WEDNESDAY, 18 DECEMBER 2019
16 pages in 1 section
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THE MARKETS ON TUESDAY

		Chg#
Sensex	41,352.2▲	413.5
Nifty	12,165.0▲	111.0
Nifty futures*	12,187.2▲	22.2
Dollar	₹71.0	₹71.0**
Euro	₹79.2	₹79.1**
Brent crude ($/bbl)##	67.4##	67.1**
Gold (10 gm)###	₹37,959.0▲	₹77.0

*(Dec) Premium on Nifty Spot; **Previous close; # Over previous close; ## At 9 pm IST; ### Market rate exclusive of VAT; Source: IBJA

COMPANIES P2
ONCE A $4-BN CONGLOMERATE, HOW THAPARS LOST THE PLOT

ECONOMY & PUBLIC AFFAIRS P5
EX-PAK PREZ MUSHARRAF SENTENCED TO DEATH

PUBLISHED SIMULTANEOUSLY FROM AHMEDABAD, BENGALURU, BHUBANESWAR, CHANDIGARH, CHENNAI, HYDERABAD, KOCHI, KOLKATA, LUCKNOW, MUMBAI (ALSO PRINTED IN BHOPAL), NEW DELHI AND PUNE

RBI PLANS TO MAKE RTGS AVAILABLE 24X7

After making National Electronic Funds Transfer (NEFT) 24x7, the Reserve Bank of India (RBI) is planning to make its Real-Time Gross Settlement (RTGS) system available round the clock, according to sources familiar with the matter. This could become a reality in a month or two, said a source. RTGS is used to transfer large sums, the minimum amount being ₹2 lakh. This mode is used primarily to facilitate trade and market transactions. As of November, 229 banks, including scheduled commercial and cooperative banks, were offering this service with a total value of transactions reaching ₹86.8 trillion in November.
ANUP ROY reports 4▸

COMPANIES P2
Relief for Voda Idea, Airtel as IUC extended for 1 year

In a big boost to Airtel and Vodafone Idea, the Telecom Regulatory Authority of India (Trai) on Tuesday deferred the scrapping of the charge paid by mobile phone users for calls made to rival networks by one year. It also initiated talks to prescribe a floor price for call and data, effectively ending the free call regime. Bharti Airtel and Vodafone Idea, staring at a liability of thousands of crores in unpaid past statutory dues, had been lobbying for extending the 6 paise per minute interconnect usage charge (IUC).

ECONOMY & PUBLIC AFFAIRS P5
SC won't form inquiry panel in Jamia violence

As protests against the Citizenship Amendment Act (CAA) and proposed National Register of Citizens (NRC) continued in several parts of the country, including on university campuses and the streets of the national capital, the Supreme Court on Tuesday said high courts should be approached first on pleas alleging police atrocities on persons protesting against the law. It also asked how buses were burnt during the protests.

BS SPECIALS
ON WEDNESDAY

MONEY MANAGER: Who wants to be a banker? 11▸

There will not be many takers for small finance bank licences as few are seen making the cut, writes **RAGHU MOHAN**

ECONOMY & PUBLIC AFFAIRS: City gas infra to drive capex 4▸

The last of a three-part series on credit pick-up looks at how the push for city gas is creating demand for developing overall gas infrastructure.
AMRITHA PILLAY & **SHINE JACOB** write

ECONOMY & PUBLIC AFFAIRS P6
Need more regional trade deals: CII report

A month after the government stepped out of talks on the proposed Regional Comprehensive Economic Partnership, a report by the Confederation of Indian Industry (CII) has argued that India should commit to signing more trade deals in the upcoming Foreign Trade Policy, which is set to go live on March 31, 2020, to unlock export markets for diverse products and exploit established value chains.

THE SMART INVESTOR P10
Brokerages seek clarity on Aadhaar for KYC

Brokerages are awaiting operational clarity on the use of Aadhaar for know your client (KYC) purposes for signing up clients faster. They earlier used Aadhaar to complete the KYC process, which became longer after the Supreme Court stopped the use of Aadhaar by companies and private firms.
SACHIN P MAMPATTA reports

THE SMART INVESTOR P10
SAT denies relief to Axis Bank in Karvy case

The Securities Appellate Tribunal (SAT) has denied relief to Axis Bank in the Karvy matter, where the latter had approached tribunal, seeking the shares pledged by Karvy to the bank be "unfreezed", so that it can invoke its pledges. The Bench directed the bank to make a representation before the Securities and Exchange Board of India.

Advance corporate tax mop-up drops over 5% in Dec qtr

Net collection grows only 0.7% to ₹6.75 trillion

SHRIMI CHOUDHARY
New Delhi, 17 December

The collection of advance tax paid by companies fell 5.2 per cent in the October-December quarter of this fiscal year while the mop-up of personal income tax saw marginal growth, which may make it difficult for the government to cut income-tax rates now. Sources attributed the drop in corporate advance tax to the slowdown in the economy and reduction in tax rates.

Advance corporation tax collection fell to ₹73,000 crore in the third quarter compared with ₹77,000 crore a year ago while personal income tax paid in advance rose to ₹33,000 crore against ₹24,000 crore over this period in FY19.

Direct tax collection, net of refunds, has seen a growth rate of merely 0.7 per cent till December 15. The year's overall target is ₹13.35 trillion.

Advance tax collection after the third instalment stood at ₹2.51 trillion compared with ₹2.47 trillion in the corresponding period last year.

"Gross direct tax collection has touched ₹8.34 trillion to date compared with ₹7.96 trillion in the same period last year. Net tax collection is around ₹6.75 trillion as compared with ₹6.7 trillion in the same period last year," a government source said.

On the other hand, growth in refunds showed increased 26.6 per cent compared with that in the same period last year.

The collection figures state there is a need for cuts in direct tax collection targets at least for the corporate sector. It is also disturbing because the Centre's fiscal deficit has crossed the target for 2019-20 by 2.4 per cent by October itself.

"Overall revenue mobilisation is facing heat. We have yet to do concrete analysis of the slowdown but it is difficult to say that it is only because of the rate cuts. Other factors such as the stimulus package, especially on the tax side, have played a significant role in this," said a source cited above.

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TAXING TIMES

ADVANCE CORPORATE TAX COLLECTION	ADVANCE INCOME TAX COLLECTION
₹0.73 trn Q3FY20	₹0.33 trn Q3FY20
₹0.77 trn Q3FY19	₹0.24 trn Q3FY19
₹2.51 trn FY20 to date*	₹0.67 trn FY20 to date*
₹2.47 trn Corresponding period of FY19	₹0.59 trn Corresponding period of FY19

GROSS TAX COLLECTION
₹8.34 trn FY20 to date* | ₹7.96 trn Corresponding period of FY19
4.8% Growth

REFUNDS
₹1.58 trn FY20 to date* | ₹1.25 trn Corresponding period of FY19
26.6% Growth

NET COLLECTION
₹6.75 trn FY20 to date*
₹6.70 trn Corresponding period of FY19
0.7% Growth

*Till December 17
Source: Government sources

Unilever flags concerns as India market slows

VIVEAT SUSAN PINTO
Mumbai, 17 December

Unilever, the world's second-largest consumer goods company, has cut its sales guidance for calendar years 2019 and 2020 amid growth concerns in India, its largest market by volume and second-largest by value.

The unscheduled sales update on Tuesday, which said underlying sales growth would be below guidance in 2019 and in the first half of 2020 because of a slowdown in South Asia and weakness in West Africa, sent Unilever's stock price tumbling 6.6 per cent in Amsterdam, its steepest decline in three years. The Indian investor response, however, was muted to the development.

Hindustan Unilever (HUL), in which parent Unilever has a 67 per cent stake, saw its stock price decline 0.48 per cent on the BSE to ₹1,964.45 per share. Sector analysts said growth concerns had been priced in, with the company management indicating that near-term recovery would be weak.

"In the last month and a half, HUL's stock price has corrected from levels of about ₹2,179 per share to ₹1,964 now. During the company's second-quarter results for FY20, the management said challenges remained in the domestic fast-moving consumer goods (FMCG) market and that rural growth had halved versus urban growth," said Naveen Trivedi, research analyst at HDFC Securities. "I am, therefore, not surprised with the street reaction to today's global development," he said.

But some analysts remain wary, saying the slowdown may prolong in India and that Unilever's sales update is an indication of that. "Contrary to Street expectations of a demand recovery in the second half of FY20, the environment has continued to deteriorate," said Nitin Gupta, FMCG analyst at SBICap Securities. "According to our channel checks, month-on-month growth has deteriorated gradually in October and November of 2019," he said.

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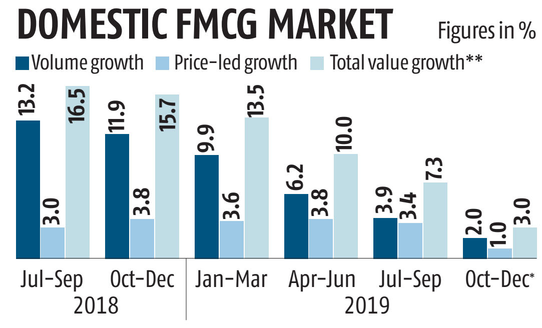
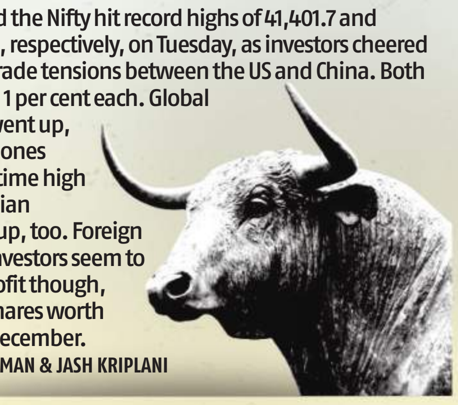
DOMESTIC FMCG MARKET



*Estimate ; **Volume growth+price-led growth   Source: Nielsen/industry

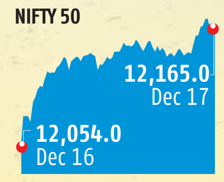
Benchmark indices touch all-time highs



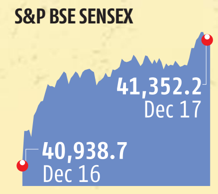
The Sensex and the Nifty hit record highs of 41,401.7 and 12,182.8 points, respectively, on Tuesday, as investors cheered the easing of trade tensions between the US and China. Both indices gained 1 per cent each. Global markets also went up, with the Dow Jones hitting an all-time high on Monday. Asian markets were up, too. Foreign institutional investors seem to be booking profit though, having shed shares worth ₹435 crore in December.
SUNDAR SETHURAMAN & JASH KRIPLANI

ON A HIGH

NIFTY 50



S&P BSE SENSEX



YET TO TAKE OFF

Broader market indices are yet to participate in the rally, and are far from their highs

	BSE Midcap	BSE Smallcap
All-time highs**	18,321	20,183
Current levels	14,818	13,393
Difference	-19.1%	-33.6%

MOVERS AND SHAKERS

Banks have led the rally since the corporation tax cut was announced; RIL heads the pack

NIFTY50
10,704.8 Sep 19, 2019 | 12,165.0 Dec 17, 2019 | 1,460.2

POINTS CONTRIBUTION

LEADERS		LAGGARDS	
RIL	242.7	Infosys	-79.8
ICICI Bank	234.0	Power Grid	-7.2
HDFC	184.5	Hero Motocorp	-7.0
HDFC Bank	172.0	GAIL (India)	-6.7
Axis Bank	89.6	M&M	-3.2

TOP NIFTY PLAYERS (As on Dec 17)

GAINERS	Price in ₹	chg* (%)	LOSERS	Price in ₹	chg* (%)
Tata Steel	439.4	4.4	Sun Pharma	429.1	-1.4
Bharti Airtel	440.0	4.3	GAIL India	119.8	-1.2
Vedanta	152.4	3.5	Titan Co	1,157.4	-0.7
Hindalco	213.7	3.4	HUL	1,961.4	-0.7
Tata Motors	180.2	3.0	Bajaj Auto	3,199.1	-0.7

* 1-day change; **Jan 2018; Compiled by *BS* Research Bureau   Source: Bloomberg/Exchange

Jet lenders decide to call fresh bids

SUBRATA PANDA
Mumbai, 17 December

The committee of creditors (CoC) of beleaguered Jet Airways on Tuesday decided to call fresh expressions of interest (EoI) from prospective investors after two new entities expressed an interest in reviving the airline, sources privy to the matter said.

South America-based airline company Synergy Group was the sole bidder for the defunct airline, but it had submitted only a draft resolution plan a week ago. The deadline for filing a final resolution plan for Jet Airways ended on December 16.

The resolution professional (RP) of Jet Airways informed the bankruptcy tribunal on Tuesday that two more foreign investors had shown an early interest. One of them is a foreign investor from West Asia and the other one is an Indian-entity backed by a UK investor.

The CoC will vote on restarting the bid process on Friday and the results will be out on Saturday. A 15-day window would be given to the new investors to submit their expressions of interest and subsequently a 30-day period will be given to submit a resolution plan.

The RP has filed an affidavit with the National Company Law Tribunal (NCLT) to extend the corporate insolvency resolution process (CIRP) of Jet Airways. The 180-day CIRP period of Jet ended on December 16. According to the Insolvency and Bankruptcy Code, the CIRP period can be extended to another 90 days after the initial 180 days are over.

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GST Council may crack down on fake invoices

DILASHA SETH
New Delhi, 17 December

The Goods and Services Tax (GST) Council, in its meeting on Wednesday, is expected to take up the issue of fake invoices and fraudulent input tax credit (ITC) refunds. In the backdrop of a severe revenue shortfall, the Council would examine several enforcement measures such as blocking input tax credit, imposing penalties and even arrest in the case of fake invoices. Besides discussing revenue augmenting measures, the Council, chaired by Union Finance Minister Nirmala Sitharaman, will also deliberate on the merits of setting up a public grievance body to reduce litigation.

The law committee has proposed blocking of input tax credit for errant businesses "with the intent to safeguard government revenue". It has recommended an enabling provision in the law to allow the commissioner or an officer to restrict full or part amount from the credit available in the electronic credit ledger, for paying output tax or claiming input tax credit refund.

"Demands to focus on plugging revenue leakages have come by way of representations from industry on social media and by way of letters." said an official.

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MEET AGENDA TODAY

- Single rate for govt and private-run lottery
- Revenue analysis presentation by committee of officers on revenue augmentation
- Report of GoM on real estate
- Creation of public grievance redress committee
- Presentation on developments regarding new return system, e-way bill, FASTag integration, etc

GOVT SETS ₹1.1-TRN MONTHLY GST TARGET FOR TAX OFFICIALS P4

Forensic audit a new normal for fraud-hit India Inc

RUCHIKA CHITRAVANSHI
New Delhi, 17 December

Bring in the forensics — a line that's often heard in crime thrillers — is fast turning out to be an audit industry essential. As instances of fraud rise, companies are reaching out to audit firms to seek extra comfort through extended procedures. As an executive put it, wary of becoming "tomorrow's news", companies are asking auditors to flag off high-risk areas. And, forensic is coming in handy.

Anti-fraud frameworks

In the last two years, EY India has taken up seven to eight "large engagements" to set up a forensic framework within the companies. "Earlier, we had no more than one or two such engagements in a year...A lot of people have become proactive towards preventing fraud, they are trying to establish control from a fraud perspective," said Yogen Vaidya, Partner, Forensic & Integrity Services, EY India.

This involves setting up a code of conduct and upgrading control mechanisms — all of which can take up to a year. EY's also into "heat map" for some of its big clients to red flag instances of corruption and anti-competitive practices. This goes beyond the usual risk assessment. "We prioritise resources, time, manpower as they are all limited. A chart of probability of occurrence and implication is drawn," Vaidya added.

Cutting across sectors, infrastructure to oil and gas to mining, companies are looking for audit services that go beyond what's normal and commonplace.

Audit firms are also reporting a rising demand for background checks of senior executives when they join a company. Such checks are being done not only to establish the antecedents of the executives but also to ensure that a person fits into the culture and management of a company. While multinationals are already doing it, increasingly many Indian promoter-driven companies as well as IT and ITeS firms are going for checks beyond managerial levels, according to Nikhil Bedi, Partner, Deloitte India. "We see that these background checks are really taking off," Bedi said.

Around six months ago, Deloitte launched a product to mine and study end-to-end processes, thus pointing at deviations. The idea was to combat fraud through use of technology, in partnership with a process-mining company, Bedi said. "We undertake fraud analytics using advanced algorithms to detect hotspots or outliers to identify vulnerabilities in the system. Tools such as Process Bionics and Deloitte Fraud analytics, along with deep forensic expertise, can assist companies in fraud prevention and detection."

A survey by Deloitte India last year found procurement to be the most vulnerable to fraud at 30 per cent probability, followed by vendor selection at 18 per cent, and sales and marketing at 15 per cent. About 58 per cent of the respondents in the 2018 survey believed that incidents of fraud would rise in the next two years.

Increase in forensic work

The changing trend can also be linked to a spurt in whistle-blower complaints in the last one year or so. Forensic teams across audit companies seem to agree. From four to five complaints a month, the number has increased to four to five complaints a week. Companies are setting up whistle-blower hotlines as fraud risks and vulnerabilities in the system get more real than before. "A lot of companies are using whistle-blower hotlines as the primary tool to identify compliance and ethics-related concerns. We observe that the presence of whistle-blower hotlines can promote a culture of compliance in the company," Bedi added.

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FIGHTING FRAUD

What steps auditors and companies are taking for risk mitigation:

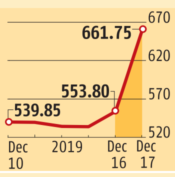
- Upgrading control mechanisms
- Using 'heat map' to find areas of concern
- Process mining to spot deviations
- Extensive background checks
- Setting up whistle-blower hotlines

ILLUSTRATION: AJAY MOHANTY

STOCKS IN THE NEWS

* OVER PREVIOUS CLOSE

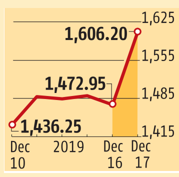
Federal-Mogul Goetze (India)



Supreme Court upheld the valuation of shares at ₹608.46 for open offer

₹661.75 CLOSE ▲19.49% UP*

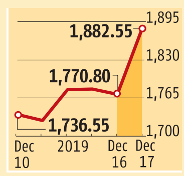
NIIT Technologies



Board meeting on December 23 to consider share buy-back proposal

₹1,606.20 CLOSE ▲9.05% UP*

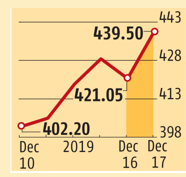
Avenue Supermarts



Top gainer among the S&P BSE100 index stocks

₹1,882.55 CLOSE ▲6.31% UP*

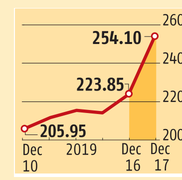
Tata Steel



Citi upgraded ratings, citing likely increase in global steel prices

₹439.50 CLOSE ▲4.38% UP*

Kolte-Patil Developers



Sold 500 apartments with booking value of ₹205 crore in Pune

₹254.10 CLOSE ▲13.51% UP*

IN BRIEF

Long-pending homecoming

ArcelorMittal Chairman L N Mittal (*centre*) being welcomed at Essar Steel's Hazira plant on Tuesday. The company closed the deal to buy Essar Steel along with Nippon Steel on Monday

L&T Finance raises ₹1,503 cr from public issue of bonds

L&T Finance on Tuesday announced early closure of its public issue of secured non-convertible debentures, garnering subscription of ₹1,503.35 crore. L&T Finance said tranche-I issue, which opened on December 16, has been oversubscribed and has received subscription amounting to ₹1,503.35 crore. **PTI**

Verdict on Mistry's removal from Tata Group today

The National Company Law Appellate Tribunal will pronounce judgement over the petition moved by former Tata group Chairman Cyrus P Mistry and the two investment firms challenging his removal from the group. A two-member NCLAT Bench headed by Chairperson Justice S J Mukhopadhaya will pronounce its judgment. **PTI**

Shareholders of CG Power vote to raise ₹5K-crore debt

CG Power and Industrial Solutions has got shareholders' nod to borrow up to ₹5,000 crore to meet working capital and other business needs. They also approved appointment of Sudhir Mathur as whole time executive director of the company. **PTI**

Zilingo acquires nCinga Innovations for $15.5 million

Zilingo, a commerce and technology platform, said on Tuesday it has acquired Sri Lanka-based software-as-a-service firm nCinga Innovations for $15.5 million in a cash and stock deal. This would help Zilingo scale up its global supply chain capabilities. **BS REPORTER**

Chocolate majors post healthy top line growth

ARNAB DUTTA
New Delhi, 17 December

Buoyed by the sweet tooth of Indian consumers, leading chocolate makers — Mondelez, Ferrero, Mars and Hershey — have registered healthy sales growth in 2018-19.

