired BSNL and MTNL employees. The BMS is part of the big tent of the Sangh, to which the Bharatiya Janata Party belongs.

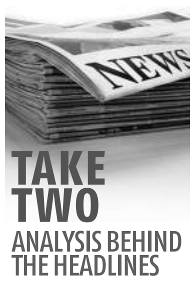
Tamil Nadu's SEZ in comeback mode

Investments by two mobile component manufacturers in the SEZ that disintegrated after the freeze on Nokia plant have brought fresh hope to the state

T E NARASIMHAN

Five years ago, when the Nokia telecom SEZ at Sriperumbudur, almost 40 km west of Chennai, was forced to close due to the ₹21,000-crore tax dispute, the industrial ecosystem in Tamil Nadu sustained a huge blow. Nokia was the anchor investor for the state.

The facility, spread over in 210 acre, housed Nokia as the Original Equipment (OE) plant and its suppliers. It was a source of livelihood for nearly 15,000 people directly (many of them women) and an equal number indirectly. Nearly 15 million feature phones were produced here every month, making it one of the largest such facilities across the globe at the time.



With the tax dispute and the resulting freeze on the facility, this entire ecosystem collapsed and the state started losing many investment opportunities, especially to Uttar Pradesh's Noida (both Motorola and Samsung shifted there) and to the privately held integrated business park SriCity in Andhra Pradesh, around 60 km from Chennai (where Taiwanese giant Foxconn relocated).

Now the state is seeing some light at the end of the tunnel. The SEZ park is about to restart production with two of Nokia's largest component suppliers, who are now global electronics and component manufacturers, in the process of taking possession of parts of the facility.

Salcomp, a Finnish charger and adapter maker, that was acquired by China-based Lingyi iTech, has acquired the one-million square foot Nokia mother plant along with another 3,00,000 square foot defunct factory of Lite-on-Mobile, which once supplied front and back covers for Nokia's features phones. The company also acquired a 1,60,000-square foot defunct facility of US-based Laird Technologies, which makes performance-critical wireless products.

With these acquisitions, Salcomp occupies nearly 55 per cent of the park to manufacture components for domestic and export markets. The company has decided to invest around ₹1,300 crore and plans to start production by March 2020.

Foxconn, which was operating when Nokia was running but closed when Nokia stopped production, resumed production early this year. It is now converting the same facility to a Domestic Tariff Area to cater to the domestic market and plans to invest over ₹2,500 crore to produce Apple's premium phones, HMD (Nokia-branded phones), Xiaomi and other products.

China-based Luxshare, another Apple supplier, will be setting up a unit by acquiring Wintek's facility in the campus (Wintek is a Taiwanese component supplier for the former Nokia factory). Another dilapidated factory owned by component supplier Jabil may be used as a warehouse or bought by another manufacturer.

BIG TICKET INVESTMENT COMMITMENTS IN MOBILE MANUFACTURING

Companies	Activitiy	Investment (₹crore)	Time period
Foxconn	Manufacturing of Display Fab	34,000	2018**
Samsung	Board processing, assembly & packaging	5,000	2018-2020
Lava	Board processing, assembly & packaging	2,615	2016-2022
Salcomp*	Assembly & packaging	1,300	2019-2022
Gionee, Xiamoi, Videocon, Jivi Moile	Product assembly & packaging	1,250	2016-2019
Comio Intex	Product assembly & packaging	1,150	2018-2019
iVooomi	R&D	250	2018-2019

* Not part of of KPMG and Frost & Sulvian ** not specified

Source: KPMG Research Frost & Sulvian

With all these companies expected to revive the factories, the park is expected to restart operations by March 2020, said government officials and industry sources, and could see the state regain its leading position. India currently has 268 mobile manufacturing units, but only three or four are in Tamil Nadu.

"The revival of the Nokia facility has a great symbolic value because this was an iconic manufacturing facility and its revival strengthens India's case," says ICEA President Pankaj Mohindroo.

The development comes at a time when companies are looking to derisk from their China focus owing to rising wages there and the trade war between China and the US. Helping the state is the Centre's "Make in India" push, which has raised tariffs on mobile phones and components. Imported mobile phones now incur a customs duty of 20 per cent, which makes it cost competitive to make phones in India for the burgeoning domestic market. According to an ASSOCHAM-PwC report, India has over 450 million smartphone users, a number that is expected to almost double to 859 million by 2022.