However, two of these companies — Mars International India and Hershey India — still remain in the red.

Mondelez India Foods — the marketer of Cadbury — continued to lead the pack with ₹6,746 crore revenue. According to filings at the Registrar of Companies, its top line grew 9 per cent year-on-year (YoY) from ₹6,189 crore.

The firm's net profit, during 2018-19, jumped 42 per cent to ₹462 crore from ₹325 crore.

Italian chocolate maker Ferrero, which markets Ferrero Rocher and spreads like Nutella, witnessed 13 per cent rise in its revenue at ₹1,473 crore. After incurring losses in 2017-18, the firm turned profitable last year with a net profit of ₹106 crore.

However, the other two major players — Mars International and Hershey's — continued to bleed with losses mounting further. While Mars posted ₹246 crore net loss, Hershey India's net loss widened to ₹109 crore in 2018-19.

In the previous financial year, the two firm's had reported ₹195 crore and ₹85 crore net loss, respectively.

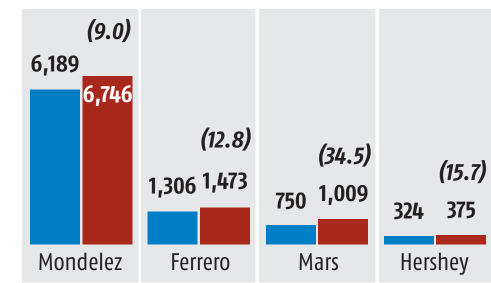
In fact, Hershey's has been in loss at least since 2014-15, although its bottom line improved with yearly loss coming down from a peak of ₹365 crore five years ago.

Mars, however, registered the biggest jump among the four, when it comes to increasing sales. The firm's revenue rose 34.5 per cent YoY to ₹1,009 crore from ₹750 crore. Its sales numbers, however, include non-confectionery products under pet care brands like Pedigree, Whiskas and Royal Canin.

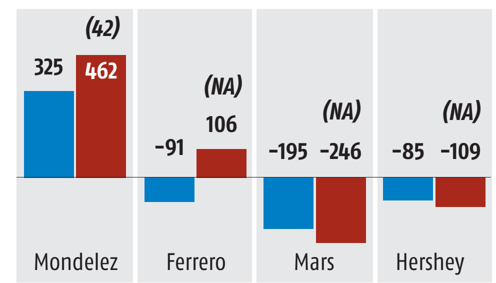
In its regulatory filings, Mars said it witnessed "robust growth in the pet nutrition segment at 20 per cent".

The company added, "The fast-paced growth of the pet food category in e-commerce is contributing to the business growth story with our e-commerce business growing at over 60 per cent YoY."

Mars' revenue jumped 35% in FY19



Mondelez bottom line improved further



Source: Registrar of Companies

Relief for Voda, Airtel as IUC extended by a year

Trai initiates talks to prescribe floor price for call and data

PRESS TRUST OF INDIA
New Delhi, 17 December

In a big boost to Airtel and other old telcos, the Telecom Regulatory Authority of India (Trai) on Tuesday deferred by one year the scrapping of the charge paid by mobile phone users for calls made to rival networks. It also initiated talks to prescribe minimum or floor price for call and data, effectively ending free call regime.

Bharti Airtel and Vodafone Idea, which are staring at a liability of thousands of crore in unpaid past statutory dues following a Supreme Court ruling, had been, through their association, pitching for fixing of a floor rate for calls and data. Their association had also been lobbying for extending the 6 paise per minute interconnect usage charge (IUC).

On Tuesday, Trai announced that telecom operators will continue to pay 6 paise per minute for every outgoing call made to their competitors' network till December 31, 2020. These charges are proposed to become zero from January 1, 2021.

Telecom industry body Cellular Operators Association of India (COAI) sees it as a relief for the debt-ridden sector and asserts that continuing with six paise mobile call termination charge will not have any impact on consumers as operators have already absorbed this charge in their recently increased mobile call and data rates. "For wireless to wireless domestic calls, termination charge would continue to remain as ₹0.06 (paise six only) per minute up to December 31, 2020," Trai said.

Within hours of IUC announcement, Trai released a consultation paper to fix minimum or floor rates for mobile phone calls and data, a move that will effectively end the regime of free calling and dirt cheap data. The telecom call and data rates are at present under forbearance or not regulated. However, private telecom operators unanimously approached the Trai to fix minimum price for mobile internet rates.

The outcome is likely to lead to further hike in mobile call and data cost as industry wants average revenue per user to reach ₹300 per month from about ₹125 at present over period of two years — better revenue realisation per user will offer a much needed breather to stressed telecom industry where debt levels have soared to ₹7.8 trillion.

Trai in the 'Consultation Paper on Tariff Issues of Telecom Services' said that there have been minor adjustments in the tariffs by the telecom service providers to their tariff offerings since the initial announcement.

"It is to be seen whether further readjustments in tariffs will be done in view of the high level of competition in the market. In such a scenario, where the TSPs have recently announced a substantial hike in tariffs, it needs to be discussed whether there is still a need for any regulatory intervention," Trai said.

TELCOS HEAVE A SIGH OF RELIEF

- The rate were reduced to **6 paise** with effect from October 1, 2017, from **14 paise** charged earlier and it was to become **nil** from January 1, 2020
- According to estimates, industry players lost **₹11,000 crore** when interconnect usage charge for mobile calls was reduced
- Removal of the mobile call termination charges from January 1, 2020 would have hit the sector by approximately **₹3,672 crore**

Netflix adds 5 million users in Asia-Pacific

YUVRAJ MALIK
Bengaluru, 17 December

Netflix, the world's biggest video streaming company, said its mobile and tablet-only subscription plan, launched exclusively in July in India, has performed well and surpassed the company's initial expectations.

"We've been very, very happy with the mobile plan. It's actually performing better than what we tested," said Netflix's Chief Product Officer Gregory K Peters over an earnings conference call on Monday.

"We'll look at testing that in other markets, too, because we think there are markets that have similar conditions," he said. Netflix did not break down the revenue earned from the said plan.

After its mobile-only subscription, which is priced at ₹199 a month, the streaming giant is also said to be testing multi-month subscription plans — a bundle for three-months, six-months, and nine-months — for Indian users. Currently, its packs are priced at ₹499 per month (one device), ₹649 per month (two devices), and ₹799 per month (four devices).

India has emerged one of the key markets for Netflix, which is present in 190 countries. For the firm, the Asia-Pacific (APAC) region, which includes India, recorded the highest growth in terms of revenue and memberships across markets, in the quarter ended September 30. It did not share India-specific numbers.

Netflix said it had 14.48 million subscribers in APAC as of September-end, up from 9.46 million users in the same period last year, an increase of 5.02 million users. Besides India, APAC includes Indonesia, Thailand, Philippines, Malaysia, Singapore, Vietnam, South Korea, Japan, New Zealand, and Australia. In comparison, the user base in Europe, West Asia, and Africa (EMEA) grew to 47.4 million subscribers from 33.8 million a year ago. In US and Canada, its core market, Netflix had 67.1 million users as of September-end. This is the first time the streaming company has broken down region-wise user numbers.

In terms of revenue, too, APAC growth was significant. The firm reported $1 billion in revenues from APAC in the first nine months of 2019, up from $700 million in the same period last year, and $400 million in the first nine months of 2017.

Interestingly, revenues at the India unit grew over 700 per cent in FY19 to ₹467 crore even as it managed to post meagre profits to the tune of ₹5 crore, according to filings of Netflix India. India numbers do not include content acquisition costs, and hence, may not be the best indicator of performance.

Moreover, revenue earned per user in APAC is lesser than it is in other markets. At $9.31 per user, average revenue per user (ARPU) in APAC is less than the $10.26 per user in the EMEA and $12.36 in the United States. The figures represent average ARPU over the January-September 2019 period.

ON THE RISE

- Asia-Pacific recorded highest growth in memberships
- Asia-Pacific users **14.5 million** as of Sept. vs **9.5 million** year-ago
- Crossed $1-billion revenue in Asia-Pacific in the first nine months of 2019
- Good response for mobile-only plan; bundled plans may be launched soon

Nod to NBCC's offer for Jaypee Infratech

Jaypee Infratech's financial creditors, including lenders and homebuyers, have approved the bid of state-owned NBCC to acquire the debt-laden realty firm under insolvency process, according to sources.

They said the NBCC's resolution plan has been approved by the committee of creditors (CoC) with 97.36 per cent voting. This is the third round of bidding process to find a buyer for Jaypee Infratech, which went into corporate insolvency resolution process (CIRP) in August 2017.

The successful resolution will provide a big relief to over 20,000 homebuyers across various housing projects launched by Jaypee Infratech in Noida and Greater Noida (Uttar Pradesh) for many years.

NBCC has proposed to complete these pending projects in the next three-and-a-half years.

The simultaneous voting to bids of both the contenders — NBCC and Mumbai-based Suraksha Realty — ended late Monday night. As many as 13 banks and over 23,000 homebuyers have voting rights in the CoC. Buyers have nearly 58 per cent votes and lenders 42 per cent. **PTI**

NBCC's resolution plan has been approved by the committee of creditors (CoC) with 97.36% voting

How the Thapars lost the plot

Once a $4-bn conglomerate, the Avantha Group is under severe financial stress

SUDIPTO DEY
New Delhi, 17 December

In the days after Partition, when Kolkata (then Calcutta) witnessed bloody riots, Karam Chand Thapar's daughter flew in from the US and landed at the Dum Dum airport. The story goes that the chairman of the Thapar Group had warned his daughter not to step out of the airport till he came to fetch her. A few hours later, he came to pick her up in a bus, along with a group of men armed with swords. Before leaving the airport, he is said to have told his daughter: "If anything happens, I will shoot you. Are you prepared for it?"

It was perhaps this indomitable spirit, this readiness to face any eventuality, no matter what the cost, that helped Thapar, who hailed from Ludhiana, to single-handedly build up the Thapar Group. Set up in 1919, by the 1960s, the group had become a business conglomerate with interests in coal, sugar, textiles, paper, insurance, and banking, among others.

Decades later, in an interview published in IndiaKnowledge@Wharton, Karam Chand Thapar's grandson, Gautam Thapar, echoed sentiments that the family patriarch may have had: "I see myself as an entrepreneur. I believe I have the vision to spot opportunities to create value and wealth, the risk-taking ability to commit to the opportunity, and the ability to put together a management team to execute."

That interview was published in 2009, when the Avantha Group, the Thapar family conglomerate's flagship, was at its pinnacle. Thapar was at the helm of a $4 billion empire, built through years of organic growth and a series of ambitious international acquisitions. At the time, the group had exposure to businesses as varied as consumer electrical, industrial machinery, paper, pulp, power, food processing, IT-enabled services, and had its footprint in several countries.

Between 2005 and 2012, the group's two flagship companies — Crompton Greaves, the industrial manufacturing and consumer electrical business, and Ballarpur Industries (BILT), its paper manufacturing business — made nearly a dozen overseas acquisitions. The internal target was to clock $10 billion in group revenues by 2013. Some insiders said at the time that Thapar would have made his grandfather proud.

Till the 1990s, the Thapars, who had settled in Delhi, featured among the Top 10 business groups in the country. However, post liberalisation, the group started to lose heft in the face of growing competition from new domestic and foreign players. Subsequently, its businesses were split among family members. Thapar, cornered the biggest chunk, with both Crompton Greaves and BILT, among others, in his kitty. Growing at a scorching pace, the group under Thapar, which generated revenues worth $1 billion in 2003, touched the $4 billion mark by 2009.

However a decade later, in 2019, the growth script seems to have gone awry. The two flagship businesses of the Avantha Group — Thapar re-christened the group in 2008 to downplay the family legacy — are under financial stress. Thapar, along with some senior executives, are fighting allegations of fund-siphoning by the promoter group in CG Power that houses the power and industrial solutions business. In August this year, Thapar was forced to resign as chairman of the board of CG Power. He now owns a minuscule stake in the company, as against 40 per cent in March 2014.

BILT, the group's oldest business, has run into losses and is going through a debt restructuring exercise, with lenders having taken control of the company in 2017. Thapar has around 25 per cent stake in the company, but has pledged most of his shares.

The power generation business that Thapar entered in 2008 has also come a cropper and added to his debt burden. Faced with financial stress, Thapar demerged the consumer electrical business from Crompton Greaves and, subsequently, sold off his stake in that business for about ₹2,000 crore.

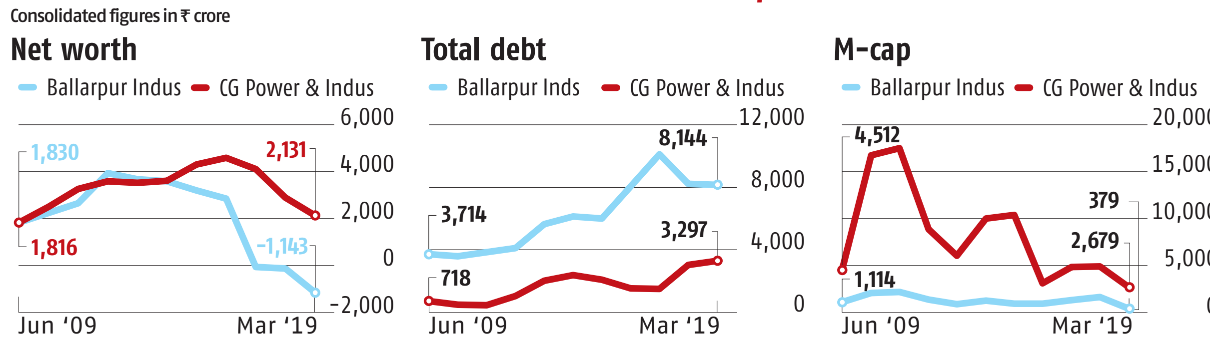
Industry players, analysts and ex-employees feel that the group could not recover from the rapid expansion and acquisition spree that Thapar had embarked on, which stretched management bandwidth and financial resources. The debt-funded expansion caused financial stress across group companies when the time came to repay the loans. The thermal power business also took a beating when the Supreme Court scrapped the licences of coal mines.

"Thapar became a poster boy for how a family business could become a global conglomerate in a short time span," notes an ex-director who worked in the group for several years. "Some of the international acquisitions did not play out as expected due to internal reasons and certain adverse global market conditions," adds a former senior executive.

Gautam Thapar once described his grandfather as an entrepreneur and builder, and one who loved to take risks. Clearly, he now needs to invoke his grandfather's fighting spirit to check the slide in the family fortunes and steer his businesses back to safety.

DOUBLE WHAMMY: HIT BY BUSINESS HEADWINDS, RISING DEBT

Consolidated figures in ₹ crore



Source: Capitaline; compiled by BS Research Bureau; PBIDT: Profit before interest, depreciation and tax; PAT: Profit after tax

"Despite global recession, India has not been impacted because as compared to other countries, India's consumer demand is comparatively better. We will definitely come out of this difficult situation"

RAJNATH SINGH
Defence minister

"The mission is to create 50 million jobs... We are giving attention to the economy. Developing infrastructure, rural agriculture and tribal development is also our priority"

NITIN GADKARI
Union minister for road transport, highways and MSME

"A lot of progress has been made in the areas of foreign policy and defence between our two countries (India and the US) and we are looking forward to a highly qualitative meeting"

HARSH VARDHAN SHRINGLA
Indian Ambassador to the US

IN BRIEF

Prasad launches ₹7-trn mission to provide rural internet access

The government on Tuesday launched the National Broadband Mission to provide broadband access to all villages by 2022, at an estimated stakeholder investment of ₹7 trillion. The mission, launched by Communications Minister Ravi Shankar Prasad, will facilitate "universal and equitable access to broadband services across the country, especially in rural and remote areas". An incremental 3 million route kilometres of optical fiber cable is planned to be laid, while tower density is expected to increase from 0.42 to 1 tower per thousand of population by 2024. Setting up a National Broadband Mission was part of the plan chalked out by the National Digital Communications Policy 2018, which would be funded by the Universal Service Obligation Fund (USOF) and public private partnerships. For the mission, of the ₹7 trillion investment expected from stakeholders, ₹70,000 crore will come from the USOF. Prasad called upon the industry to partner in the initiative. "By 2022, we will take broadband to all the villages of India...The number of towers in the country which is about 565,000 will be increased to 1 million," Prasad said. NEHA ALAWADHI

BSNL eyes ₹1,300 cr savings after VRS becomes effective

State-owned Bharat Sanchar Nigam (BSNL) said on Tuesday 78,569 employees had opted for the voluntary retirement scheme (VRS), and added that it expected to save ₹1,300 crore in wage bills this fiscal year after the scheme becomes effective in January. "On the VRS, on January 31, 2020, it will be effective. Our goal is that people who have applied for VRS, their application should be considered and approved..." BSNL Chairman and Managing Director P K Purwar told reporters. PTI

Chhattisgarh: NMDC gets extension of lease for 4 mines

The Chhattisgarh government has extended leases of NMDC's four mines in the state, to avoid interruptions in iron ore supply to the steel sector. The lease of the mines were due for extension in March 2020, an NMDC official said. NMDC operates three iron-ore complexes in the country. Two are in Dantewada district of Chhattisgarh – sharing major proportion of company's total output and one is located in Karnataka's Donimalai. BS REPORTER

FAIFA wants tax policy for illegal cigarette trade

A day before the GST Council meeting, farmers' body FAIFA on Tuesday asked the government to have a taxation policy that disincentivises cigarette smuggling in India. The Federation of All India Farmer Associations (FAIFA), which claims to represent farmers of commercial crops from various states. PTI

ADB, India sign pact for $250-mn loan to EESL

The Asian Development Bank (ADB) has signed a $250-million loan agreement with the Centre to expand energy efficiency investments in India, according to an official statement. The loan agreement to provide loan to Energy Efficiency Services (EESL) was signed on Monday. In addition to this, $46 million financing will be provided from the Clean Technology Fund that will be administered by the ADB. PTI

Fitch removes BoB viability rating from 'Watch Negative'

Fitch has removed Bank of Baroda's (BoB's) viability rating from "Rating Watch Negative" as its asset quality has remained broadly stable in the six months since the merger. Two state-owned banks – Dena Bank and Vijaya Bank – merged with BoB from April 2019. However, its overall performance is expected to remain subdued, given the weak macro environment and potential stress in the non-bank and real estate sectors in India. BS REPORTER

122 farmer suicides in MP, debt reason only in 1 case

As many as 122 farmers ended their life in Madhya Pradesh since January and debt burden was the cause only in one case while in other instances illness, addiction, family feuds or person losing "mental balance" were the reasons, the state government has said. The Kamal Nath-led Congress government, which completed one year in office on Tuesday, gave the information in the Legislative Assembly. PTI

After NEFT, RBI plans to make RTGS 24X7

ANUP ROY
Mumbai, 17 December

After making the National Electronic Funds Transfer (NEFT) 24x7, the Reserve Bank of India (RBI) is planning to make its real-time gross settlement (RTGS) system available round the clock, according to sources familiar with the matter.

This could become a reality in a month or two, said a source.

RTGS is used to transfer large sums, the minimum amount being ₹2 lakh. This mode is used primarily to facilitate trade and market transactions.

As of November, 229 banks, including scheduled commercial and cooperative banks, were offering this service with total value of transactions reaching ₹86.8 trillion in November.

Once this mode is made available round the clock, vast opportunities open up.

"This will enable round the clock transfers and settlements in the international financial centre to start with this. Thus, a great bottleneck will be removed," said a senior banker requesting anonymity.

The domestic market, though, will likely continue to function as per normal market hours, but an international financial centre operates round the clock in such markets where investors could be taking positions in assets in the opposite end of the globe.

No doubt, the primary beneficiary would be the capital markets.

"It would be a good enabling factor for business and capital market activities. And this could act as precursor to full rupee convertibility in future," said Soumyajit Niyogi, associate director at India Ratings and Research.

According to Ashvin Parekh, a financial sector expert, a 24x7 transaction system gives a huge push to trade and commerce.

"This will be creating a good infrastructure to go in sync with the rest of the world who could be working. Already you can do real-time transfers for retail payments, if RTGS comes too becomes round the clock it would be a big help," Parekh said.

The RBI has already waived off its fees for clearing NEFT transactions, and for outward transactions using RTGS. On Monday, the RBI said banks should not charge their savings bank customers for using NEFT even as the system remains operational throughout the day and night.

HOW IT WILL HELP

- Real-time gross settlement is used to transfer large sums, the minimum amount being ₹2 lakh. This mode is used primarily to facilitate trade and market transactions
- The move, once made available, will enable round-the-clock transfers and settlements in the international financial centre
- Domestic market will likely continue to function as per normal market hours
- It will be a good enabling factor for business and capital market activities, and act as precursor to full rupee convertibility in future

Govt sets ₹1.1-trn monthly GST target for tax officials

Four of eight months in this fiscal year have delivered less than ₹1 trillion

INDIVJAL DHASMANA
New Delhi, 17 December

The department of revenue has estimated an average of ₹1.1 trillion a month as its target for goods and services tax (GST) collection during December-March 2019-20, with one of the months yielding ₹1.25 trillion, which is higher than the collection so far.

Revenue Secretary Ajay Bhushan Pandey held a video-conference with members of direct and indirect tax boards and field formations on Monday and asked direct tax officials to ensure that the target of ₹13.5 trillion from corporation and personal income tax, set in the Budget Estimates for 2019-20, was met despite the government overhauling the corporation tax regime.

It is estimated the exchequer will take a hit of ₹1.45 trillion owing to the cuts, but it was clarified to the officers that this should not be taken as an excuse for a lower target, finance ministry sources said.

In a recent interview to a news channel, Pandey had said the department was working on the truncated target of ₹11 trillion of direct tax collection after taking into account the ₹1.45-trillion hit. Four of the eight months in the current fiscal year have delivered less than ₹1 trillion GST and the mop-up has not reached ₹1.10 trillion in any of the months.

The revenue augmentation committee of officers will give a presentation to the GST Council on Wednesday about increasing revenues.

Sources said GST officers were told to take action such as blocking e-way bills, holding up input tax credit, and cancelling registrations if any units did not file GST returns.

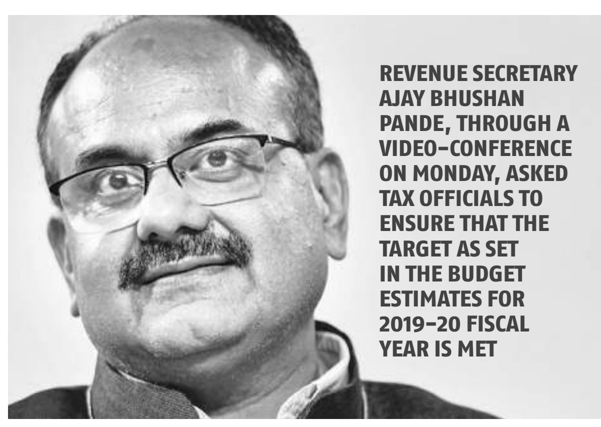
Companies and traders have been advised to ask their suppliers to file timely GST returns, and if they do not do so, buyers may not get input tax credits on supplies.

Also, the data from GST returns will be provided to the Income Tax Department so that cases of suppressing turnover and income tax can be detected. Further, there will be a drive to recover arrears during the next three months.

Sources said the revenue department was taking measures to augment collection in the last four months of the fiscal year and asked senior officers, including principal chief commissioners and chief commissioners, to achieve their targets both for direct and indirect taxes.

The officers were urged to make field visits every week. The revenue secretary will visit regions every weekend to monitor work, sources added. Officers were urged to ensure no taxpayer was troubled.

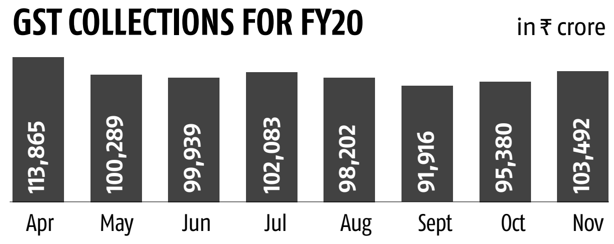
Departments will share information on GST, income tax, and other financial deals of tax evaders.



REVENUE SECRETARY AJAY BHUSHAN PANDE, THROUGH A VIDEO-CONFERENCE ON MONDAY, ASKED TAX OFFICIALS TO ENSURE THAT THE TARGET AS SET IN THE BUDGET ESTIMATES FOR 2019-20 FISCAL YEAR IS MET

GST COLLECTIONS FOR FY20

in ₹ crore



Source: Central Board of Indirect Taxes and Customs

Retail loans will double to ₹96 trn in 5 years: Report

NIDHI RAI
Mumbai, 17 December

A report by rating agency CRISIL and private lender ICICI Bank said the retail loan book of banks and non-banking financial companies (NBFCs) will double to ₹96 trillion by March 2024 from ₹48 trillion at the end of FY19.

The growth will be fuelled by greater demand for private consumption (namely home, car, consumer durables, and credit cards), willingness of consumers to take loans, increased availability of various consumer data, better use of data analytics and regulatory steps propelling growth in low-cost housing loans and micro, small and medium enterprises.

The report titled 'Mining the Golden Opportunity in Retail Loans' says the mortgage loans market in the normal and low-cost housing space, along with loan against property, is expected to double to ₹46.1 trillion in FY24 from ₹23.4 trillion in FY19. Unsecured loans such as personal loans and credit cards are set to rise over two fold to ₹13.8 trillion in FY24 from ₹5 trillion in FY19.

Loans to MSMEs are also likely to double to ₹13.2 trillion from ₹6.6 trillion in FY19. Gold loans will inch up to ₹3.9 trillion from ₹2.8 trillion in FY19 and educational loan will swell to ₹1.4 trillion in FY24 from ₹90,000 crore in FY19. Loans for commercial vehicles, four- and two-wheelers are tipped to nearly double to ₹17.5 trillion from ₹9 trillion in FY19.

Speaking at the launch of the report, Anup Bagchi, executive director of ICICI Bank said: "We think that five pillars that are going to support expansion of the market are: (1) greater information availability progressively reducing the risk in lending (2) lower costs for customers due to intensifying competition (3) regulatory and government initiatives (such as the proposed public credit registry, loan co-origination by banks and non-banking financial companies, boost to affordable housing and ironing out of glitches in lending to MSMEs) (4) fivefold increase in digital lending to ₹15 trillion, wherein loans are sourced, underwritten and sanctioned digitally, lowering costs for financiers, and (5) reduction in operating costs due to greater usage of technology and data analytics which will, in turn, boost profitability."

In five years, financiers will give a big thrust to digital payments. Digital lending will account for 16 per cent of retail loans by FY24, up from 6 per cent currently. Such loans are forecast to increase to ₹15 trillion at a five-year CAGR of 41 per cent, representing about 16% of retail lending in FY24. Banks would dominate the market, accounting for 77 per cent of all digital loans. Currently, unsecured loans make the largest segment in this space. Within the unsecured domain, consumer durables have the highest share of digital lending, followed by credit cards and personal loans.

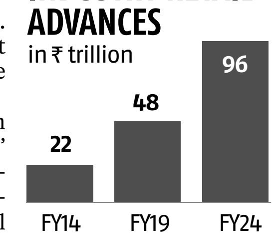
SHARE OF DIGITAL LENDING

in %

	FY19E	FY24P
Overall	5.7	15.8
Banks	6.4	19.0
NBFCs	4.4	10.3

INDUSTRY RETAIL ADVANCES

in ₹ trillion



E: Estimated; P: Projected
Source: ICICI bank report (CRISIL)

Industry demands measures to boost exports

PRESS TRUST OF INDIA
New Delhi, 17 December

RUN-UP TO THE BUDGET 2020-21

Finance Minister Nirmala Sitharaman on Tuesday held discussions on regulatory environment affecting private investment and measures for promoting exports in a pre-Budget consultation with stakeholder groups from industry, trade, and services sectors.

The groups submitted suggestions on reduction of compliance burden and tax litigation, allowing self-certification in low-risk sector, decriminalisation of tax and company laws. They sought reduction of cost of equity capital, simplification and rationalisation of duties and labour laws, adoption of global standards of alternative dispute resolution, export development funds for helping MSME exporters and ease of investment in manufacturing sector.

"The main areas of discussion during the meeting included regulatory environment impacting private investment, measures for promotion of exports amidst rising protectionist tendencies, industrial production, logistics, media & entertainment services & IT & IT-enabled services among others," an official statement said.

'Scrap GST on agri-inputs'

The government should remove GST on agri-inputs, revamp crop insurance scheme, land lease rental while fixing MSP and ban futures trade on agri-commodities are some of the suggestions made by farm experts during meeting with the Finance Minister on Tuesday.

Measures to promote organic farming, cut in import duty from 30 per cent to zero on live embryo, animal and semen, tweaking of electronic National Agriculture Market and revisiting of Food Security Act were some other recommendations made during the meeting, headed by Finance Minister Nirmala Sitharaman.

City gas infrastructure will drive capex, credit demand

The last of a three-part series on credit pick-up looks at how the push for city gas is creating demand for development of gas infrastructure

AMRITHA PILLAY & SHINE JACOB
Mumbai/New Delhi, 17 December

GREEN SHOOTS IN CITY GAS
PART-III

City gas distribution (CGD), or the distribution of natural gas to consumers through a network of pipelines, is progressing in leaps and bounds. With the last two bidding rounds for CGD licences, nearly 70 per cent of the country's population has been covered. And this is translating into credit demand for the country's banking system.

Currently, state-run oil companies dominate India's CGD segment, although conglomerates such as Adani Group are also stepping up their presence in it. According to industry experts, banks find it comfortable to lend to this sector owing to its strong borrower profile.

With the completion of the 10th CGD bidding round, city gas will be available in 228 geographical areas, comprising 402 districts spread over 27 states and Union Territories and covering 53 per cent of its geographical area. Bharat Petroleum Corporation (BPCL), Hindustan Petroleum Corporation (HPCL), GAIL, Torrent Power, Indian Oil Corporation and Adani Gas were some of the companies that won licences in the 10th round.

"Given that most of the CGD projects are being executed by state-run oil companies or large corporate groups, banks are comfortable in funding these projects," said Debasish Mishra, partner at Deloitte Touche Tohmatsu.

The push for city gas is also creating a greater demand for the development of an overall gas infrastructure. According to one estimate, the country will see investments to the tune of around $60 billion for a natural gas infrastructure — including pipelines and import terminals — by 2024.

"With the recent change in policy, there is a push for creating a gas infrastructure. After the two recent rounds, there is a huge demand for services in city gas, CNG and PNG-related equipment, pipeline and also LNG segment," said BC Tripathi, former chairman of GAIL. He added that the government should consider banning pet-coke and furnace oil to boost the segment further.

In terms of infrastructure, the two rounds are set to add 35,59,8324 km of piped natural gas connections and 7,205 compressed natural gas stations by March 31, 2029. What's more, 156,178 inch-km of steel pipelines are likely to be part of this infrastructure. While the banking industry is hopeful that India's gas infrastructure business will fuel credit growth, some analysts have raised concerns over the aggressive bids that firms placed for certain licences in the last two rounds.

Others opine that the large size of the projects will help minimise risks. "These are infrastructure projects, where the investment is upfront, but cash flows are much superior. Given that by and large, there is a pass through for the cost of raw material, we do not see an issue," said an analyst with a domestic brokerage firm, who did not wish to be identified. The thrust on the CGD business is also well-timed since this is the fag-end of investments in refinery upgrades. "Reliance Industries' capital expenditure is now over. Similarly, investments to upgrade refineries for meeting BS-VI standards are also behind us. So CGD is now likely to drive capex in the oil and gas sector," said the analyst quoted earlier.

Tripathi hopes that there will be a retail gas revolution in the country. "The advantage is that now private players have also joined the fray," he said. In 2019, two foreign companies announced a fuel-retail tie-up in India: BP will partner RIL, while French major Total plans to tie up with Adani Gas for fuel retailing. But though city gas and retailing is expected to drive demand from the oil and gas segment, the quantum of investments is expected to remain modest.

"At best, these CGD projects would need ₹10,000 to ₹20,000 crore investments every year for the next five years," said the analyst.

Series concludes

IN DEMAND

Investment

- India to invest **$60 billion** in gas-based infra

City gas distribution coverage

- **10th** round covered 50 geographical areas
- **9th** round covered 78 geographical areas

Successful bidders under 9th & 10th CGD bidding round

- Adani Gas, Bharat Gas Resources, GAIL Gas, Gujarat Gas, Hindustan Petroleum Corporation, Indian Oil Corporation, Indraprastha Gas, Rajasthan State Gas, Torrent Gas

Source: PIB, PNGRB

SC won't form inquiry panel; violence spreads

Oppn knocks on Prez's doors, seeks intervention on recall of citizenship law

"I GIVE AN OPEN CHALLENGE TO CONGRESS... IF THEY HAVE COURAGE, LET THEM ANNOUNCE THEY ARE READY TO GIVE INDIAN CITIZENSHIP TO ALL PAKISTANIS... ARTICLE 370 WILL BE RESTORED... TRIPLE TALAQ WILL BE BACK"

NARENDRA MODI, Prime Minister

"IT IS A VERY SERIOUS SITUATION. WE FEAR THAT IT MAY SPREAD EVEN FURTHER. WE ARE ANGUISHED AT THE MANNER IN WHICH THE POLICE HAVE DEALT WITH PEACEFUL DEMONSTRATIONS ACROSS INDIA"

SONIA GANDHI, Congress president

"THERE IS NO GOING BACK ON CITIZENSHIP ACT, GOVERNMENT IS FIRM LIKE ROCK ON ITS IMPLEMENTATION... RAHUL GANDHI CAN'T BE VEER SAVARKAR; IT TAKES A LOT OF SACRIFICE, DEDICATION TO BE SAVARKAR"

AMIT SHAH, Union home minister

ARCHIS MOHAN & PTI
New Delhi/Kolkata, 17 December

As protests against the Citizenship Amendment Act (CAA) and proposed National Register of Citizens (NRC) continued in several parts of the country, including on university campuses and the streets of the national capital, the Supreme Court on Tuesday said high courts should be approached first on pleas alleging police atrocities on persons protesting against the law.

The court also asked as to how buses were burnt during the protests.

A Bench headed by Chief Justice S A Bobde commenced hearing on pleas including that of Alumni Association Jamia Millia Islamia University.

"We don't want to spend time knowing facts, you should go to courts below first," said the bench.

In a report to the Ministry of Home Affairs (MHA), the Delhi Police said it has arrested 10 people in connection with the violence at Jamia Millia, and none of them were students. An MHA official said an empty cartridge was found from the area but the police did not fire any bullets on protesters.

The apex court also agreed to hear on Wednesday the plea by a Bharatiya Janata Party (BJP) leader seeking a direction to the Centre and three states, including West Bengal, Uttar Pradesh and Delhi, to publicise the "factual" aspects of the CAA. The MHA also circulated facts on the CAA.

Addressing a public meeting in Jharkhand's Bhognadih, Prime Minister Narendra Modi accused the "Congress and its friends" of spreading lies among Muslims over the new citizenship law, and dared them to declare they will accord Indian nationality to all Pakistanis.

The PM also asked students, thousands of whom are protesting CAA in campuses across the country, to try and see whether they were not being made accomplices in a "conspiracy" where "urban naxals" and others were using their "shoulders to fire" to serve their own interests.

Addressing an event in Mumbai, Union Home Minister Amit Shah said in his television interviews that the CAA will not be rolled back, and "the government was firm like a rock on its implementation".

In a related development, Gauhar Rizvi, advisor to Bangladeshi Prime Minister Sheikh Hasina on international affairs, said, "We will take back any Bangladeshi citizen staying in India illegally. But India has to prove that," Rizvi said in Kolkata. He said Muslims, Hindus, Christians and Buddhists co- exist peacefully in Bangladesh.

India on Tuesday strongly rejected a resolution adopted by Pakistan national assembly on the amended citizenship law, calling it a poorly disguised effort to divert attention from Islamabad's "appalling treatment" and "persecution" of its own religious minorities.

India also dismissed as "falsehoods" Pakistan Prime Minister Imran Khan's comments at a global refugee conference that millions of Muslims could flee India due to "clampdown" in Kashmir and CAA. Commenting on CAA and NRC, Khan said, "if 2-3 per cent of Muslims cannot prove their citizenship, it will be a challenge...I ask the international community to look into it".

Leaders of several Opposition parties, including Congress President Sonia Gandhi, met President Ram Nath Kovind in the evening to submit a memorandum to him that urged him to intervene on the issue of violence in central universities and advise the Modi government to withdraw the "unconstitutional and divisive" CAA.

Sonia Gandhi, who led the Opposition delegation, alleged the Modi government was "shutting down" people's voices and bringing legislations which are not acceptable to them. "All of us, representatives of 12 different political parties have met the President to plead with him to intervene in the situation in the Northeast, which is now spreading throughout the country including the capital in the Jamia University, because of the Act.

"It is a very serious situation. We fear that it may spread even further. We are anguished at the manner in which the police have dealt with peaceful demonstrations across India," she said. On its foundation day on December 28, the Congress party will hold flag marches in all state headquarters across country with the slogan "Save India-Save Constitution".

Protests over the amended Citizenship Act stretched into fifth day in West Bengal, with agitators on Tuesday blocking roads and railway tracks in parts of the state, officials said. In neighbouring Assam, curfew was lifted in Guwahati following improvement in the law and order situation.

West Bengal Chief Minister Mamata Banerjee led a protest march in Kolkata against CAA. The state unit of BJP also took out rallies in support of the law.

Demonstrators protest against the new citizenship law in the Seelampur area of New Delhi on Tuesday PHOTO: REUTERS

Cops, locals clash in Delhi; 21 hurt

PRESS TRUST OF INDIA
New Delhi, 17 December

Twenty-one people, including 12 policemen and six civilians, were injured in violence that erupted during a protest against the amended Citizenship Act in Delhi's Seelampur on Tuesday, police said.

Three personnel of Rapid Action Force were also injured, the officer said. Protestors torched several bikes, pelted policemen with stones and damaged buses and a police booth in Seelampur.

A "hidden mob", which swelled to 4,000 to 5,000 people, indulged in "minor clashes" with police in Seelampur, officials said.

AAP urges peace

The AAP and its Seelampur MLA Haji Ishraq appealed to the people to register their protest peacefully. Chief Minister Arvind Kejriwal also appealed to Delhiites to maintain peace, saying violence cannot be tolerated in a civilised society.

A police officer breaks the windshield of a tempo in Seelampur PHOTO: REUTERS

Ex-Cong MLA named in Jamia FIR

The police has named former Congress MLA Asif Khan as an accused in its FIR on the Jamia violence on December 15, officials said on Tuesday.

Cops enter Madras varsity

A section of the students of the Madras University continued their protest for the second day on Tuesday as police entered the campus. Defiant students said they will continue their agitation "through the night".