The next step would be making the facility an export hub. Foxconn is a case in point. Its return to Tamil Nadu will entail an investment of around Rs 2,500 crore. Foxconn currently ships parts from China, but hopes one day to manufacture displays and printed circuit boards locally. Counterpoint Research data shows that the company's share in the contract manufacturing in India is around 63 per cent, followed by China's HiPad (12 per cent) and US-based Flex (7 per cent).

Housing two companies, of the top three (Foxconn and Flex), in the state will certainly send a positive message to other investors. Salcomp, which was making mobile chargers, is now looking at backward integration into manufacturing plastics, which in itself is a $4-billion market opportunity, and later metal parts. Once these parts are manufactured in India, more high-value inputs such as semiconductors could follow.

Tamil Nadu's inherent strength is creating a manufacturing ecosystem, the classic example being the automobile industry. Josh Foulger, managing director, Foxconn India, earlier said Tamil Nadu has the potential to grow electronics manufacturing to grow to $100 billion, out of the national opportunity of $1 trillion by 2030.

Part of the challenge for the state will be the tax relief regime going forward. The 4 per cent subsidy under the Merchandise Exports from India Scheme (MEIS) for handsets and components may be scrapped under World Trade Organisation dispute settlement rules. It is still unclear whether the Remission of Duties or Taxes on Export Products (RoDTEP) scheme, which is supposed to replace the MEIS, will provide the same dispensation.

The state administration has said it will address all these concerned in a new electronics and hardware manufacturing policy in four to eight weeks. The government is also planning to develop 100 acres of land near Sriperumbudur on a plug-and-play model to lower capital costs.

Said George Paul, chief executive officer, MAIT, the apex body representing India's ICT sector. "I see it as a beginning of a journey, the first step is bringing global manufacturing over here. Many of the companies are looking at Tamil Nadu because it has demonstrated that it is industry-friendly in terms of workforce discipline and so on."

ON THE JOB

NRC to exacerbate labour woes

MAHESH VYAS

Muslims are a significant part of India's labour force. Of the 405 million people employed in India, an estimated 39 million are Muslims. Recent actions and announcements by India's central government have led to a palpable unease in this small but significant part of Indian labour.

Separately, select industrialists have expressed fear of the consequences of criticising the government.

If capitalists and labour are both besieged by fear, revving up a slowing economy becomes much more than a cyclical or a structural problem.

Fear among Muslims is not the only problem that labour faces because of the government's recent actions. Assam, several north-eastern states and also Bengal are in turmoil because of the Citizenship Amendment Act. Campus protests have spread all over the country.

The process of creating a National Register of Citizens would be highly disruptive for labour markets in particular and for the economy as a whole. Would the perceived benefits arising from such an exercise be worth the cost that the economy may pay for its realisation?

A little more than a hundred million Muslims are in the working age bracket in India, that is, they are of 15 years of age or more. Of these, 42.3 million actually participate in the labour markets by either working or looking for work.

If approximately 10 per cent of the employed population has to worry, over a prolonged period, about proving its citizenship, productivity in the economy as a whole is bound to take a hit. It may not be unrealistic to imagine that a significant portion of labour (not just Muslims) would have to crisscross the country to put together the documentation required to prove citizenship. The impact of this on productivity and growth is unlikely to be small.

The adverse impact on the overall welfare of Muslim households in particular and poorer households in general could be larger and far more difficult to measure. The reduction in the degrees of freedom and the fears of real and imagined miseries arising out of requests regarding citizenship of the extended family would be difficult to measure.

Muslim women participate less in the labour markets compared to women of other faiths. Of the 39 million working Muslims in India, 36.5 million are men and only 2.5 million are women. It may be safe to conjecture from these statistics that most Muslim households have just one working member, who is mostly a male. If such a member has to run from pillar to post to prepare documents to prove his and his family's citizenship then it is likely that such a household would suffer significant financial losses besides significant mental stress.

The impact on poor households would be more devastating than in households that would have adequate savings to overcome the transaction costs of complying with the new laws.