Bangladesh seeks to postpone meet

Bangladesh has sought postponement of two meetings on river management scheduled for later this week, sources said. Officials from the Ministry of Jal Shakti were to meet their Bangladeshi counterparts in New Delhi on Thursday and Friday. They said while one was a joint committee meeting and the other was a technical level meeting.

Shoot at sight, says minister

Union Minister of State for Railways Suresh Angadi said he has asked authorities to "shoot at sight" anybody who causes damage to Railway property.

"If anyone is destroying railway property, then I ask the chief minister of the particular state to initiate stringent action just as Sardar Vallabhai Patel had taken to merge Hyderabad with India," he said at Hubballi.

Gen-5 fighter on track, may fly by '25

The last of a two-part series focuses on the AMCA's capabilities & design challenges

AJAI SHUKLA
New Delhi, 17 December

With the Indian Air Force (IAF) already operating the Tejas Mark I fighter, the Aeronautical Development Agency (ADA) developing the Tejas Mark 2 and Hindustan Aeronautics (HAL) building the interim Tejas Mark 1A, there have been important breakthroughs in India's most ambitious fighter programme: the futuristic Advanced Medium Combat Aircraft (AMCA).

A structural design computer image of the AMCA

Girish Deodhare, who heads ADA, the Defence R&D Organisation (DRDO) agency that oversees the Tejas and AMCA programmes, briefed *Business Standard* on the capabilities and development of the AMCA — a stealthy, fifth-generation (5-gen), medium weight fighter that is slated to be a match for any adversary in the skies.

"After eight years of design work, we have completed the stealth shaping of the AMCA. We are now building a full scale model of the fighter, in order to measure its 'radar cross section' (a measure of an object's visibility to radar)," said Deodhare.

The ADA chief said the AMCA's design is now mature and its internal systems are laid out. That clears the way for its detailed design, followed by metal cutting — the symbolic start of constructing a flying prototype.

"The AMCA's first flight is targeted for 2024-25," said Deodhare. "We plan to build five prototypes for a flight-testing programme that would take about four years. By 2028-29, we plan to begin series manufacture."

A 5-gen fighter is characterised by four advanced capabilities. It is stealthy, or near-invisible to enemy radar; it can 'supercruise', or fly faster than the speed of sound without engaging its engines' fuel-guzzling afterburners; it has advanced avionics and sensors with network centric operations, coupled with artificial intelligence, to enhance the pilot-aircraft interface, allowing a single pilot to fly and fight the aircraft; and it can detect and engage targets from long distances, outranging its adversaries.

Stealth fighters are most crucial in the opening stages of a war, when they take advantage of their invisibility to enter enemy airspace and strike enemy radars, air bases and control centres. With air superiority thus obtained, "non-stealthy" fighters like the Sukhoi-30MKI can fly into enemy airspace, without incurring heavy casualties, to strike targets like roads, railways, airfields, depots and ground forces.

To achieve stealth, a 5-gen fighter is shaped to scatter radar waves, rather than reflect them back. Special materials and paints further reduce radar reflectivity. In stealth mode, a 5-gen fighter conceals its fuel and weapons in an internal bay, since carrying them under its wings, as conventional fighters do, creates protrusions that reflect radar waves and compromise stealth.

Deodhare said that while AMCA would be a 25-tonne fighter, it would have an "all-up-weight" (AUP) of just 20 tonnes in stealth mode, when it would carry just one-and-a-half tonnes of weaponry concealed in internal weapon bays. In "non-stealth mode", another five tonnes of weaponry or fuel could be carried on external stations, under its wings.

The AMCA would be able to carry up to 6.5 tonnes of fuel in internal tanks. While its operating radius remains secret, a back-of-the-envelope calculation indicates it can easily strike targets 1,000 kilometres away and return to base.

In "non-stealth" mode, it can carry an additional 1,200-1,300 litres in its internal bays, with its weapons load mounted on external, under-wing stations, thus operating as a potent long-range bomber.

A key challenge in the AMCA programme is to develop a new engine, powerful enough to permit super-cruising. For now, AMCA designers are working with twin General Electric (GE) F-414 engines — which is also being used, in a single-engine configuration, to power the Tejas Mark 2.

However, this engine is not powerful enough for super-cruising in all configurations. "Each F-414 engine generates a maximum thrust of 98 KiloNewtons (KN), and in Indian climatic conditions that effectively reduces to 90 KN. We have calculated that an AMCA, with the configuration the IAF has specified, requires a thrust of about 220 KN (in Indian conditions) for super-cruising. That means we need twin engines, each generating 110 KN thrust in Indian conditions," says Deodhare.

A clutch of DRDO laboratories, led by the Gas Turbine Research Establishment (GTRE), Bengaluru, is working to develop the AMCA engine. With the Kaveri engine, GTRE had managed to generate a maximum thrust of 83 KN. Now the target is 50 per cent higher.

Former defence minister Manohar Parrikar had estimated the AMCA's development cost at about $4 billion — a major share of which would go into the engine. In 2015, India harnessed American expertise by setting up a "joint working group" (JWG) to co-develop jet engine technology. But on October 24, US Under Secretary of Defence Ellen Lord revealed the JWG had been scrapped since US export control laws safeguarded the technology that the DRDO wanted.

There is also an expectation, so far unrealised, that French engine maker, Safran, could assist with developing a suitable jet engine, as a part of its offset obligations relating to the purchase of 36 Rafale fighters.

A key decision in designing the AMCA relates to the trade-off between stealth and manoeuvrability. "As other stealth fighter designers have discovered earlier, the edge matching of surfaces and incorporation of an internal weapons bay that characterises stealth design also compromise the fighter's aerodynamics, inhibiting its manoeuvrability. The IAF understands that, and has been sitting at the table with ADA in order to arrive at a mutually acceptable blend of performance and stealth," says Deodhare.

Facilitating this cooperation is the IAF's new leadership, headed by Air Chief Marshal R K S Bhadauria, which includes several officers who have been test pilots for the Tejas programme, and have an in-depth knowledge of the issues. ADA officials point out that, having already mastered a range of aerospace technologies in the Tejas programme, the AMCA team is free to focus tightly on the Gen-5 challenges.

The technologies yielded by the Tejas programme include: "unstable aerodynamic design" for extra agility; complex control laws and a quadruplex digital flight control system; light composite materials for aerostructures; a glass cockpit with digital instrumentation; an environment control system with an on-board oxygen generating system; and advanced avionics that help the pilot switch quickly between air-to-air and air-to-ground roles.

Also mastered is the ability to do flight testing of fighter aircraft rapidly, without compromising safety. This experience will help in bringing the AMCA from design to induction without delay.

Cipla plans to partner Modicare

SOHINI DAS
Mumbai, 17 December

Drug maker Cipla plans to collaborate with the government to not only supply low-cost essential medicines to the Centre's flagship Ayushman Bharat — Pradhan Mantri Jan Arogya Yojana (PM-JAY, popularly called Modicare) — but also for upskilling the entire health care ecosystem around it. The company also plans to have branded packaging for medicines that would be sold under the scheme, besides opening dialogues with the insurance companies and hospitals empanelled in the scheme.

The firm, which had changed the global HIV-AIDS scenario with its drugs priced less than a dollar per day, plans to tie up with the government to ensure access to affordable medicines. "We are exploring opportunities where we can tie up with the government in upskilling resources in the health care ecosystem to improve the supply chain and availability," said Nikhil Chopra, executive vice-president and head of India business, Cipla.

He said the company planned to meet Ayushman Bharat chief Indu Bhushan to discuss models through which a pharma company like Cipla could participate in the programme to ensure the availability and access to affordable medicines. There is a plan to identify a list of essential medicines, including antibiotics, painkillers, injectables, etc, which the company may supply to the Ayushman Bharat-empanelled hospitals. The packaging of these medicines could be different from the regular Cipla packaging. Cipla is looking at opportunities at the bottom of the pyramid. As such, the Ayushman Bharat programme has brought in 1.5 million new chronic patients and 8.5 million new non-chronic patients into the system, resulting in $400 million incremental spend on healthcare. EY estimates the incremental market size for Ayushman would be $2.2 billion by FY21.

Yogesh Mudras, managing director, Informa Markets in India, said as the net widens and more patients enroll through the Ayushman Bharat scheme, this becomes one of the growth areas to target Indian pharma firms.

Ayushman Bharat, however, is restricted to hospitals. Cipla said it had at least 60 distributors, who supply exclusively to hospitals apart from 3,000 distributors for its prescription business and 5,000 distributors for its unbranded generics or generic generic business. The size of its generic generic business is around ₹1,500 crore and it is one the leading domestic drug firms in terms of unbranded generic drug sales.

According to Chopra, Cipla is open to dialogues with insurance firms and the hospitals empanelled in the scheme around procurement of medicines. "We are already running pilots with insurance companies and hospitals for some of our oncology drugs where a partnership can be worked out between the parties such that the patient benefits. Such a thing can run for high-end medicines. But, here since the volumes are huge, we are open to dialogues with the insurance firms involved in the PMJAY," Chopra said.

Cipla gets almost a fifth of its domestic revenues from trade generics. Trade generics refers to unbranded medicine sales, as opposed to branded generic medicines. Drugs that are copycats of innovator drugs (after the latter's patents have expired) are generics.

Musharraf sentenced to death for high treason

Pakistan's former military ruler General Pervez Musharraf was on Tuesday sentenced to death in absentia in the high treason case for subverting the Constitution in 2007, becoming the first military ruler to receive the capital punishment in the country's history. A three-member Bench of the special court, headed by Peshawar High Court Chief Justice Waqar Ahmad Seth, pronounced the verdict in the landmark case launched in 2013 against the former Pakistan Army chief by the previous government of former PM Nawaz Sharif.

The court found the ailing 76-year-old ex-president, now living in Dubai on self-exile, guilty of high treason by abrogating the Constitution and imposing extra-constitutional emergency in Pakistan in November 2007 and handed him the death sentence.

He also imprisoned several judges and issued provisional constitutional orders to safeguard his dictatorship. PTI

Need more regional trade deals, tax exemption for SEZs: CII report

SUBHAYAN CHAKRABORTY
New Delhi, 17 December

A month after the government stepped out of talks on the proposed Regional Comprehensive Economic Partnership, a report by the Confederation of Indian Industry (CII) has argued that India sign more regional trade deals to unlock export markets for diverse products and exploit established value chains.

Submitted to the commerce department, the report has pointed out that global trade is happening increasingly via the preferential route and India should commit to signing more trade deals in the new upcoming Foreign Trade Policy (FTP), which is set to go live on March 31, 2020. Interestingly, CII has supported the government's move to sign trade deals with the US and European Union.

The report has suggested full income tax exemption for 10 years be provided to units in Special Economic Zones (SEZs), lower cost of credit for exporters, and fast-paced growth in high-tech shipments.

The report, however, has batted for a clear review of existing Free Trade Agreements (FTAs) but also panned industry's unwillingness to take advantage of FTA benefits. India is currently negotiating its trade deals with the Association of Southeast Asian Nations bloc, Japan and South Korea. "For the ongoing one with Korea, we should use the opportunity to get not only additional market access in terms of further tariff reductions but also the necessary side letters signed to ensure that tariff reductions so given don't get negated by non-tariff barriers," the report said.

India's poor performance in exporting to FTA partners has been attributed to third country partners having secured even deeper agreements with them. CII also suggested a clear time-bound process, giving easier access to generics approved by American and European drug regulators, getting a level-playing field with Asean nations on marine products and improved access for cut and polished diamond exports.

Diversification deadlock

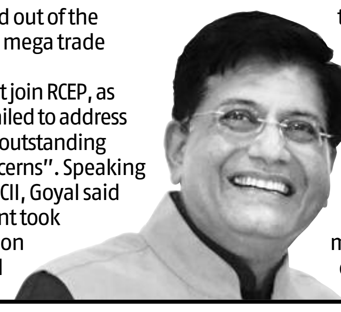
CII has stressed the need to diversify the export basket, currently dominated by raw materials, agro-products and low-value items. In its first stint, the Narendra Modi government had focused on exporting higher value-added products such as mobile phones through the phased manufacturing programme. But the report noted that share of high-tech exports in India's exports baskets remained stagnant between 2000 and 2017, at only 4.8 per cent while it made up just 8 per cent of manufacturing exports. This is lower than key emerging economies of Asia.

It emphasised that exports of aerospace, electrical machinery, telecommunication equipment, pharmaceuticals, and scientific instruments, among others from India need to grow fast. Globally, exports of these categories stood at $2.15 trillion in 2014. While China has emerged the largest exporter, India's high-tech exports fell in 2015.

MAJOR SUGGESTIONS

- **Creation of a new** National Shipping Regulatory Body to determine freight rates
- **Establishment of** Market Access Facilitation cell to help exporters penetrate new markets
- **Strict standards** to help exporters face technical barriers to trade in developed markets
- **Need to diversify services** exports beyond tradition Information technology and IT-enabled sectors

India won't sign FTA in a hurry: Goyal



India will not sign any free trade agreement (FTA) in a hurry or to the disadvantage of industry and exporters, Union minister Piyush Goyal said on Tuesday, more than a month after the country walked out of the China-backed mega trade deal RCEP.

India didn't join RCEP, as negotiations failed to address the country's "outstanding issues and concerns". Speaking at an event by CII, Goyal said the government took the bold decision in the national interest because the pact had become nothing but an India-China FTA, which "nobody wants". This, according to Goyal, was a bold decision "as for the first time it reflected the resolve of the government that diplomacy will not prevail over trade. Trade will stand on its feet, on its leg". He said Indian business and industry had been put to disadvantage over the years and instead of addressing some of the real issues that industries face, more and more distress was caused to them. PTI

'Infra spend has to grow, fiscal deficit can be raised'

Q&A Arguing that greater liquidity is the key to battling the ongoing economic downturn, Confederation of Indian Industry President **VIKRAM KIRLOSKAR** tells **Subhayan Chakraborty** that taxes on equity should be slashed. Edited excerpts

Industries have been batting for a fiscal stimulus. Do you agree?
We have told the government that fiscal deficit may be raised a little, so that more can be spent on infrastructure. I would prefer that the Budget deficit is under control, but now we need to expand expenditure, to get the demand going up. We should get back to the trajectory after one year or so.

Is there a realistic fear that if the fiscal deficit is raised, ratings agencies may cut our sovereign ratings?
I think we should be more worried now on creating more demand in India.

Considering CII's 100-day agenda for the government was a suggestion to cut personal income tax rate for lower strata, do you think current income tax slabs should stay the same?
In our pre-Budget consultations with the government, we have focused more on dividend tax and capital gains tax, rather than income tax right now. After the reduction of corporate tax, I think we'll start seeing decisions on investments in India by foreign firms come together. We were competing for investments within India or Thailand or Indonesia and find ourselves back in the race. But something similar should be done for sole proprietorships and partnerships as well.

What about multiple taxes on equity?
While the government has cut

corporate tax, we are still calling for taxes on equity to be reduced. First, you can't grow the economy on debt. We already have too high a debt in our economy. On the other hand, equity is taxed at a very high rate. When it comes to putting equity in business versus putting debt, equity should be more important.

There has been an opposition from industry on the signing of new trade deals. What do you think?
No. We should have FTAs with countries that are good potential export market for India. This includes the US and Europe, where the maximum of our exports land.

What do you think about the argument that import duties in developed nations like the US and EU are already rock bottom, and India would be the one to have to lower duties and open its markets?
We have a trade surplus with them now. But they are closing the gap. So if we don't have a deal, they will look at our taxes and start raising their taxes on imports from India. They've already done that for steel and aluminium.

Maritime freight rates may rise next month

New global regulations to mandate less-polluting fuel use; shipping companies to pass on entire cost to consumers

ADITI DIVEKAR
Mumbai, 17 December

With new International Maritime Organization (IMO 2020) regulations round the corner, the global container shipping industry is expected to see cost escalation of close to $15 billion, experts said.

"A new component called low sulphur surcharge (LSS) will get added to the freight rate when ships start using cleaner fuel. The LSS on the busy Asia-Europe trade route would be $250 for a 40-foot container. On the Far East to Indian ports, it would be $100, taking the total freight rate up by the same quantum," Vishal Kashav, senior analyst at Drewry Shipping Consultants said.

The IMO has mandated that sulphur content in shipping fuel must be reduced to 0.5 per cent from the current 3.5 per cent, starting January 2020. High sulphur emissions have damaged the marine environment, especially in northern Europe. IMO 2020 compels shipping companies to either fit scrubbers or use cleaner fuel.

APM-Maersk, Mediterranean Shipping Company, China Ocean Shipping Company, CMA-CGM, Hapag-Lloyd, Ocean Network Express, Evergreen Line, Yang Ming Marine Transport, Hyundai Merchant Marine and Pacific International Lines are among the top container shipping companies in the world. Maersk and France-based CMA-CGM are present in India's container shipping market.

Among domestic shipping firms, Shipping Corporation of India (SCI) is present in container shipping but the segment contributes only five per cent to its total revenue.

"To recover the increased costs, we have introduced two mechanisms for our customers, the Environmental Fuel Fee (EFF) for short-term contracts (less than three months) with effect from December 1, and a Bunker Adjustment Factor (BAF) for long-term customers to be effective from January 1," Steve Felder, managing director at Maersk South Asia, said in an e-mailed response.

The company has established joint initiatives with Vopak, Koole and PBF Logistics for 0.5 per cent compliant fuel storage and processing facilities in Rotterdam and New Jersey. The EFF and new BAF levels will vary by trade route corridor, based on a transparent formula, he said.

The freight hike is dependent on fuel prices and will vary as long as the latter varies, said Felder. Shipping being a low margin business, the industry cannot absorb the additional costs from the new rules. So, Maersk intends to entirely pass on the increase to customers.

Meanwhile, the scrubber equipment market is also getting active. "The retrofit scrubber cost is being priced at $4-5 million per Very Large Container Ship. For a newly built container vessel, the cost is around $3 million," said Kashav from Drewry.

In India, shipping companies such as Essar Shipping, Shipping Corporation of India (SCI) and Great Eastern Shipping are looking at a combination of scrubbers and clean fuel. "We are installing scrubbers on seven of our larger ships and the total cost of installation on these is around $20 million. For the rest of the fleet, we will just switch to low sulphur fuel oil/marine gas oil (LSFO/MGO) from January 2020. Installation on one ship is already done and the rest will be done by February," a Great Eastern Shipping official said via e-mail.

The company has 47 vessels and is next in size after SCI, which has 60 vessels. SCI has small presence in container segment with five vessels in its kitty. "We are installing scrubbers and will make capital investment of about $6 million in four of 12 owned vessels. Scrubbers will be installed on the rest," said Ranjit Singh, chief executive officer at Essar Shipping.

While cost rise for shipping companies in inevitable from January, amid the US-China trade war, analysts said actual global rate hike could remain pressured in select regions.

"Overall freight rates will surely go up but the East-West trade routes could witness only some pressure due to lower trade growth because of the US-China trade war, higher competition and overall weak demand due to global downturn," said an analyst, on condition of anonymity.

INVESTMENTS

- GE Shipping to spend **$20 million** on scrubbers for **7** ships
- Essar Shipping to invest **$6 million** for **4** ship scrubbers
- Maersk to pass on cost increase to customers entirely
- Intra-Asia trade route to see higher freight rate vs East-West route

The fires that Indian news television lit

What will it take for TV news in India to get its act together?

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

It has been a bloody week for India. Assam, West Bengal, Tripura, Kerala, Delhi, Mumbai among others saw protests against the pointless Citizenship Amendment Bill. Sadly, some of these turned violent. The why and how of it seems to be lost in the babble of noises on television, newspapers and social media.

And that brings me to the point of this column - the complete failure of media, especially TV, to inform the debate around the bill, to educate and calm the rising tempers. What will the Bill do? What does proving your citizenship mean? Except for newspapers, a couple of news channels and half a dozen excellent news websites, most media outlets have done an abysmal job of reporting on it.