Such disruptions could lead to job losses which in turn could force Muslims to seek employment only in sympathetic Muslim-owned enterprises. This could lead to a further ghettoisation of sorts of the Muslims where cosmopolitan societies and national integration is far more desirable. Such losses in freedoms are far more devastating than mere financial losses.

NRC may or may not be Orwellian but it does exacerbate India's labour market problems. The labour participation rate can fall from its already low levels.

Assam is agitating over a different problem arising out of the Citizenship Amendment Act. It worries that immigrants would crowd out the language and culture of Assam. At stake in Assam, in a purely economic sense, is an employed workforce of about 12 million. This includes all — the Axomiya-speaking Assamese who are trying to protect their identity, and the rest in Assam.

Such worries pervade most north-eastern states. Assam has agitated over this issue for decades. But other states are also hankering for jobs for the locals. Almost all state Assembly elections in recent years including that in Rajasthan, Madhya Pradesh, Telangana, Andhra Pradesh, Haryana and Maharashtra have seen political parties promising jobs for locals if voted to power. Some have even followed up on the promises.

These agitations and these sectarian politics are outcomes of an economy that is not growing adequately to provide good jobs to its citizens.

The solution is faster job-generating economic growth. It is not sectarian politics and it is not agitations against immigrants. When there are sufficient jobs even Indian states welcome migrants. Two rich states of India — Punjab and Kerala — import labour from within India in large numbers. They do not promise jobs for locals. And, they export their language, culture and cuisine successfully.

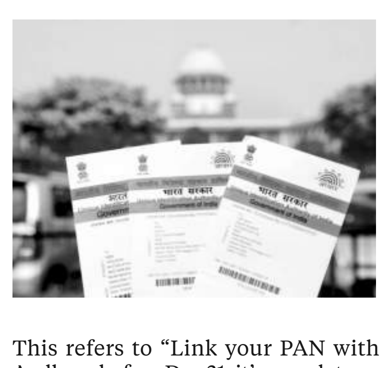
The Axomiya language and its associated rich culture and also Telugu or Marathi or Marwari are best protected by spreading these among more rather than restricting it to the locals. Making the learning of local language and appreciation/adoption of the local culture a necessary condition for letting in immigrants is better than keeping immigrants away.

India's rich diversity in culture, language, cuisine and religion acquired and honed over centuries is best celebrated by spreading it, sharing it and appreciating it without having to prove that we belong to it.

The author is the MD & CEO of CMIE

LETTERS

Casual approach



This refers to "Link your PAN with Aadhaar before Dec 31; it's mandatory, says I-T dept" (December 16). Curiously enough, the Central Board of Direct Taxes (CBDT) thought it was wise to choose a Sunday to remind income tax payers that it was mandatory to link their PAN with Aadhaar by the end of this year for "building a better tomorrow and to reap seamless benefits of income tax services". This begs the question why so many extensions were being given till date?

Last September, the Supreme Court had held the Centre's flagship Aadhaar scheme as constitutionally valid while ordering that the biometric ID would remain mandatory for linking the same with the PAN under the extant provisions of Section 139 AA (2) of the Income Tax Act. Why is the government dealing with the move in such a casual manner if it really means business? But still, it won't be a surprise if the CBDT comes out with yet another extension till, say, March 31, 2020, for obvious reasons.

S K Gupta New Delhi

Task cut out

After protests in border states such as Assam, Meghalaya, Nagaland and West Bengal over the passage of the Citizenship Amendment Bill (CAB), the issue has led to demonstrations by the students of Jamia Millia Islamia University in Delhi and by those studying in the Aligarh Muslim University in Uttar Pradesh. Hundreds of students were involved in pitched battles with the police in these two places as the protest took a violent turn leading to vandalisation of public and private property. It is incomprehensible that the two major political parties -- the Bharatiya Janata Party and the Congress -- have resorted to a blame game instead of trying to quell the violence. With the nation on the edge, the law enforcers have their task cut out in reining in the protesters.