This is truer of television which reaches more than 836 million Indians against the internet (660 million) or newspapers (400 million). Of these, 836 million news channels reach more than 260 million people says Broadcast Audience Research Council data. Add the 50-100 million unique visitors most of the large news broadcasters get online. From just over 10 news channels in 2000, India now has a world-beating 400 plus. About half of these are owned by real-estate barons, politicians and their affiliates and random people who have no business owning a news outlet.

This oversupplied market is completely dependent on advertising that goes to channels with the highest viewership. As a result, the last decade has seen a race to the bottom on quality. In this race everything, from communalising rapes and murders to inciting violence, is kosher. The ignorance and pusillanimity of Indian news channels on the issues that really matter — say a sinking economy or rising income inequality — stands out.

Ramit Verma's YouTube channel Peeing Human shines a torch on media and current affairs. His analysis of debates on four key shows of four leading Hindi news channels till October 19 this year is telling. Of the 202 debates, 79 were around attacking Pakistan and 66 attacking the opposition and Pandit Jawaharlal Nehru. The PMC Bank scam where thousands of depositors lost their savings got just one. There was nothing on education, healthcare, environment, mob lynchings, the economy or farmer distress. News television's obsession with an irrelevant country like Pakistan could be dismissed as puzzling but its impact is real.

The rubbish it spouts is amplified on social media and in WhatsApp forwards. It is then quoted at conferences and in dining rooms becoming the stuff that informs and moulds our political and social decisions. The resulting polarisation, the damage to our collective sense of Indianness and levels of knowledge is evident when people cheer the police as they beat up unarmed students. What many Indians now fail to appreciate is that they are cheering the death of the last few vestiges of a democracy that was won and nurtured with great difficulty.

Financially, none of this has had much impact. News television remains a small ₹3,000-4,000 crore market of a ₹74,000 crore television industry. Barely a couple of players make a profit. But socially, it has destroyed the India the world has appreciated for its ability to assimilate diversity. You could argue rightly that many other factors are at play. True, but news channels have actively helped India's slide downwards.

What then can be done? Among the things this column has often suggested, three are critical.

One, set Prasar Bharati Corporation that runs Doordarshan and All India Radio, free of the central government financially and administratively. Let it use the taxpayer money it gets to become a world-class public service broadcaster, a la the BBC. In the UK, the BBC sets a benchmark for standards which private brands are forced to follow.

Two, push the foreign investment levels in news broadcasting from 49 per cent to 100 per cent. Most foreign news broadcasters don't seem interested. But if a few choose to come and invest in training and reportage, it will be great. One of the biggest issues with rapid growth has been the death of on-ground reporting in a system that thrives on anchors.

Three, tweak ownership norms. These are key to how owners behave if it comes to a choice between quality journalism and other pressures. Globally, some of the best and most profitable news brands are owned by companies that have a trust in charge — *The Economist, The New York Times, Financial Times*.

If Indian cinema has done us proud globally by becoming a marker of our soft power, Indian news television has shamed us by becoming a marker for the worst form of journalism. It is time to fix it.

http://twitter.com/vanitakohlik

CHINESE WHISPERS

War against plastic flowers

While the country has put off the ban on single-use plastic (SUPs) items, some departments of the government seem to have gone overboard in their zeal to cut out SUPs altogether. The Cabinet Secretariat recently issued a directive to the Railways to get rid of or discourage the use of even plastic flowers and flower pots. This would be music to the ears of floriculture associations that have been waging a relentless war against the use of plastic flowers, which, they allege, is breaking the back of the cut-flower trade.

Securing party office

Against the backdrop of the agitation against the Citizenship Amendment Act, the spectre of zealous protestors led by Opposition parties and other social organisations converging at the ruling Bharatiya Janata Party (BJP) state headquarters in Lucknow has made its office administrators jittery. Since the state BJP headquarters faces the UP Vidhan Sabha precincts, it ends up bearing the brunt of any protest against the Adityanath government. While prohibitory orders under Section 144 continue in the state, the state BJP office has written to the district administration to enhance security at the premises. In the past, the saffron party headquarters in the state has been pelted with stones by protesters.

Sit-ups on bus roofs

Irate residents of Rau town in Indore district, fed up with buses travelling at high speed in densely congested localities, are forcing drivers to do sit-ups as punishment. A video clip of the punishment went viral on social media, in which five drivers were seen doing sit-ups on the roofs of the buses. "Drivers operating from Indore to Mhow, Manpur, and Pithampur don't care for the lives of people. They drive at great speed in narrow congested roads as reaching a stop earlier gives them the chance to pick up more passengers," Rau Municipality President Shivnarayan Dingu said on Tuesday. "Many people have died in accidents caused by these buses. This kind of punishment will make drivers careful in the future," he added.

The commission for all seasons

Or why the 15th Finance Commission will be the last word on all key Budget numbers that the finance minister will spell out on February 1

SUBHOMOY BHATTACHARJEE

Every time a chief minister has handed over a gripe sheet of their fiscal woes to the chairman of 15th Finance Commission N K Singh, which is what they are expected to do, they have added another booklet which is not what they were expected to do. The booklet is a list of grassroot innovations compiled by each state government. They have done so because it is a request from the Commission, aka Singh. No other chief from the past 14 finance commissions has made similar demands. The Commission has no role to play with those innovations, it will not provide funds to them, and neither is the list exhaustive. Yet joining of the two is an example of Singh's trademark flamboyance and has made the 15th Finance Commission the key organisation to watch in the run up to the Budget.

It would not be wrong to say that the commission is now poring over issues that are almost as detailed as those the finance ministry is examining. One could effectively say the Budget will be a joint handiwork of Singh and finance minister, Nirmala Sitharaman, a position that no other finance commission has enjoyed. There was a fine picture of the two seated together at a luncheon invite thrown by Sitharaman, for economists and journalists, last week.

Finance commissions are appointed every five years by the President of India under Article 280 of the Indian Constitution. The commissions are supposed to recommend the rules for the distribution of taxes between the Centre and the states and among the states; they also decide the principles that should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India.

The remit, already wide, has grown wider after the centre scrapped the Planning Commission in 2015. Instead of just deciding on the principles governing the allocation of non-tax revenues to the states from the Centre (grants-in-aid) the commission led by Singh is also advising on the details of the allocation. This was made explicit in its terms of reference issued in 2017.

But the influence on the Budget-making process stems even more from the other subjects that have made their way to the plate of this commission. Look at those carefully. For the Centre, the commission has asked for minute breakdown of data on all infrastructure projects, sector-wise: Roads, railways, airports, waste management, projects in health, education and even tourism to international convention centres — the list goes on and on. The details to be furnished include data on their mode of financing (whether these were on build-operate-transfer or build-own-perate); the amount of equity, loans and grants raised for the project; the estimated size of the population that will benefit from the project; viability gap funding; other concessions and so on. It is a work of phenomenal detail that even the finance ministry rarely pores over and rarely furnishes with its Budget numbers or at any other time of the year. In another statement, the commission has asked for a statement of flow of funds from the government of India, other than share in taxes to all the ministries, calculated year wise and cumulatively. It is a data that no finance ministry has ever worked out, forget about sharing with any other organisation. It has also asked for equally detailed information on public sector enterprises and on subsidies, both explicit and implicit.

Incidentally, Singh's imprimatur on this level of detailing comes from his chairmanship of the earlier FRBM Review Committee. The report was submitted in January 2017 but since he was made chairman of the Finance Commission soon after, the late Arun Jaitley decided to merge examination of the recommendations co-terminus with the latter.

With the dynamic data warehouse on expenditure of the central government that not only rivals the finance ministry but far exceeds it in sophistication, the commission is in a position to put its hand on every key Budget number. It can and is understood to be advising the government on the size of the fiscal deficit, the debt-to-GDP level and the areas where the government can cut back on spending without affecting the economy adversely. One should remember while the Commission is notionally an advisory body, the advice is different in nature from those proffered by other bodies. It is tantamount to an award once it is tabled in Parliament occupying the same prestige as the Budget papers. It has already submitted an interim report with some of these numbers and one understands, those are working their way into the Budget numbers. The commission has been given an extension for a year (to October 2020), which means it can continue to advise the finance ministry well after the Budget is presented. Its terms of reference has been added to twice, which is the first for any Finance Commission. Compare this with the term of the Eleventh Finance Commission, which effectively got only a month's extension, when its terms of reference were extended slightly.

SOURCE: TWITTER @NSITHARAMANOFFC

Chairman of the 15th Finance Commission of India N K Singh along with Finance Minister Nirmala Sitharaman with the Commission's report for the Financial Year 2020-21

In the second extension of the terms of reference, Singh has been asked to examine entirely new areas of expenditure. The commission will examine "whether a separate mechanism for funding of defence and internal security ought to be set up, and if so, how such a mechanism could be operationalised". So there is nothing in the Centre's expenditure budget that the Commission will not pore over. To do its task, it has asked both the Centre and states for as minute details such as money spent year-wise on police infrastructure, money spent on fortified police stations capping those with "a detailed note on the impact of expenditure of internal security/police".

On the receipts budget, the commission is in any case seized of all the tax matters direct and indirect, including those on GST. Its terms of reference says this includes "the impact of the GST, including payment of compensation for possible loss of revenues for five years, and abolition of a number of cesses, earmarking thereof for compensation and other structural reforms".

Can it get any more explicit than this? It is for all these reasons that the 15th Finance Commission will be the last word on all the key Budget numbers that the finance minister will spell out on February 1.

INNOCOLUMN

Building trust is a process...

...and to be able to do that you need transparency and public scrutiny. A tough call but valuable nonetheless

R GOPALAKRISHNAN

In this last column of 2019, I explore the reality that public scrutiny is tough but valuable. A CEO in a listed company bears this as an additional responsibility compared to an unlisted company CEO. Start-ups are relearning an eternal wisdom — that revenue minus costs must generate a cash flow within some reasonable time. After the WeWork IPO fiasco in early October, investors woke up. It beats me why it took so much time and torture to implement expensive alternatives to be able to build an entrepreneurial business. I reckon wisdom arrives after trying all alternatives!

On October 7, one media columnist rhetorically wrote about Indian start-ups: "...These start-ups, with boards that are useless, cut corners to rise to the top and bomb at the public market litmus test.. Are we looking at a world better off without Softbank and the unicorns?" On the same date, another columnist wrote: "Many Indian unicorns have pursued a growth-at-all cost strategy... and are nowhere near attaining profitability... many of these unicorns are not exitable." On November 10, the *Business Standard*, in an editorial commented: "...It is important for the survival of the ecosystem that more and more start-ups become profitable... it will make the start-up ecosystem a real driver of economic growth." After the WeWork debacle, pundits even wondered whether Masayoshi Son is losing his magic touch.

Truth be told, Masa is not the point; abdication of common sense is the point. Pakistani poet, Maulana Tariq Jameel, wisely wrote, "*Tu idhar udhar ki baat na kar/Yeh bata ki qafila kyun luta/Mujhe rehzanon se gila nahin/Teri rehbari ka sawal hai*". (Loosely translated, it goes, "Don't try to obfuscate/Tell me why the caravan was looted/I do not hold a grudge against the robber/But it is a question of your your guardianship".)

An HBR article (*Building a start-up that will last*, July 8, 2019, Hemant Taneja and Ken Chenault) recognised four foundational values for start-ups to build sustainable companies: (i) articulate a value framework based on societal impact; (ii) demonstrate the ability to execute repeatedly; (iii) move beyond founder-driven decisions to scalable leadership; and (iv) design the company for endurance. If we could imagine a panel discussion on how to create a sustainable business among Jamsetji Tata, Ghanshyamdas Birla, Jamnalal Bajaj, Andrew Carnegie and William Hesketh Lever, would they not say the same things?

IPO-worthiness is a litmus test for any company. The most successful Indian start-up during this millennium is Tata Consultancy Services. In 2004, its IPO valued TCS at an enterprise valuation of about $2 billion. Looking to the company's present valuation of about $110 billion, it must represent the very best. The then CEO, S. Ramadorai, recounts in his book, *The TCS Story*, how complex and difficult it was to design TCS to be IPO-worthy: "At that time TCS was still an unsung story... faced the challenge of how to overcome perceptions compared to competitors... we faced the task of revealing the real TCS to the world... later it appeared that a beautiful girl had unveiled herself... we were proud that Infosys was considered a benchmark in governance and transparency".

The greatest of business wisdom is encapsulated in this example — an inherent humility, admiration for a competitor, facing up to the reality of the public market, recognising that execution is the key and, finally, redesigning the entire organisation to be responsive and transparent. India and the world need listed companies with public accountability. It is true that some listed companies fail the tests of disclosure and governance, but that is all the more reason for governance and transparency.

The toughness of transparency and scrutiny applies also in public governance because perception determines credibility and trust. Recently, Indian leaders appealed to the people to trust them about the Citizenship (Amendment) Bill (CAB). Many citizens are confounded and bewildered by the backstory of the events. Every event had a logic, perhaps even a sensible one, but consider that past events have serially caused disturbance or despair, one after the other. That is what the public recalls.

On the political front — lynchings, Ayodhya, Kashmir and now the CAB. On the economic front — hazy outcomes of demonetisation, the continuous amendments to GST (over 100 in the last two years), shifting rules in IBC... Even the announcements on electric vehicles and the implementation of FASTag have caused confusion and anguish.

Without doubt such complex tasks take time, but then, credibility and trust also takes time: It emanates from within people, not by external blandishments.

A very happy 2020 to readers.

The author is a corporate advisor and distinguished professor of IIT Kharagpur. He was director of Tata Sons and vice-chairman of Hindustan Unilever. Email: rgopal@themindworks.me

LETTERS

Leave students alone

During the Emergency imposed in 1975, the Congress party was accusing the Bharatiya Janata Party's (BJP) previous avatar Jan Sangh of using students to spread lawlessness. Now, the BJP is taking the Congress and other parties to task for inciting students to take to violence as they protest the controversial National Register of Citizens and the Citizenship Amendment Act.

In politics, what's good for the goose is good for the gander. This stance clearly shows that all parties are prone to using students from time to time to further their selfish political motives. They must leave the students alone and mind their own business. They are free to fight their own political battles, of course, peacefully and for the good of the country. They will be held in high esteem for their benevolence.

Tarsem Singh Hoshiarpur

Involve everyone

This refers to "India's HDI disappoints" (December 16). In the Human Development Index (HDI) rankings of the United Nations Development Programme, the position of India has hovered around 130 with no perceptible improvement for many years. This should disappoint all. Though India is the sixth largest economy in the world, the poor HDI ranking clearly points at the inequality between the rich and the poor, which is quite steep. In many parameters of the index, India's position is comparable to our South Asian neighbours. In fact, Sri Lanka's HDI ranking has been consistently better than that of India.

Three decades of economic reforms have not been successful in bridging the gap between the haves and the have-nots. The fruits of development haven't reached the poorer sections of the society to the extent desired. The reforms, though started in 1991, have not gathered pace over time. These have happened only in bits and pieces with a big time lag in between. As a result, economic growth hasn't been able to encompass everyone. Another aspect that is worrisome is that the female population has lagged behind its male counterpart in reaping the benefits of development. The inequality in income between men and women is too stark to be missed. The same is the story when one compares the level of education of men and women.

To remove this inequality among the different sections of the society, the strategy has to be two-pronged. First, economic reform must be made robust, fast-paced and irreversible so as to generate consistent high growth. Second, a mechanism/process should be developed to balance regional disparities and reduce inequality among different sections of the society by associating everyone in the growth journey.

Sanjeev Kumar Singh Jabalpur

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The isolation risk

Govt's recent decisions have affected India's international standing

It is a truism of international relations that rising powers, such as India, should seek out friends and allies on their periphery and maintain relations further afield that are of long-term benefit to their economic rise. Naturally, maintaining internal solidarity is also of importance — and internal politics should, by and large, not be allowed to spill out into foreign policy stances and actions that do not benefit the national interest viewed most broadly. Unfortunately, India does not seem to be following this precept of late as carefully as it should.

For example, amid the widespread protests over the combination of the National Register of Citizens (NRC) and the Citizenship Act amendment, some implications need to be borne in mind for India's international relations. Bangladesh under Prime Minister Sheikh Hasina has been India's most stalwart partner in the neighbourhood. Co-operation on security and extremism reached new heights, and the economic relationship has also developed — although integration has not gone as far as it should. Yet Dhaka, quite understandably, wants to be left out of the burgeoning NRC crisis in India. It has been reported that, although public assurances have been conveyed to the Bangladesh government that the NRC is viewed as strictly an internal legal matter for India, there was some resistance to a joint official statement of this fact. This problem has been compounded by the citizenship amendment law, which implies in its text and motivation that Bangladesh is not a secular country. This is seen as deeply offensive in Bangladesh, which has had divisive discussions about its identity before reaffirming its constitutional secularism. All these issues could perhaps be overlooked if there were tangible returns coming to Dhaka from a pro-New Delhi policy. But on a gamut of issues, from the Teesta water-sharing onward, India has under-delivered to its neighbour. It would be unwise to alienate Bangladesh for short-term domestic political ends.

Domestic political concerns may have also played a part in India's decision to stay out of the Regional Comprehensive Economic Partnership. After all, previous free-trade agreements have been attacked by major political forces in India's states and also within the ruling coalition. India pulling out at the last minute was a major diplomatic disruption that may well, unless reversed, have effects for years or perhaps decades to come. If it was done to satisfy immediate political concerns, that would be a serious miscalculation of the national interest. In any case, India must consider how far it can stretch the considerable international political capital it enjoys from years of restraint and its status as the largest liberal democracy. Recent actions, including the internet shutdown in Kashmir, have depleted that store of capital. The sharp growth slowdown means that India is a less attractive partner, and the actions taken against foreign companies operating on Indian soil, including changing the rules of the game at the last minute to benefit domestic players, reduce the number of advocates for New Delhi abroad. Now, the possibility of large detention camps for those identified under the NRC, which, thanks to the Citizenship Act, will be primarily of one religion — and the protests as well as the police's harsh response against students in well-known institutions — have further hurt India's international standing. Its position internationally is not so secure that it can afford to offend its friends.

Witness to a prosecution

US impeachment process holds salutary lessons

On Wednesday, the US House of Representatives will vote to impeach Donald Trump, marking only the third time in the nation's 243-year history that a president will be impeached. The Democrats' commanding majority (233-197) in the 435-member House ensures that its vote will prevail even if a couple of its members choose to vote against impeachment. Equally predictably, the Senate, in which the Republicans hold 53 of the 100 seats, will vote not to remove him from office. This foregone conclusion, a symptom of the extreme polarisation of American politics, suggests that the process has been a monumental exercise in futility. This may be true as far as the outcome goes, but the conduct of the impeachment process offers threatened democracies around the world a ringside view of the institutional checks and balances that can be brought to bear on executive power.

As Mr Trump has shown, the US president enjoys enormous powers. It is precisely to ensure that the presidency does not degenerate into a dictatorship or monarchy that the US constitution vested countervailing powers in Congress (the Supreme Court and free press are the other two safeguards). Impeachment is a key Congressional power to call presidents to account for what the founding fathers described as "high crimes and misdemeanors".

Mr Trump's withholding of Congressionally approved military aid to Ukraine in return for an investigation by that country's president into his chief Democratic rival in the 2020 elections, Joe Biden, falls within this definition. This quid pro quo involving taxpayer money for personal electoral gains came to light owing to the revelations of a whistle-blower, prompting the Democrats to launch impeachment proceedings (though they had ample cause to do so before). The striking point about the events of the past few months is the degree of independence and transparency that is hardwired into the process. First, Mr Trump was legally obliged to release a version of the damning transcript of his call with the Ukrainian president. Second, the hearings were televised by the public broadcaster, so the electorate had unfiltered access to information. Third, many officials chose to do their duty and testify even though Mr Trump barred his administration's officials from cooperating with the investigation (indeed, obstructing Congress is one of the two articles of impeachment). All of them offered damning evidence of presidential abuse of power. None has been transferred or removed from office as a consequence. Most notably, the US Ambassador to the EU and key Trump ally, Gordon Sondland, has suffered no consequence for his sensational admission of a Trump-led quid pro quo deal with Ukraine. The whistle-blower, too, remains protected by legal fiat. It is difficult to envisage an equivalent level of accountability for India's political executive.