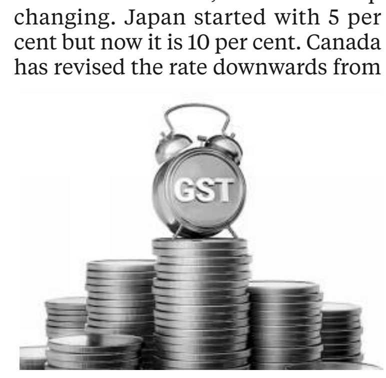
N J Ravi Chander Bengaluru

A misconception

This refers to the editorial "Fixing the GST" (December 9). In the last sentence, it has been said that now a revenue-neutral rate should be worked out. In the interest of clear thinking, I am clarifying that there is no such concept of revenue-neutral rate any more.

Revenue- neutral rate was a concept when the GST was first introduced. The idea then was to find rates of duty which would fetch same total duty as was being collected earlier. Now more than two years are over and the government is finding the collection falling short compared to the target of ₹1.18 trillion per month. The government is not able to pay the compensation to the states where the collection fell short by 14 per cent or more. Bridging the fiscal deficit is also in view. So, the rates have to be fixed as per the new requirement. It is a floating target. There is no question of revenue -neutral rate now. Each year it may be changing till it settles down.

In all countries, the rates keep changing. Japan started with 5 per cent but now it is 10 per cent. Canada has revised the rate downwards from



7.5 per cent to 7 per cent. Germany changed rates several times. Higher requirement is the target now. There is no question of revenue- neutral rate any more. This concept is dead now, which means, no longer relevant.

The concept of revenue neutrality is different from revenue- neutral rate of duty. Revenue neutrality means that rate of duty should not be used to foster or deter industry. Industry should not have to take a decision to establish their plants only on the basis of rate of duty. This concept is supposed to be the ideal but is rarely followed.

Sukumar Mukhopadhyay via email

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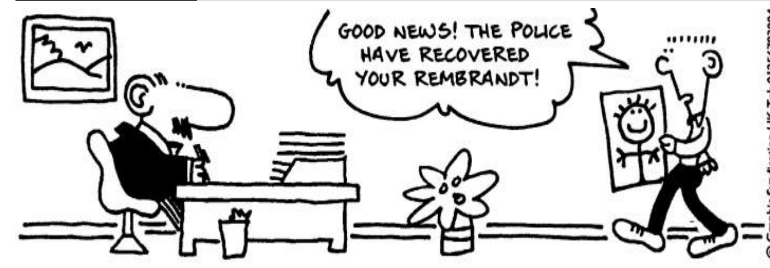
HAMBONE



Business Standard
Volume XXIV Number 88
MUMBAI | TUESDAY, 17 DECEMBER 2019

Rebuilding New Delhi

The makeover of its central spaces must not be behind closed doors

Insufficient attention is being paid to the Union government's plans for a massive redevelopment of the central Delhi area that houses its offices as well as the historical precincts of the Central Secretariat and the Parliament House. Some overall outlines of what is planned are known, or at least have been suggested: For example, the socialist-era buildings along the Central Vista, on either side of Rajpath between India Gate and Vijay Chowk, are likely to be demolished or redeveloped. It is also possible that some of the imperial-era buildings, including perhaps the current Parliament and Central Secretariat, will be turned into museums and their function carried out in new structures. But, overall, the expectations from the redevelopment and even its scope are being kept unnecessarily vague and ambiguous. What is known is that the design must "represent the values and aspirations of a New India" and also be "rooted in the Indian culture and social milieu". These are, again, undefined and nebulous. The projected life of the buildings also seems selected at random — first 150, then 250 years.

In October, several firms submitted bids for the project, which is of unknown costs, though reported estimates vary from ₹12,000 crore to ₹25,000 crore. It was won by HCP Design, Planning and Management, an Ahmedabad-based firm associated with the landmark Sabarmati waterfront development, which was of then chief minister Narendra Modi's talking points. It is not known how this winning design was picked, what the criteria were, and so on. The design places a grand new residence for the prime minister between where the Central Secretariat currently stands and the Rashtrapati Bhavan — an unfortunate development, which further undermines the core constitutional notion that the prime minister is in the end merely the first among equals in the Cabinet. What is going to be done to the historical princely houses along the India Gate hexagon is also unclear, as the publicly available information about the HCP bid suggests that some of them will become "support offices" for the secretariat. The redevelopment is supposed to be completed by 2024 — coincidentally, close to the time the next general elections are scheduled.

This project deserves far more scrutiny than it has so far received. If intended to last centuries, it cannot be built in less than five years and designed in secret. Which architects, conservationists, and heritage experts decided on the winning bid? Why were consultations not open? Why was it not the subject of a national discussion in keeping with the momentous nature of the transformation planned for what is, after all, the Indian Republic's most sacred public space? Urban Development Minister Hardeep Singh Puri must increase transparency and consultation if he does not want his tenure's legacy to be a hastily rebuilt Central Vista that is unpopular for decades to come. Most importantly, other implications of this redevelopment must also be noted. For example, a new Parliament building is supposed to include space for a larger number of Lok Sabha members. Is it the case that the delimitation of constituencies, still a few years away, will see an expansion of Hindi heartland MPs, while other states that have controlled their population retain their current number of MPs? Questions would be asked whether it is part of the reason for maintaining such secrecy behind this change.

Price hike, at last

Govt should not control drug prices

Last week, the government used the Drug Price Control Order, 2013, to increase the price ceiling for 21 formulations or medicines by as much as 50 per cent to ensure their availability in the market. This is a welcome move because lower prices would have further limited the availability of these drugs, some of which include those used for malaria, leprosy and allergy. The decision by the regulatory authority — usually known to reduce prices of essential drugs — was prompted by repeated petitions by the pharmaceutical industry, which pointed out that the increasing cost of imports had made the production of some of these drugs unviable. Prices of bulk drugs and active pharmaceutical ingredients have, in fact, gone up by up to 88 per cent, and are largely imported.

But the bureaucratic process that led to the decision is disturbing. As reported by this newspaper, the National Pharmaceutical Pricing Authority (NPPA) was getting applications for price revision for about two years. The NPPA looked at some of the applications only in January. A committee was constituted in March to look into a set of formulations that could be considered for increasing prices. Subsequent meetings at various levels eventually led to the decision, which allowed a one-time increase in prices. There was a risk that the non-viability of prices would affect the availability of drugs and force the public to look for other expensive options.

This raises a basic question: Should the government control prices? The motivation for controlling drug prices is not very difficult to understand. Unlike some of the developed countries, where most of the population has insurance coverage or medical facilities are provided by the state, medical expenses in India are borne by citizens, largely through out-of-pocket expenses. Therefore, the state intervenes by keeping prices of some drugs in check to contain such spending. However, the unintended consequence is that it affects the supply of drugs and can potentially make citizens worse off. The risk of non-availability was an important reason for raising prices. Although all pharmaceutical companies may not stop producing drugs with price control, they may limit the supply. Further, the government usually dithers on price hike because of political considerations so that it is not accused of favouring private companies.

Thus, the government should stay away from dictating prices and allow the market to function. Competition in the marketplace will ensure that no company is able to make supernormal profits in basic and essential drugs. Since the state has limited capacity, it should focus on regulation, and ensure that the quality of drugs supplied in the market is not compromised at any point. For instance, the deputy drug controller at the Central Drugs Standard Control Organisation was arrested earlier this year by the Central Bureau of Investigation on corruption charges. This highlights the need to strengthen the system, which gives all companies a fair chance to compete. On the other hand, the government would do well to address the gaps in providing health care services, including at the primary level, which would reduce out-of-pocket expenses for the poor. Controlling drug prices is unlikely to solve India's health care problem.

ILLUSTRATION: AJAY MOHANTY

Why 2020 is an important year

It will be the year to convince global investors about India's long-term bull case

As we come to the close of 2019, it is clear that the year has been a tough one for active fund managers in India. Market breadth has been narrow, and though the indices are showing gains of 5-7 per cent in dollar terms, many India-specific funds are actually down for the year. One allocator recently told me that she had never seen such a divergence in India funds performance before. Large and well-known funds are at both ends of the spectrum, some up double digits, while others down an equal amount.

AKASH PRAKASH

As we move into 2020, many have started questioning the long-term bull case for India. India is at a gross domestic product (GDP)/capita where China was in 2003-04. Nobody expects India to deliver double-digit real GDP growth like China did, but is even 7 per cent realistic, given our administrative and judicial constraints?