Mr Trump may still be in office next year; he may even win the 2020 elections. But this process will remind him and future occupants of the Oval Office of the limits of their powers — even in the world's most powerful democracy. In an age when dictatorial democracy is becoming the norm from the Philippines to Europe, this is a reassuring development.

ILLUSTRATION: BINAY SINHA

Inequality in the US

A growing challenge has gripped society

That inequality has been growing in India and Brazil is well known. I have been writing about it for some time now ("Income distribution: Recent developments", *Business Standard*, October 16, 2018). What is more striking perhaps is how inequality has grown in the United States. A recent issue of *The Economist* appeared to minimise the concern on its cover, with, "Inequality illusions: Why wealth and income gaps are not what they appear". That has pushed me to react, for it may be sensational but circumvents reality. It reported on recent scholarly papers that appear to contradict the findings of earlier papers about rapidly worsening wealth and income gaps in the US. A careful perusal of *The Economist*'s coverage reveals that the new papers do not reverse the findings of the earlier papers. They tone down the extent somewhat. Thus, the conclusion that inequality has increased significantly since the 1980s remains intact. The new findings use new data in an intelligent way; therefore their inability to reverse the earlier conclusions actually supports the robustness of the initial findings.

PARTHASARATHI SHOME

For a comprehensive assessment, how markets function should be the beginning. Adam Smith's *Wealth of Nations*, published in 1776, is its foundation. In it, individuals are driven by personal gains. Their "animal spirits" yield the maximum goods in the market for consumers to enjoy at the lowest prices. Thus, selfishness maximises social welfare. Underlying this principle is pure competition among suppliers.

Subsequently, economists modified that model when there are few suppliers who could control market prices. Then, market prices would not be competitive and consumers would have to pay higher prices. Nevertheless, the invisible hand principle was found to be reliable in explaining the primary motivation behind market functioning.

Further, as efficiency in production processes and labour productivity improved over time, and technology advanced, economic rate of growth that followed would result in a "steady state growth". Along that path, all resource owners would experience that returns to their capital or labour were moving at the same rate. If this equalled population growth rate, that comprised the "golden rule" for a growing economy.

That rule said nothing about initial endowments of resource owners. This was enunciated in 1896 by Vifredo Pareto, an Italian economist. As an economy chugged along, as long as someone gained without anyone becoming worse off than before, that was "optimal". As a budding, perhaps a bit rebellious, economist,it bothered me that even if an economy's initial position had a horrid income distribution, there was no recognition to directly uplift the position of the poor at higher rates than that of the non-poor. So I wrote, "Non-Ethical Distribution and Failure of Markets," my Masters thesis. I was delighted yet surprised that it was accepted at one go.

All economic theory was based on the efficacy of the perfect market. Accordingly, taxation theory advanced to arrive at conclusions regarding who bears the eventual "incidence" or burden of various taxes. Its results were neat and generalisable beyond the usual two product — two factor model, for any number of products and factors (resources for production). Hence, they were called tax incidence "theorems". This supplication at the altar of the market continued to bother me. Hence, my PhD thesis demonstrated how the neatness of results for a market economy breaks down relatively easily. All that was needed was to introduce a single distortion, say, a third resource or factor of production such as land (over and above capital and labour) in any one sector of production (say corporate or non-corporate).

These efforts of mine I refer to here since I never danced to the tune that markets worked flawlessly. My findings and results, completed in the early 1970s, however small, could not affect from the sidelines the thinking of the US economics establishment, its confidence in markets was so strong. It was not easy to get top effective attention despite awards or prizes. Perhaps also, within the boundary of its definitions, the market economy performed acceptably until the 1970s for, by and large, economic agents experienced decent investment returns and wage increases, and standards of living did improve. Indeed, economists seemed confident that the "problem of depression prevention has been solved."

From the 1980s, however, the basic principle — market competition — began to crack, more so in the new millennium. What happened? First, its bulwark had been full information among economic agents and, second, each agent had to be small enough not to be able to affect market prices, leave alone destabilise them.

These two principles began to break down slowly but surely. To begin, information capture grew through the advent of information technology (IT). Analysts used information from secure pooled global data to perceive and project global commodity prices and where they would crest. While uninformed investors sold off with small rises in their stocks and shares —speculation leads to economic stabilisation — informed investors bought even more while prices were rising, thus destabilising prices and "market fundamentals".

Such operators who successfully captured the "asymmetry of information" using IT, gained in incalculable multiples of their initial investments. After repeatedly destabilising global markets and amassing disproportionate returns, they reappeared as global philanthropists, the first paradox perhaps of the New Millennial Era. More sectors — take the financial sector for example — fell under the same spell.

At the macro level, the capture facilitated the winning agents to extract maximum value from the markets even as markets collapsed in repeated global crises (1997-98, 2007-08, others) around them and trillions of dollars were washed out from stock market value. The winning agents emerged as global giants in diametric contraposition to the quintessential small market operator. The disappearance of the two elements — full information and significance of the small competitor — ushered in the death of the perfectly competitive market. With that, inequality became inevitable.

Apart from macroeconomic factors, the new millennium's micro-economic indicators reveal how inequality is escalating in the US across incomes, and in gender, race,economic mobility and so on[1]. This body of literature comprises a paradigm shift in thinking, analysis and contingent policy action to redress and eradicate inequality. It has important lessons for India. I plan to cover this micro data literature in the future.

1. It reflects the emerging work of Thomas Piketty, Emmanuel Saez, Gabriel Zuchman, Raj Chetty, Lena Edlund, Wojciech Kopczuk, and Heather Boushay among others.

A Budget for expenditure

The importance and even relevance of annual budgets of the Union government have seen a gradual decline over the last many years. There was a time when the Union Budget would be keenly awaited by industry to know which products or services have got a duty relief or attracted a fresh impost. Company managements and individuals would keep their attention focused on the finance minister's speech to understand what direct tax benefits they would get or lose from next year.

But with the roll-out of the goods and services tax (GST) and the introduction of relatively stable rates of income tax for individuals and corporation tax for companies, the Union budgets have begun losing their earlier appeal or even glamour. It's true that even now they do create some excitement over the many government schemes announced by the finance minister and they also get talked about, but the intensity is not the same and nor are the expectations so high.

NEW DELHI DIARY

A K BHATTACHARYA

Budget 2020, however, will be different. In spite of the stable direct tax rates and the GST regime in place, the Union Budget to be presented by Finance Minister Nirmala Sitharaman on February 1 will be a keenly awaited document. In fact, no other recent Union Budget has held so much significance for the Indian economy as the one to be presented in about six weeks from now. The reasons for this are not a secret.

The Indian economy has been facing a steady deceleration in the growth rate of its gross domestic product (GDP) for the last six consecutive quarters. The few steps that have been taken are yet to make a positive impact on the pace of growth. India's financial sector is not yet out of the woods. Even before the twin balance sheet problems of the Indian economy could be tackled through recapitalisation of public-sector banks and resolution of stressed loans borrowed by several Indian companies, new problems have hit the non-banking finance companies.

The collapse of an urban cooperative bank added to the woes of the financial sector. In spite of the Reserve Bank of India (RBI) reducing the repo rate by 135 basis points since February 2019, there has been neither a credit pick-up nor an improvement in the manufacturing sector's capacity utilisation. Unemployment has hit a 45-year high level of over 6 per cent. Weak demand conditions continue to pose a big challenge for those who are entrusted with the responsibility of managing and reviving the Indian economy.

Not surprisingly, then, such a gloomy economic situation has brought the forthcoming Budget into sharp focus. Two other factors are responsible for the renewed interest in the Budget for 2020-21.

One, the revenue projections for 2019-20 are turning out to be too rosy to be achieved by the end of the year. Current revenue trends (tax revenue growth in the first eight months of the year is estimated at only 1.5 per cent compared to the target of 18 per cent) suggest that the government's target of fiscal deficit at 3.3 per cent of GDP may have to be breached. Court-mandated additional telecom fees and the one-time transfer of surplus from the RBI may bring down the revenue shortfall by ₹1.3 trillion, but that would still leave a gap to be filled. A fiscal deficit of 3.8 per cent for 2019-20 is a more likely scenario.

Two, the Budget for 2020-21 will have to incorporate the recommendations of the Fifteenth Finance Commission, which has submitted its report for just one year. The Commission has been given one more year to submit its full report for the remaining four years. But the key question that will be answered on February 1 is whether the divisible pool for distribution of tax revenues among the states will be reduced by an amount equivalent to the Centre's capital expenditure on defence and internal security. This could provide a cushion to the Centre's resources and also mean a reduction in the total tax revenues to be shared with the states next year. For the states, already struggling because of lower growth in GST collections, the reduced transfer of taxes could mean a double whammy and their overall fiscal deficit could widen further.

A bigger question would be whether Budget 2020 would agree to a substantial fiscal stimulus to the economy by allocating more expenditure on infrastructure as well as reducing taxes. Given the shortfall in collections of GST, there is very little scope for any further cut in the tax rates by the GST Council. On the contrary, there is need for some rationalisation in the GST rates to make amends for the many ill-advised reductions in rates on finished products, compared to those on raw materials, which have resulted in a sharp rise in tax refunds and adversely affected tax collections.

Corporation tax rates have already been cut. Going by the RBI's latest survey of 1,500 companies, the rate of investment by them in creating fresh capacity or capital assets has seen a welcome rise. A lot of hope, therefore, rests on individual income-tax rates, whose reduction should leave a little more money in the hands of consumers and investors. That should help revive demand in the economy. The finance minister has already before her the report of the direct taxes committee, which among other things has recommended lowering of tax rates on individuals along with rationalisation of the exemptions regime. Whether those recommendations are implemented, modified or rejected will be known from Budget 2020.

That leaves the big question on expenditure. There is no denying that the Indian economy could do with a big push on expenditure in several infrastructure areas. The Budget needs to find resources to meet the infrastructure investment gap that has been widening for the last several years. Finding additional resources would imply not just a pause, but a further deviation from the fiscal consolidation path, mandated under the law. If the government can ensure efficient use of additional resources for infrastructure building, a deviation from the fiscal consolidation path can be justified. Also, a widening of the deficit to pump-prime the economy can be justified when quarterly economic growth has almost halved over a period of 18 months.

Budget 2020, thus, may be remembered and judged by what it does on the expenditure front. Don't underestimate the significance of the appointment of T V Somanathan last week as the new expenditure secretary in the finance ministry. For two years, between 2015 and 2017, he was in the Prime Minister's Office looking after the implementation of economic policies. In the following two years, he oversaw Tamil Nadu's finance and commercial taxes department. What he now does for the Centre's expenditure plan will be keenly watched.

Cans and Kants of incredible India

BOOK REVIEW

T C A SRINIVASA RAGHAVAN

In this book Amitabh Kant, an IAS officer of the 1980 batch, has laid out what India needs to do to become "a world beating nation". That brings to mind a story about Atal Bihari Vajpayee when he was prime minister.

A story used to be told about the question he asked a representative of McKinsey who had just finished making a presentation on how to make the Indian economy gallop.

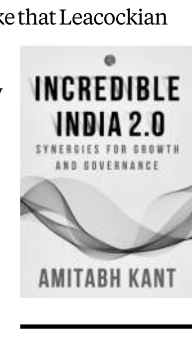
Vajpayee heard him out, thought for long time, and asked the multi-crore question: *par yeh sab hoga kaise* (how will all this happen)?

This is a question one can ask of Mr Kant also. The to-do list he has laid out is extensive, a sort of 11th plan document, mercifully in 225 pages instead of two volumes of 400 pages, each of which would be written in what I call *haute* bureaucratese.

The brevity and clarity of Mr Kant is, therefore, welcome. But the Vajpayee question remains: *yeh sab hoga kaise*? Mr Kant is bubbling with ideas. So, it is a good thing he has chosen a blog/editorial/column format to express himself. There are 37 chapters on different topics in the book. Each chapter is, therefore, of about six pages. That makes it easy to read.

But this approach doesn't help with prioritisation. Which six of the 36 focus areas — leaving out the introduction — must we start reforming first?

I have picked three from his 36 so that he doesn't appear like that Leacockian hero who "rushed madly out of the room, rushed madly on to his horse, and rushed madly off in all directions".



INCREDIBLE INDIA: Synergies For Growth And Governance
Author: Amitabh Kant
Publisher: Rupa
Price: ₹595
Pages: 225

One at a time, please

These three priorities are administration, judiciary and nutrition. Even within these, I would say nutrition must be the absolute first priority by a mile. A billion people with an average IQ of 80 are borderline idiots. They won't achieve anything.

Mr Kant has a lot to say about these three areas, in fact too much. It would be better to pick one thing and focus on that for five years before bringing up the rest. It's called the one-run-at-a-time approach in cricket and is usually highly successful in run chases.

The chapter on nutrition, for example, sets out far too many objectives to be pursued simultaneously. To be sure, each objective is important. But again, it is also important to prioritise, because otherwise you run into the old problem of inadequate resources for each category.

Nutrition is not rocket science. It is simply a matter of giving children between the age of one and five a glass of milk and a banana or an egg every day, instead of cooked food that they don't eat anyway.

The funding isn't a problem either if you make this a part of corporate social responsibility and that 2 per cent thing. The corporations would also cooperate happily with such a simple requirement.

The other agency that can be asked to do this are the temples, mosques, churches and gurudwaras because they already have the supply chains in place.

Administration and justice

The chapters on governance and administration, seven in all, in a section called "Governance", make for heartening reading. Mr Kant provides a long and very impressive list of things that have been done, changes that have been made and the efficiencies that have been achieved.

The theme that runs through these chapters is of the use of technology, the innovations such as lateral entry into government and a matching amount of self-congratulation for the NITI Aayog.

But one important element is missing: How does the government propose to deal with the rule-making powers of the bureaucracy, its generally low competence, the protection given to it and the disproportionate rewards bestowed on it at the cost of the rest of us?

As for the judiciary, Mr Kant has again devoted an entire section of four chapters to it. This is a complicated subject involving a lot of deeply philosophical questions. Fortunately, Mr Kant has avoided those and focused on some practical aspects.

The most important of these is the chapter on the economic impact of judgments. He cites the conflict between ecology and growth and says the courts sometimes ignore their own wisdom, namely, the need for balance. He says this problem should be addressed.

True. But to quote Vajpayee again, *yeh sab kaise hoga?*

Business Standard

The Smart Investor

MUMBAI | WEDNESDAY, 18 DECEMBER 2019

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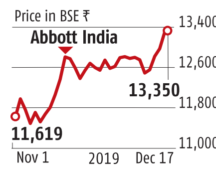
QUICK TAKE: SALES GROWTH POWERS ABBOTT INDIA



The Abbott India stock hit its 52-week high on Tuesday. It has gained about 6% over the last week. Led by its power brands, the company posted 12% growth in November. New product launches and higher volumes should help improve revenue growth going ahead

First half of life — market fluctuates. Second half of life — health fluctuates. Accept the first to have enough money for the next

KALPEN PAREKH
President, DSP Investment Managers

Aadhaar for e-KYC? Brokerages seek clarity

They hope faster onboarding will help them lap up Karvy clients, but there is confusion over use of data, and no clear timeline

SACHIN P MAMPATTA
Mumbai, 17 December

Brokerages are awaiting operational clarity on the use of Aadhaar for Know Your Client (KYC) purposes for signing up clients faster.

They earlier used the Aadhaar database to complete the KYC process online. Industry officials said that the on-boarding process became considerably longer after the 2018 Supreme Court judgment that stopped the use of Aadhaar numbers by companies and private entities.

If the online process is put in place once again, as the market regulator — the Securities and Exchange Board of India (Sebi) — has attempted to do following a central government circular; customer acquisition will become faster, they said.

"A customer can be brought on board in as little as 15 minutes once this is in place," said Jimeet Modi, founder and chief executive officer, Samco Securities.

Satish Menon, executive director at Geojit Financial Services, said: "Currently, the KYC process is offline. If we are allowed online KYC through Aadhaar again, the process will become much smoother."

According to a source, online KYC through Aadhaar may be allowed in a month.

Sebi had issued a circular on November 5, laying down the framework for electronic KYC (e-KYC) through Aadhaar. It had said that this could be done through the use of a KYC user agency (KUA) which involved registration with the Unique Identification Authority of India (UIDAI).

"The Sebi-registered intermediaries/mutual fund distributors, who want to undertake Aadhaar authentication services through KUAs, shall enter into an agreement with any one KUA and get themselves registered with the UIDAI as sub-KUAs... Upon notification by the central government/registration with the UIDAI, KUAs and sub-KUAs shall adopt... (a defined process for) Aadhaar e-KYC of investors (resident) in the securities market," the circular had said.

Another broking source said that there is some ambiguity over the use of Aadhaar despite the recent moves and further clarity may help reduce the time taken in processing client issues.

The abrupt stopping of Aadhaar-based e-KYC and the subsequent government moves have resulted in lack of clarity over the use of data garnered under the old system. There is also no clear timeline available on when the final framework with authenticated KUAs will be in place.

Another form of Aadhaar authentication used by the brokerage industry, eSign, was abruptly stopped last week, according to reports.

A source, who had received a notification for the same, said that brokerages have subsequently been told that services had resumed.

A broking industry source stated that the use of faster onboarding could also help firms lap up clients stranded by Karvy Stock Broking's suspension from the stock exchanges following improper use of client assets. Karvy had over 282,000 active clients as of November, according to the exchange data.

An e-mail sent to Sebi, Karvy, and others did not immediately receive a reply.

A FRESH START

- **Use of Aadhaar** for online KYC stopped after SC order in 2018
- **Central government** moves to restart its use
- **Sebi circular in November** lays down procedures
- **Online KYC through** Aadhaar likely to be allowed in a month
- **This process may help** faster client on-boarding

Sebi sends show-cause notice to PC Jewellers 'insiders'

JASH KRIPLANI
Mumbai, 17 December

The Securities and Exchange Board of India (Sebi) has passed an order in the PC Jewellers insider trading case, demanding show-cause from those whom it identified to have benefitted from price-sensitive information pertaining to the company's buyback announcement and its subsequent withdrawal. It also ordered impounding ₹8 crore from the alleged insiders.

The order names Shivani Gupta (daughter-in-law of PC Jeweller Chairman Padam Chand Gupta), Padam's son and Shivani's husband Sachin Gupta, Shivani's brother-in-law Amit Garg, and Quick Developers (QDPL), where Garg was earlier a director.

The order stated QDPL had used the derivative instruments to benefit from the unpublished price-sensitive information (UPSI).

The regulator said the order should be considered as a notice by the identified insiders and they should furnish show-cause, on why they should not be directed to disgorge the amount equivalent to gains or losses avoided through the insider trading, and why they should not be kept off the securities market.

Also, the identified persons and entities were asked to provide a full list of all of their assets and properties.

Balram Garg, MD of PC Jeweller, was also named in the order for his relationship with the alleged violators and asked to show cause as to why he should not be barred from the securities market.

Sebi observed after the announcement of the buyback on May 10, 2018, the shares of PC Jeweller were locked at the upper circuit of 10 per cent. After the announcement that the board okayed the withdrawal of the buyback, the scrip hit the lower circuit of 20 per cent.

THE COMPASS

Deal wins, margin gains triggers for Tech Mahindra

In the near term, profitability is expected to be under pressure before recovering in FY21

RAM PRASAD SAHU

A large deal pipeline and a recovery in growth momentum for the telecom vertical is expected boost revenue visibility of Tech Mahindra over the next few quarters. The company won deals to the tune of $3.7 billion over the last six quarters and more than half of this was from the communications vertical. Its deal wins were boosted by the AT&T contract in the September quarter. About 40 per cent of the cumulative deal wins over the last six quarters came in Q2.