Global investors will be assessing what is India's real trend growth rate. Is it only 5-6 per cent, as some now suggest, or can the country come back to the old growth metric of near 8 per cent? This makes a big difference to investors. If India can only grow at 5 per cent, why bother spending time on the country? At 5 per cent real GDP, we will be at 9 per cent nominal, and the bears can argue that will be the long-term growth rate in earnings as well. Why bother with a country delivering only 9-10 per cent earnings growth and trading at 18 times earnings? India only delivers a return on equity (RoE) of 10-11 per cent, so that is no solace either. Yes, there are some great companies, but most are already priced for the greatness. By this narrative, India is just not set up for high and sustained growth. We lucked out in 2003-08. The global growth environment was benign and we had the tailwinds of prior reforms, but we will never come back to such high growth rates again. At 5 per cent GDP growth, one-third of India will take forever to start consuming. Incremental penetration rates across categories and products will fall drastically.

The metrics obviously look different with higher growth. You can build a case for nominal GDP near 13 per cent, and profit growth for a few years of more than 20 per cent (as profit share-to-GDP normalises). With profit surge, the ROE will also rise. For this earnings stream, investors are willing to pay up, for no other large market will deliver this in the coming five years. In a growth challenged world, high growth and rising ROE are very valuable. In this higher growth scenario, as the third of India starts consuming, sustainability and predictability of growth will also improve. Investors will pay a premium for less volatile and more predictable growth.

Investors are still not sure whether this growth slowdown in India is cyclical or structural? Many will form a long-term view over the next 12 months. The slowdown has already surprised everyone in terms of its duration and ferocity. Depending on their conclusions on the slowdown and its cause, they will move their long-term allocations to the country.

In 2020, investors will also finally come to a view on the economic agenda and policy-making prowess of the Modi government. The last five years have seen a series of shocks (demonetisation, goods and services tax, Insolvency and Bankruptcy Code, non-banking financial company crisis) and a general clean-up and deleveraging in corporate India. This has to end at some point. All the pain taken has to have some payoff. Of course, there are leads and lags, but some benefits need to start becoming visible. What does formalisation of the economy mean? Why is it good for the country? How can we have formalisation if corporate earnings go through their worst patch ever? Does formalisation mean a wipe-out of small scale enterprises as they cannot transition? Will formalisation necessarily lead to severe job losses?

For those who doubt the importance of the economy to the political leadership, the coming year is critical. How will the leadership tackle this serious slowdown? The next year will show the willingness of the Modi regime to undertake structural reforms. We have a serious economic slowdown, if we don't do the heavy lifting on reforms now, then when will we do it? There is a clear belief among global investors that this is India's best chance to move ahead on public sector bank reforms, administrative changes and making India a more predictable and hospitable business destination. This government has the political power, an all powerful leader who in the past has been pro-growth and shown the willingness to take risks. If this government cannot bring the bureaucracy to heel, can anyone else?

If we do not push ahead now, it is difficult to argue that we ever will. This opportunity lost today will lead to a derating of the country, as investors will reduce the probability of India ever breaking out and delivering on the $5 trillion ambition.

Rebuilding domestic confidence also needs to take priority in 2020. I have not seen corporate India as demoralised as today: Partly because of their own fault, and partly because of judicial and government intervention in certain cases. People have to be willing to take risk again, for any investment or capital expenditure involves risk and the financial system has to support risk-taking. Investors understand that the country is in a tough spot currently. We don't have any fiscal space. The government cannot spend its way out of this slowdown. With the Reserve Bank of India, seemingly conscious of headline inflation, even the monetary space is limited. Ultimately, without an improvement in sentiment, we cannot really get out of this mess. Sentiment will only improve with greater confidence, both among companies and consumers.

In 2020, I do expect non-US markets to outperform the US and the dollar to weaken. It may be a positive backdrop for emerging market equities as global growth (especially non-US) strengthens, but liquidity conditions remain benign. Given how poorly the broader Indian markets have done over the past 24 months, any return of positive sentiment and broadening of markets can lead to large gains, if we can only stabilise the ship and rebuild confidence. Global investors want to believe the India story. We must give them more reason to do so.

The writer is with Amansa Capital

Green shoots in financial sector?

Rating agency Standard & Poor's has served India an ultimatum: Improve gross domestic product (GDP) growth or face a downgrade. Moody's has changed the outlook on the rating from 'stable' to 'negative'. S&P forecasts growth of 5.1 per cent in 2019-20. Moody's pegs growth at 4.9 per cent. Who would have thought even a couple of years ago that India's GDP growth would fall below 6 per cent?