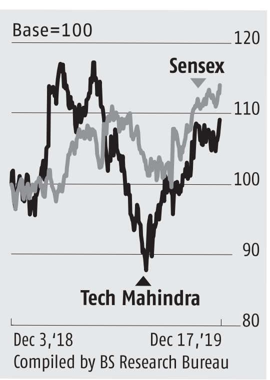
The deal wins and upcoming contracts in the enterprise and communications verticals is expected to help the company achieve a high single digit (8-9 per cent) growth in FY21. Interestingly, while communications continues to dominate its business mix, the management expects its contribution to come down as the enterprise segment witnesses an uptick in deal size.

Within the enterprise segment, barring auto and banking and financial services, the company has doubled its deal pipeline since the start of the year. About 40 per cent of enterprise revenues are in the digital segment, which has grown at 30 per cent plus rates in each of the last six quarters. The company believes that there are opportunities to improve its footprint in verticals such as retail, travel and transportation as well as energy.

While revenue visibility and growth should hold steady, margins are expected to be soft in the near term. Analysts at Centrum Research believe that there are medium-term margin headwinds for the company from transition costs associated with large deal ramp-up. Sector specific challenges in auto segment, too, are expected to weigh on profitability. While FY20 margins are estimated at just under 13 per cent, the management expects margins to recover in FY21 to 15 per cent levels. This is on the back of higher utilisation and automation, gains from the large telecom deal and improvement in recently acquired companies. The Street would keep an eye out for margins, given its implications for earnings growth.

The positive for shareholders is that the company plans to return excess cash of over $600 million ($900 million on books at $900 million currently) to shareholders in the form of dividends and buyback, which should help sentiments.

At the current price, the stock trades at a reasonable 14 times FY21 earnings estimates. While traction in telecom vertical is positive, consistent growth in overall revenues and deal wins are critical for the stock to rerate.



Compiled by BS Research Bureau

Await correction in gold finance stocks

Healthy loan growth, asset quality may help protect RoA, but that's already priced in

SHREEPAD S AUTE

Despite the stress non-banking financial companies (NBFCs) are going through, one segment — gold financiers — has remained an outlier. The stocks of two gold finance majors, Manappuram Finance and Muthoot Finance, have surged 20-39 per cent in the last three months, outperforming the 13 per cent rise in leading indices, such as the BSE Sensex. What's attracting the Street towards this set of NBFCs is their ability to sustain the strong return ratios amid a challenging environment.

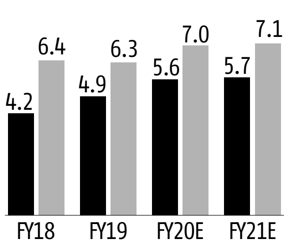
Even in the first half of FY20, i.e. April-September 2019, return on assets (RoA) of both these lenders stood at 5.5-8 per cent levels, against 5-6 per cent in FY19. These lenders are expected to sustain their healthy RoAs. RoA, a profitability measure, is a ratio of profit to average assets of a firm.

Factors, such as good loan book growth which would propel interest income and strong asset quality indicating lower credit cost, would help gold financiers to protect RoAs. According to Shubhranshu Mishra, an analyst at BOB-CAP Securities, "Credit squeeze for micro SMEs (small and medium enterprises) amid the NBFC stress, higher gold prices, expansion of gold financiers in the mass segment, and focus of technology, among others are likely to support the lending growth of gold finance companies."

After losing investor trust post the IL&FS crisis in September last year, funding has become a tough ask for many NBFCs. This is auguring well for gold finance companies, which have been able to successfully raise the money, given the supportive balance sheet structure. This trend is likely to continue at least for the next one year, believe analysts.

The lenders' strategy to increase their footprint in the mass segment in some states in the north improves their medium- to long-term growth prospects.

Among the few caveats though is valuation. With the sharp run-up, the stocks are currently trading around 2 times the FY21 estimated book value (compared to around 1.7 times their long-term historical average and up to 1.5 times in case of many other NBFCs). Thus, a good correction in the stock prices will be a good entry point for investors.



Figures represent return on assets in %
Source: Companies and Bloomberg

KARVY FIASCO

SAT denies relief to Axis Bank over pledged shares, asks it to move Sebi

JASH KRIPLANI
Mumbai, 17 December

The Securities Appellate Tribunal (SAT) has denied relief to Axis Bank in the Karvy case. The private lender had approached the tribunal seeking the shares pledged by Karvy to the bank be unfrozen, so that it invokes the pledges.

On Tuesday, the SAT Bench comprising of Justice Tarun Agarwala, Justice MT Joshi, and Dr C K G Nair, observed that "though the learned senior counsel for the appellant seeks to suggest a solution stating that some of the investors, in fact, owe dues to Karvy and hence, securities to the extent of such dues rightly belonging to Karvy at least could be used by the appellant to invoke the pledge...", the Bench was not in position to ascertain veracity of information made available by Karvy to the bank.

It directed the bank to make a representation before the Securities and Exchange Board of India (Sebi).

Earlier, Axis Bank had pleaded before the SAT that the decision to freeze shares was wrongfully extended to an account where clients actually owed dues to Karvy, and so these shares belong to the broker.

The bank's counsel said in such instance the pledge by Karvy was tenable and the lender should be able to invoke the pledge.

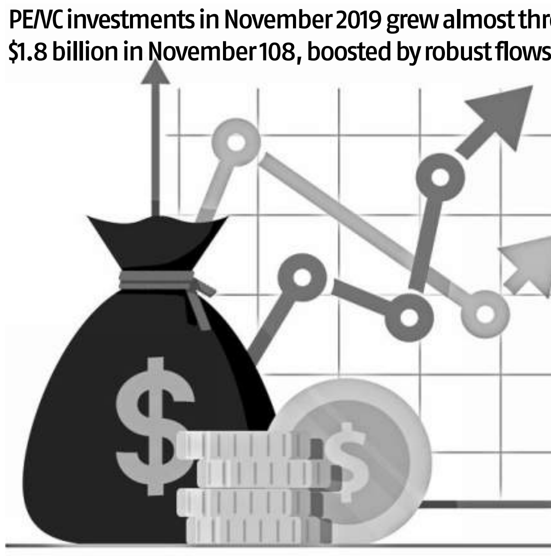
As of December 7, 2019, Karvy Stock Broking owed ₹81 crore to the bank which was given in the form of overdraft against shares.

The National Securities Depository, Sebi, and Karvy Stock Broking were made respondents to the plea. The NSDL move to freeze shares followed Sebi's November 22 interim order that barred Karvy from taking new clients for its alleged client fraud to the tune of ₹2,000 crore.

As of December 7, Karvy Stock Broking owed ₹81 crore to Axis Bank

DRIVEN BY INFRA FLOW, PE/VC INVESTMENTS JUMP 3 FOLDS IN NOV

PE/VC investments in November 2019 grew almost three times to $4.8 billion, from $1.8 billion in November108, boosted by robust flows in the infrastructure sector.



The investment was 50 per cent higher compared to October 2019 ($3.2 billion). Exits recorded $1.4 billion across 15 deals was on the back of a pick-up in open market exits.

Total PE/VC investments in India year-to-date now stand at $44.2 billion, which is 18 per cent higher than the previous high of $37.4 billion recorded in the entire 2018, according to the Indian Private Equity & Venture Capital Association (IVCA)-EY study.

Vivek Soni, partner and national leader for private equity services at EY, said November was a good month for PE/VC investments and he expects the year ending up at the $48-50-billion mark for the year.

"This is a very significant figure. With PE/VC investments at 1.7-1.8% of GDP, we are almost at par with China and the global average for PE/VC investments to GDP ratio," said Soni.

A significant part of growth in 2019 has come from investment flows in the infrastructure and the real estate sectors (one-third of all investments in 2019).

TE NARASIMHAN

	Total PE/VC Investments					Total PE/VC Exits					Fund raised	
	Value ($m)	No. of deals	Real estate ($m)	Infrastructure ($m)	Other sectors ($m)	Value ($m)	No. of exits	Real estate ($m)	Infrastructure ($m)	Other sectors ($m)	Total funds raised ($m)	No. of times funds were raised
Nov-18	1,751	68	723	12	1,016	676	11	283	-	393	398	3
Mar-19	7,049	87	973	2,651	3,424	389	13	-	133	256	40	1
Jul-19	7,459	100	297	4,353	2,809	616	9	68	-	548	545	4
Oct-19	3,237	89	114	1,415	1,709	960	14	-	7	953	403	5
Nov-19	4,856	95	26	278	4,538	1,355	15	-	-	1,355	172	3

Farmers to earn 9% profit over lower kharif, higher rabi output: CRISIL

SILVER LININGS

All states have higher reservoir levels

	% of total live capacity	% departure from normal storage	Irrigation penetration (%)
Uttar Pradesh	66	21	87
Uttarakhand	84	5	47
Punjab	82	31	100
Maharashtra	94	24	19
Rajasthan	100	32	45
Gujarat	95	63	41
Madhya Pradesh	98	31	62
Chhattisgarh	82	27	31
West Bengal	73	64	59
Odisha	93	18	28
Telangana	98	22	39
Andhra Pradesh	99	71	47
Tamil Nadu	98	102	57
Telangana	82	27	43
Kerala	79	10	20
Karnataka	94	30	36

Source: Central Water Commission

DILIP KUMAR JHA
Mumbai, 17 December

Farmers are likely to generate 7-9 per cent more in profit during the crop year 2019-20 (July-June) because of an increase in overall prices of farm commodities on lower kharif yield and higher productivity from rabi crops, according to a study from ratings agency CRISIL.

In 2018-19, farmers had generated 26 per cent higher profit year-on-year over the low base of the preceding year, 2017-18. The latter saw per-hectare profit decline due to low wholesale (mandi) prices following a bumper crop.

"Unprecedented heavy rainfall in September-October would lower kharif crop production by 4 to 6 per cent year-on-year. On the other hand, a 10 per cent above-normal monsoon has filled reservoirs to the brim, which in turn promises to elevate rabi crop productivity and lead to seven-eight per cent higher output.

While lower market supply of kharif foodgrain will push up mandi prices by over 10 per cent, a higher minimum support price (MSP) and government support for wheat (over half of rabi output) is expected to aid price growth for rabi, leading to an expansion in the overall per-hectare farm profitability in crop year 2019-20," said Hetal Gandhi, Director at CRISIL.

The southwest monsoon was 28 per cent below normal as of end-June and nine per cent below normal at end —July 30, leading to delayed kharif sowing. However, quick catch-up in August and September resulted in a 10 per cent above-normal monsoon for the season between June 1 and September 30.

Though sowing gained pace in response to the monsoon's progress, many parts of the country — including Punjab, Haryana, Uttar Pradesh and West Bengal — continued to be dry.

Though sowing gained pace in response to the monsoon's progress, many parts of the country, including Punjab, Haryana, Uttar Pradesh, and West Bengal, continued to be dry

On the other hand, Maharashtra, Madhya Pradesh, Karnataka, Kerala, Andhra, Rajasthan and Odisha had crop damage due to excess rain and floods.

"Overall, the kharif crop output is expected to be four to six per cent lower year-on-year. Thus, shortage in market supplies is expected to keep mandi prices firm – indeed, mandi prices have already shown an upward trend in the past few quarters – leading to higher kharif profits per hectare," said Gandhi.

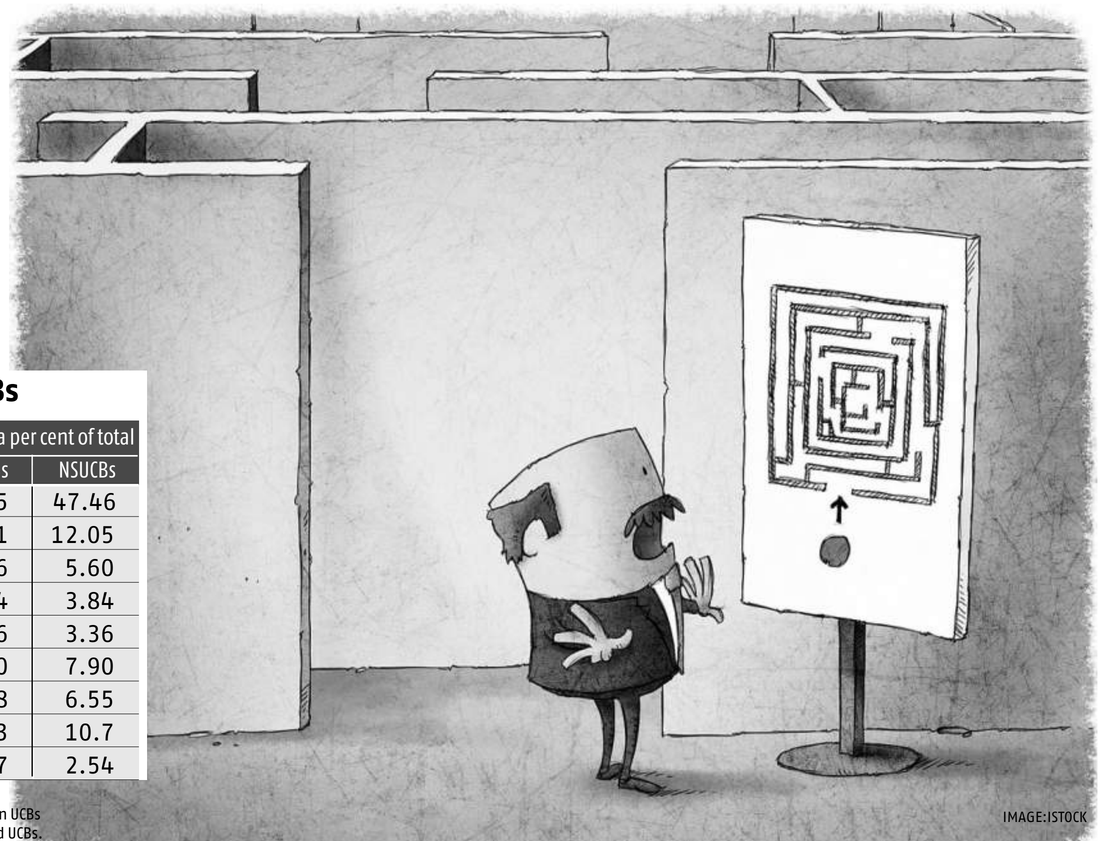
Among crop segments, prices of pulses and oilseeds have shown an increase of 23 per cent and eight per cent, respectively, from the third quarter of 2018 to the fourth quarter of 2019 (the comparison period is odd because of delayed mandi arrivals in 2019).

Prices for cash crops have softened by around 5 per cent, led by a decline in cotton because of an expected increase in output.

Average prices of cereals and coarse cereals inched up 13 per cent because of an 11 per cent increase in paddy prices supported by higher MSP, and a 25 per cent increase in weighted average prices of coarse grain because of high domestic demand.

Who wants to be a banker?

There will not be many takers for small finance bank licences as few are seen making the cut, writes **Raghu Mohan**

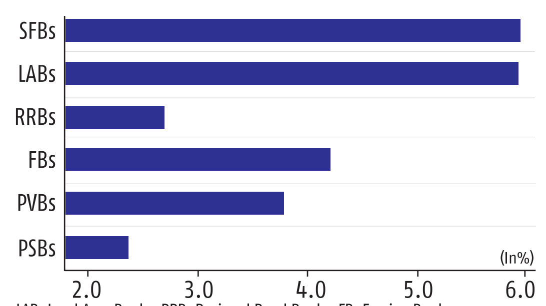


LOAN PROFILES OF UCBs

Range of loans	Amount as a per cent of total	
	SUCBs	NSUCBs
Up to ₹5 lakh	10.75	47.46
₹5–10 lakh	6.21	12.05
₹10–15 lakh	3.76	5.60
₹15–20 lakh	3.04	3.84
₹20–25 lakh	2.46	3.36
₹25–50 lakh	6.90	7.90
₹50 lakh –1 crore	7.28	6.55
₹1–5 crore	23.43	10.7
Above ₹5 crore	36.17	2.54

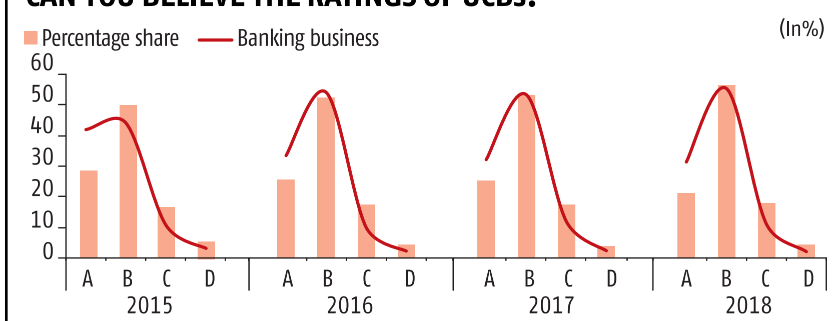
Note: Data compiled as at end-March 2015.
Source: Report of High Powered Committee on UCBs
SUCB: Scheduled UCBs. NSUCB: Non-scheduled UCBs.

SFBs' HIGH SPREADS WILL NOT HOLD



LAB: Local Area Banks, RRB: Regional Rural Banks, FB: Foreign Banks, PVB: Private Banks, PSB: Public Sector Banks; Source: Off-site surveillance returns, RBI

CAN YOU BELIEVE THE RATINGS OF UCBs?



Note: Banking business = deposits + advances.

Ask H P Singh of Satin Creditcare Networks on his small finance bank (SFB) ambitions, and he will tell you: "It is on-tap, and we are in no rush to seek a licence". Singh may not admit to a rethink, but the founder-chairman and managing director of Satin had been the first to go public on such an ambition even before the central bank's final SFB norms were out. You can hold him to it, but he is not in a majority of one when it comes to on-tap SFB licences.

Word is out that there will be relatively few takers for SFB licences compared to the 72 appliacnts who lined up in February 2015. SFB-Version 2 guidelines are seen as restrictive; and if grapevine is to be believed, the central bank may also want it this way! Perhaps it is the reason why the central bank has said that those who are turned down can seek redressal from its board no less! (*see box: Change in procedure for RBI decisions*).

Tough to dribble past

Payment banks or their promoters are eligible to apply only five years after being in business, but the draft guidelines were mum on this aspect. SFB promoters are to hold 40 per cent of the paid-up voting equity capital of ₹200 crore (up from the ₹100 crore in the first round) during the first five years. And despite the lower thresholds in the case of conversion into SFBs by urban cooperative banks (UCBs), few are seen pumping in ₹100 crore for a 26 per cent stake in UCBs.

SFB promoters also have to cut stake to 30 per cent within 10 years; and to 15 per cent within 15 years. This is a departure from the earlier position when they had to reduce it to 30 per cent within a decade, and only to 26 per cent within 12 years. The added worry here is that a promoter's exit will be subject to the central bank's and the Securities and Exchange Board of India's comfort.

"Why should I put in this kind of money if even my exit is not assured, not that I would necessarily want to do so", says a banker. His other peeve is that foreign capital is not allowed like in the case of universal banks. After all, the RBI has allowed a 51 per cent equity stake in Catholic Syrian Bank to Prem Watsa's Fairfax Financial Holdings. Adds the banker: "The central bank says large corporate groups will not be allowed, but also mentions that deciding this will be in its domain. So, am I to touch base with the promoter of a large business group and ask him to back me or not?". And Alternative Investment Funds will also not be allowed to invest.

Not only big corporate groups, but government-owned entities also can't make a play for an SFB licence (India Post which has a payment bank, is technically out of the game). It is surmised the reason for this is over time, state-run banks are to be privatised. So, why create new entities funded by the tax payer? As for professionals, there are not many who have ₹200 crore to set up an SFB with a track record in financial services to boot – which is a must.

In the case of payment banks, it is unlikely the central bank will allow them an easy pass to being an SFB merely because they feel that the current business model is not flying. After all, these players had opted to be one after having done their homework; you simply can't chase what you think is the fashion of the day, and seek a licence for another platform.