The agencies can't be faulted for warning of a possible downgrade. The flow of news has been pretty grim. The Index of Industrial Production was down 3.8 per cent in October over last year. Consumer Price Index inflation rose to 5.5 per cent year-on-year in November. The fiscal deficit for FY 2019-20 is certain to end up higher than the target of 3.3 per cent of GDP. Distress in the financial sector continues. Credit offtake is down.

FINGER ON THE PULSE

T T RAM MOHAN

Where the agencies are wrong is in the rating they have given India even in good times. The Economic Survey of 2016-17 argued convincingly that India deserved better than the BBB rating that S&P gave it when the economy was doing a lot better.

A country's rating must relate primarily to its capacity and willingness to service debt. India has not defaulted on its debt obligations over the years. Its debt-to-GDP ratio of around 65 per cent may seem on the higher side. But it must be viewed in conjunction with its ratio of external debt to GDP and its growth rate. Do foreign lenders think there is a danger today of India not meeting its debt obligations because our growth rate has slipped? The suggestion seems laughable.

Well, the rating agencies are not going to go away and a downgrade is always a headache. So the challenge for India is to ensure a return to a higher growth rate. A fiscal stimulus (from the present level of deficit) seems impossible. There is talk of rapid-fire strategic sale of public sector unit (PSU) assets to raise revenues. This is easier said than done. Strategic sales must go through a rigorous process of valuation and bidding — and they are not free from controversy even then. The sale of Air India, which failed in 2018, is still on with successive deadlines having been missed.

Monetary easing is off the table after the December pause by the Monetary Policy Committee. This is not a big issue at the moment. Transmission of much of the 135 basis point cut that has happened thus far is more important. Stickiness in deposits is, of course, a factor hindering transmission. Other factors may be at work. Public sector banks may be reluctant to lend because many operate at close to the minimum capital requirement. Thirteen PSBs are going through the enormous task of merger. This may have slowed down credit decisions.

Thus, the two major macroeconomic tools for reviving the economy, fiscal and monetary stimulus, are blunted. The government is, therefore, right in focusing on addressing issues at the sectoral level. Relieving stress in the financial sector must be the priority. In banking, there have been two pieces of good news. One, the ArcelorMittal takeover of Essar Steel is going through and banks are due to receive ₹42,000 crore. Banks with exposure to Essar Steel can expect to write back the provisions they have made.

Two, banks have recovered ₹6,000 crore through the sale of Prayagraj Power Generation Company to an entity owned by the Tata Group, the ICICI Bank group and global investors. Creditors had to take a 52 per cent haircut for the deal to go through in a one-time settlement. It is striking that the deal is financed by State Bank of India, which is among the banks that have taken a haircut. If bankers finally feel emboldened to attempt resolution of large stressed assets outside the bankruptcy process, it is great news. The Prime Minister has sent the right signals: He has said that bankers' legitimate business decisions would not be questioned.

The Alternative Investment Fund (AIF) of ₹25,000 crore for completion of projects in affordable and middle-income housing has got going. Around ₹10,000 crore has been raised for the AIF. The scheme for partial credit guarantee for banks buying assets of NBFCs has also taken off. The government has cleared proposals for ₹7,657 crore under the scheme for which the budgeted amount is ₹1 trillion. The partial credit guarantee available under the scheme has been extended to NBFCs with a BBB rating. (Earlier, it was available only for NBFCs with a rating of AA or above).

The two schemes should help but only at the margin. The amount allocated for the AIF is quite small. Operationalising the scheme is not easy. The partial credit guarantee will not induce banks to go out and grab NBFC assets. Banks will be leery of a big chunk, which is unsecured consumer loans. Real estate loans are a mixed bag comprising residential housing loans, lease rental discounts, commercial premises, developer finance, etc. Banks would be interested in the first two. But they already have enough demand for these two products on their account. They may not feel the need to buy these assets from NBFCs.

The slide in growth has arisen primarily because we have an NBFC crisis on top of a banking crisis. Getting the NBFC sector back on its feet is going to be a long drawn-out affair. The focus must be on banks picking up the slack. Infusing adequate capital into public sector banks, ensuring top slots are filled speedily and empowering management to resolve stressed assets hold the key to a faster recovery.

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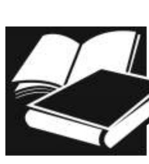
Climate change: Cost and effect



BOOK REVIEW

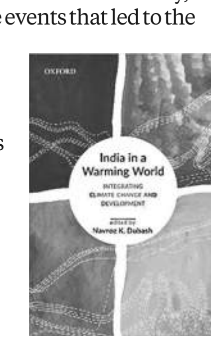
LAVEESH BHANDARI

Spread over 25 chapters and 576 pages, including detailed references and a nicely done index, this is clearly a unique volume on India's flirtations with climate change and among the most important on environment policy in India.

For this reviewer climate change and global warming are evident realities that are quickly gathering momentum, and it is also apparent that India is not ready to address the issue either as an active participant in global fora or in domestic policy. Why that is the case, the scale of the problem, the institutional logjams, the lack of ideas or resources, and the possibilities ahead, are all addressed in varying degrees of depth by the authors.

The authors' list reads like a Who's Who of those involved in this domain. They have either been in the thick of things as negotiators (Shyam Saran), as evangelists working with the government in international arena (Sunita Narain) as investors (Mukund Rajan) as labour union leaders (Ashim Roy), as advocates in the Supreme Court (Shibani Ghosh), sociologists, international consultants, and academics hailing from technology, science, economics, sociology. All told, there are 36 authors and co-authors each bringing a different perspective.

Why this volume works very well is not only the multi-disciplinary take on the issue of climate change, but also the focus on getting to the details. Thankfully, the authors stay away from simply identifying the problem and go further into identifying the solutions or at the very least the various strands that make up the problem. Mr Saran's essay, for instance, on the events that led to the Copenhagen agreement reveals more about the inherent flaw of global negotiations and international agreements than most detailed analyses of such agreements. Navroze Dubash's introductory chapter clinically describes the various issues, not taking either a pessimistic or an optimistic stand, but simply describing where the national debate stands, its strengths and its flaws.



INDIA IN A WARMING WORLD: Integrating Climate Change And Development
Author: Navroz K Dubash (ed)
Publisher: Oxford University Press
Price: ₹1,846
Pages: 576

But Mr Dubash's focus on institutions comes through strongly, and each essay while outlining the issue it seeks to address looks at the underlying institutional issue as well. His co-authored essay with Ms Ghosh, for instance, focuses only on policy and institutions and gets into the details including a count of the number of senior- and middle-level officers and consultants working on climate change (numbering barely 80-odd across nine central ministries). But that is not all — his larger message is fairly unambiguous as well, the following quote being from his introductory note. "As climate actions are not always costly to development actions but sometimes complementary, a possible path forward exists for India to engage with both climate and development productively."

Of course, there is much in the specific chapters that left me dissatisfied but that is not important; what is more important is that the authors do attempt to go into the details that are available but don't shy away from mentioning those where more is not known. Consider, for instance, the second essay penned by J Srinivasan describes the "Impact of Climate Change on India". The author painstakingly sifts through available literature and describes the received wisdom on air-quality, glaciers, sea-level, aggregate temperatures, rainfall and how they are changing. The sparseness of credible studies on regional impacts within India did, however, act as a dampener for this reviewer. As did a mere mention that particulate matter has a direct bearing on cloud cover, without going further into how north India's endemic winter haze might be affecting weather patterns.

This reviewer was surprised at the large number of essays oriented at international agreements (10 in all). While fewer review-type essays could have been better, the essays both individually and as a group reveal the larger problem with which policymakers globally are perpetually grappling. As soon as humanity creates a common target (warming limited to 2-degree Celsius, for instance), every participant in the global arena will seek to achieve this by minimising their costs. While the ostensible group objective is the specific target, the effective objective of each individual country is minimising cost. As long as we attempt a common target each member of the community would only work on minimising costs rather than maximising effect, and the group objective can rather perversely never be met. The solution for the next global order (current one having failed) therefore is not having a common target at all, but rather rewards based on changes achieved.

To sum up, this is an important volume and needs to be read widely. Not only should it be a compulsory reading for all who work on the environment, but also students and laypersons who are interested in understanding the inner mechanics of India's environment challenge.