Difficult for UCBs too

The big bet was on UCBs making the cut. Mahesh Ramamoorthy, managing director, banking solutions at FIS is polite when he says: "There could be an issue with UCBs converting to SFBs. The financials of UCBs may be a cause for concern" even as he adds: "But it is also true that some of the smaller and better-run ones may make the cut given the niches they work in".

While the new norms for UCBs on the cards will force them to either comply with the Banking Regulation Act (1949) or remain within the exclusive fold of the Registrar of Co-operative Societies (RoCS), it is their financials which are in question.

The RBI's report on The Trend and Progress of Banking (2017-18) says 36.17 per cent of scheduled UCB loans are in the largest ranges between ₹1 and ₹5 crore and above ₹5 crore. Punjab and Maharashtra Co-operative Bank (PMC Bank) alone had an exposure to HDIL of ₹6,500 crore, or 73 per cent of its loan-book of ₹8,880 crore. There is nothing to suggest that other UCBs may not have large exposures well above the ranges mentioned by the central bank. It is more worrisome because the figure of 37.17 per cent was taken from the R Gandhi Committee report which had compiled the data for FY15! Simply put, systemic data on UCBs in public domain can be questioned as on date. Or the ratings of these banks with a large number of them falling in the À' to 'C' categories, according to the central bank.

Through the maze

So, what are you to make of the SFB on-tap licence policy? The central bank is essentially mainstreaming entities, be they microfinance institutions (MFIs), or UCBs. "If they succeed as SFBs, their desire to become a universal bank is to be considered anyway. Basically, the flight-path is clear for them", says Sanjoy S Datta, Partner-Deloitte Financial Services (India). Yes, house-keeping appears to be a driver.

You have 1,551 UCBs (54 of which are in the scheduled category), 56 regional rural banks, 96,612 rural co-operatives, plus three local area banks (which can also aspire for an SFB licence). All of them were set up to meet the needs of financial inclusion at various points in time, but time is now being called on these experiments. Then you have a dozen state-run banks (after taking into account the mergers which are to be effective April 1, 2020), 21 private banks, 45 foreign banks, 10 SFBs and six payment banks. There is no way any central bank can keep an eye on so many entities — whether regulated and supervised solely by it or not. The blowout at the Infrastructure Leasing & Financial Services, PMC Bank, and the ensuing change in regulations have rearranged the chessboard completely.

Says Supreeta Nijjar, vice-president and sector-head, corporate sector ratings at ICRA: "The liquidity crisis since the last one year and the risk aversion to non-banking financial companies may prompt many of them to explore the SFB model to address the liabilities issue. Hence, we expect strong response for applicants seeking an SFB licence".

But then, getting past the central bank's gates is another matter. Who wants to be a banker?

Change in procedure for RBI decisions

In the guidelines for on-tap SFB licences, an applicant who has not been found suitable for a licence will be informed about the central bank's decision. Such applicants will not be eligible to make an application for a licence for a period of three years. Those aggrieved by the decision of the Committee of the Central Board can appeal to the Central Board of Directors within a month of the date of receipt of communication from Reserve Bank of India (RBI) on an application not being considered. This is a departure from the first round of SFB licences (not on-tap) when nothing by way of redressal was on offer (November 27, 2014). It merely said: "... it may not be possible for the RBI to issue licences to all the applicants meeting the eligibility criteria prescribed above. RBI will adopt a cautious approach in licensing small finance banks in the initial years, and with experience gained, may suitably revise the approach". The point is: Can there ever be a situation wherein the central board committee's decision is overturned by the RBI's central board of directors?

IMAGE:ISTOCK

FASTEN YOUR SEAT BELT

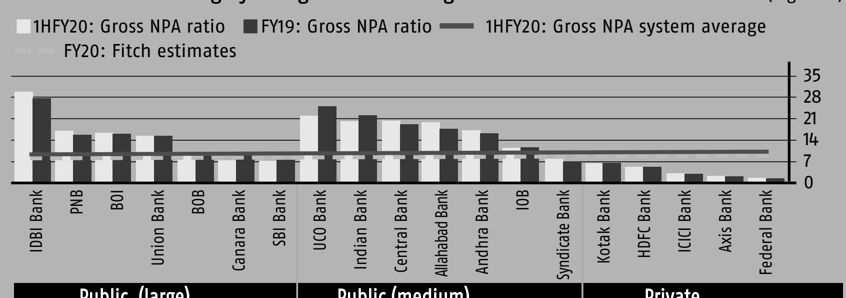
Banks are likely to take significantly more loan write-offs against the backdrop of rising provisions and weak recovery prospects. State-run banks account for a dominant share (around 90 per cent) of the impaired loan stock, and have cumulatively written off nearly $30 billion in bad loans over the past three years.

What is also to be borne in mind is that in the case of state-run banks, their average core equity ratio (CET-1) ratio (it was 10 per cent in 1HFY20) is 300 basis points lower than that of private banks. This implies that systemic stress would deal a significant setback to recovery.

Resolution delays coupled with rising provision cover on large legacy bad loans (nearing 90 per cent) could mean that loan write-offs will continue to be high, particularly for state-run banks. Write-offs were higher than recoveries and upgrades for nine out of 14 such banks reviewed in 1HFY20, while it was the reverse for private banks.

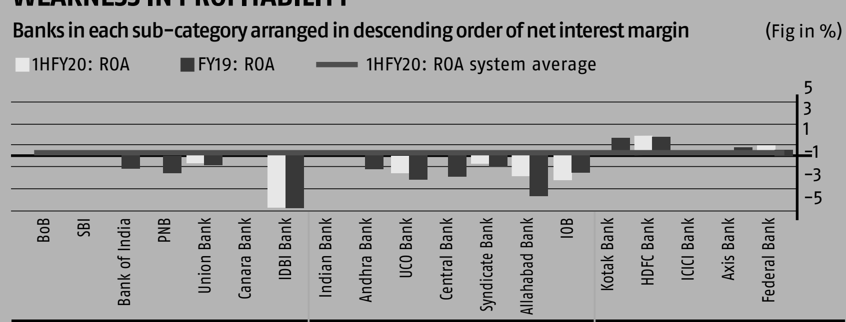
GROSS NPAs A CAUSE FOR WORRY

Banks in each sub-category arranged in descending order of NPA ratio (Fig in %)



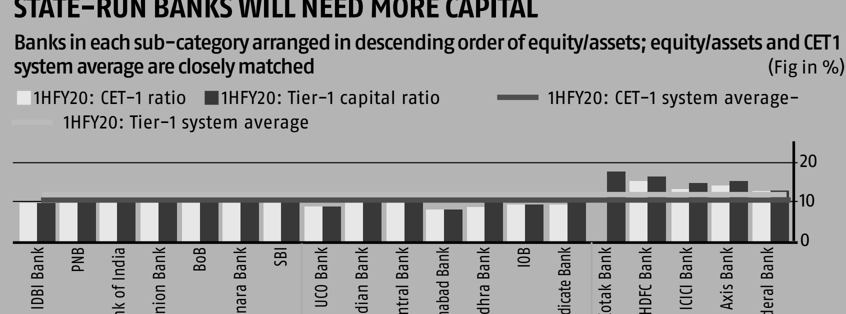
WEAKNESS IN PROFITABILITY

Banks in each sub-category arranged in descending order of net interest margin (Fig in %)



STATE-RUN BANKS WILL NEED MORE CAPITAL

Banks in each sub-category arranged in descending order of equity/assets; equity/assets and CET1 system average are closely matched (Fig in %)



Source: Fitch Ratings

'Assam's MFI crisis may mirror that of Andhra'

Ujjivan Small Finance Bank (Ujjivan SFB) is now getting on to a higher growth orbit after having been listed. It is to widen its suite of offerings, and tailor it to specific segments, some of which are in the "pilot stage". But there is a worry that the developments in Assam can affect its business. Ujjivan Financial Services' founder **SAMIT GHOSH** spoke to ***Hamsini Karthik*** on the crisis in the state and its similarities with undivided Andhra Pradesh's micro-finance industry. Edited excerpts:

Q&A

SAMIT GHOSH
Founder, Ujjivan Financial Services

How do you see the turn of events in Assam as a micro-finance player?

A lot of institutions, the government and Reserve Bank of India (RBI) have been pushing us to go into areas which are less developed. We were predominantly in the South, and went to Assam nine years ago. Bandhan Bank has been there for 14 years. But we knew that the Assam market was very different, and grew that business slowly. Lower Assam is relatively easier from a business point of view. We have 13 branches there and only three in Upper Assam, a hilly area which is economically slightly depressed.

Now, unfortunately post-demonetisation, a lot of microfinance institutions (MFIs) from the north, decided to move to the Northeast and lent very aggressively there. Our total Assam portfolio after nine years is about ₹450 crore. But a lot of the north-based MFIs have built portfolios of ₹500–750 crore in two-and-a-half years. In these regions, you have to be very careful about hiring. When it is run by the local people, the connect with the community is much better. If you start bringing people from all over India and start doing business there, language will be an issue, and you don't have any connect with the community.

The first problem which came up in Upper Assam area was a demonstration against coercive collection practices. Somehow, the Microfinance Institutions Network or MFIN was able to quell it. But at the same time, MFIs have given out loans well beyond their capacity. So sooner or later, it was supposed to blow up. So, I think Assam has ingredients of the problems associated with over-lending and coercive collections.

Do you see a similarity between what's happening in Assam, and in Andhra Pradesh (undivided) almost a decade ago?

It is very similar unless it can be controlled. The big difference is the state government (in Assam) is quite supportive. MFIs have invested in Assam; Bandhan has made a huge investment which is laudable, but if they withdraw, there can be a problem. The government and the RBI are supportive though.

Popular demonstrations are happening in Assam and you can't just write them off by saying that politicians are behind them. Both MFIN and our self-regulatory organisation have to take corrective action. If we are seen to be doing so, then the government and RBI will be more open. Otherwise, when there is a public outcry, they are not going to be able to support us. Hopefully, it will not reach the Andhra (crisis) level. But for now, we are seeing the early signs of stress — that is people not repaying on time; the 30-day past-dues have gone up in Upper Assam.

How has your experience of taking home, and vehicle loans to your MFI customers been?

We piloted affordable housing products four years ago and it is being scaled up. Thanks to the crisis in the housing sector, we have an opportunity. But we also have to figure out how to do that business as the needs of the rural, semi-urban and urban segments are completely different. We need to design products specifically for these segments. In affordable housing, the other complexity is that the legal environment changes from state to state. As far as electric-vehicle loans are concerned, this is in a very early stage. We feel that electric vehicles are going to be the next growth area for us. We are still trying to put systems in place, and have identified small businesses, traders, salaried employees, smaller institutions, etc., which are not being properly served by the banking system.

> "THE RETAIL LENDING BUSINESS HAS A THREE-YEAR CYCLE. AS THE SEGMENTS WE SERVICE INCREASE AND WE MOVE TO INDIVIDUAL LOANS, NON-PERFORMING ASSETS WILL RISE"

But this is also what some of the banks are doing...

This segment is not being served by banks. We are not getting into what HDFC Bank and others are doing; it's a different segment of customers. These customers were getting loans from non-banking financial companies and their financing needs are still largely met by the unorganised sector. We're not trying to compete with HDFC Bank, Axis Bank or a Kotak Bank – they are focused on the mass-affluent. To a certain extent, HDFC Bank is also trying to get into this segment, and we will compete with it as it doesn't have strength in this segment.

How long is it going to take for the businesses to mature and for us to talk about delinquencies and the like?

The retail lending business has a three-year cycle. As the segments we service increase and we move to individual loans, non-performing assets will rise. Group loans are very demanding — you have to meet customers on a weekly, fortnightly or monthly basis, take guarantees and do other such things. At a certain stage, people don't want all that. If we were to ask you to give guarantees for people, `you'll say, to hell with it. I'm not interested'. As customers' economic well-being improves, they want to move to individual loans. To that extent, credit behaviour will mimic a lot of details. Our only advantage, at this point, is that we would have had a history with that customer.

Tell us about Ujjivan SFB's aspirations of turning into a universal bank?

In two years, we (Ujjivan Financial Services) will have to bring our stake in the SFB down to 40 per cent. SFBs' have a provision that at the end of five years of operations, the promoter can exit subject to RBI being comfortable with it. So, we have to figure out how we will reduce the stake to 40 per cent first. After we finish all this, we will apply for a universal banking licence.

The song *Don't be shy again* from the film is an in-app engagement and a filter for user-generated content on the app

TikTok gets a big screen makeover

With its Bollywood debut, the social media app seeks to move away from the fringes and insert itself firmly into popular culture

T E NARASIMHAN
Chennai, 17 December

It is the blockbuster of the season and the star, sharing screen space with a balding hero, is video-sharing social network TikTok. It flashes up on the screen right at the beginning; one half of the romantic lead couple of the movie *Bala*, Yami Gautam, is a TikTok star and a much sought after mini influencer on the platform and the other, Ayushmann Khurrana, works with a brand she endorses.

When they meet for the first time, Gautam asks Khurrana if they have met before and he replies, "*TikTok pe miley to hai itni baar*," (We have met several times on TikTok). And from then on, the platform is never out of their conversations, their daily lives and the twists and turns their relationship takes. It gets equal billing with the stars on screen.

The *Bala* exposure gives the app mainstream acceptability, says Sandeep Goyal, founder of marketing and media consultancy, Mogae Media. Controversy has dogged TikTok's heels since its launch. Be it the accusation of promoting lascivious videos or spreading fake videos, the social media app has always had the threat of a ban looming large. But that has not come in the way of its 200 million users or the rapidly growing list of brands on its platform.

However, the app's debut on the big screen with Bala marks a shift in the way the brand is being projected. From being the platform that Bollywood markets its movies on and one where Hindi films dominate the videos shared (be it dance steps, cover recordings of songs or dialogues), TikTok is now part of the star cast. It has moved from being on the fringes of mass culture to its centre.

"Tiktok has become the pre-eminent video app of choice for middle India. Now 'officially' being featured in a film that has done exceedingly well, just adds stripes to its already bulging credentialse"

SANDEEP GOYAL
Founder, Mogae Media

Goyal said, "Well the exposure works for both *Bala* and TikTok. For *Bala* it makes the plot and narrative so much more authentic and real. In showing TikTok as a slice of life portrayal, Bala gives it legitimacy. Makes it a part of a cultural nuance that viewers may want to emulate."

It also adds vigour to the marketing of the movie. Hence a song that plays at the end of the movie, 'Don't be shy again' (incidentally the subject of a copyright controversy) melds into an in-app engagement *#DontBeShyAgain* and a filter for user-generated content. According to a spokesperson for TikTok, the campaign clocked more than 550 million views on the platform.

"In India, movies are one of the biggest inspirational forces that encourage users to bring out their creativity and showcase talent. Our users not only consume content but create as well," said the spokesperson.

With its Bollywood debut, the brand wants to switch lanes, from a platform for pop culture to becoming a pop culture icon. Goyal said, "Tiktok has become the pre-eminent video app of choice for middle India. Now 'officially' being featured in a film that has done exceedingly well, just adds stripes to its already bulging credentials."

Owned by Chinese start-up ByteDance, the average age of a TikTok user in India is 13-14 years "We try looking at unique integration concepts that resonate with another purpose of the platform, which is to create an environment of acceptance and encouragement for people from diverse backgrounds," the spokesperson for TikTok said.

The first step towards doing that was collaborating with brands and Bollywood in India. In the US too, it has followed a similar trajectory. It has recently tied up with actor Will Smith for his latest film release Gemini Man. The #GeminiMan hashtag challenge is inspired by a scene from the film. In India, TikTok began its movie collaborations journey with the Shahrukh Khan starrer, *Zero* last year and since then has worked as a marketing partner for several movies. Regional production houses are also signing up given the cache of language users on the platform.

While these partnerships are growing, the Bala model is also being spread across many formats. For instance, Sony Music has teamed up with TikTok for a music video that has TikTok in the song as well.

FROM PAGE 1

GST Council...

"Some of them require amendments in the law and will be placed before the Council," he added.

He further said that fake input tax credit meant tax lost. Input tax credit is not backed by transaction in goods or services in reality, the official explained.

The Council may also decide to restrict input tax credit under GST to 10 per cent of the eligible amount as against 20 per cent at the moment if the supplier has not uploaded relevant invoices. Besides,the Council may even decide to waive penalty for the defaulters who have not paid taxes for the last two years as a one-time measure. They will be given time till January 10 to avail the scheme.

The Council will also take a look at revenue augmentation measures to be presented by the officers' committee and the group of ministers for "broadening of tax base, additional resource mobilisation and improved tax compliance", another source pointed out. Since the introduction of GST, several rate revision and rationalisation exercises have been done and several other factors such as increase in the threshold limit for exemption and changes in composition scheme have impacted GST revenue, according to the GST Council agenda document reviewed by Business Standard. "There's a widening gap between the projected revenue collection and the fund requirement which calls for immediate measures for revenue augmentation," the agenda document says.

M S Mani, partner, Deloitte India, said the decline in collections compared to the targets may lead to several anti-evasion measures. Minister of State for Finance Anurag Thakur, in his reply in the Rajya Sabha, during the monsoon session had stated that ₹44,466 crore worth of GST fake invoice fraud was detected in the last two years.

Unilever...

"With no material impact from steps taken by the central government, rural growth has continued to decelerate sequentially," he added.

Market research agency Nielsen has already forecast a low single-digit FMCG growth rate for the October-December period versus mid-single-digit growth seen in July-September for the market. The research agency also said rural growth had crashed to a seven-year low in the September quarter to 2 per cent and that weakness would remain in the subsequent months as well.

HUL derives 40 per cent of its sales from rural areas, higher than the industry average of 33-35 per cent, exposing it to a greater risk than other companies, sector experts said, if rural consumers curb spending. Which is why Sanjiv Mehta, chairman and managing director, HUL, had indicated in October that income transfer to rural areas would be a key monitorable. "The reason for the moderation in FMCG growth rates is due to the slowdown in rural areas. It is sharper than in urban areas and while the government has taken key policy initiatives in the last few months to spur demand, how this pans out in rural areas would be something to watch out for," he had said.

Jet lenders...

However, Synergy will have to re-submit EoI as the CoC did not give it an extension to file the final resolution plan. Synergy's draft business plan had certain conditions for investing in Jet, one of them being the issue of slots in domestic market and international routes like London, Heathrow and Amsterdam.

Synergy also wanted clarity from the Ministry of Civil Aviation (MoCA) on the slots that Jet was allotted and if those will hold if it takes over the company.

The ministry of civil aviation (MoCA) and the Directorate General of Civil Aviation have clarified that winter allotment of slots till March 2020 has been completed, while slots for the summer schedule are still open. Only Air India has been allotted summer slots till November 2020.

However, MoCA has said that once they get a business plan from Synergy Group, they will then consider allocation of slots to Jet Airways.

The RP also informed NCLT that a representative from the Synergy Group will appear before the NCLT on December 19 to clear doubts of the tribunal. The tribunal wants to understand how serious Synergy Group is in reviving Jet Airways.

Forensic audit...

Introduction of the Insolvency and Bankruptcy Code (IBC) has contributed to all this too. With IBC around, demand for forensic audit has gone up among independent directors, banks and resolution professionals. "Companies are looking for more specific assurance products. Audit has fallen short around fraud and going concern nature where companies went bust for reasons other than fraud without any warning," said Vishesh Chandok, CEO, Grant Thornton India. As for the rise in cases of fraud, experts believe the economic slowdown has had a role. "People have taken shortcuts. Increasingly, there's a lack of tolerance and people are speaking up against such practices," Vaidya pointed out.

That enforcement agencies have been active has added to the whole piece, analysts said. Revised laws, for example, have made the Special Fraud Investigation Office (SFIO) more powerful, allowing it to even arrest an offender. "Regulatory tightening has improved and there's a fear of corrective action. Data mining has also become simpler, making detection of fraud easier," said Pavan Kumar Vijay, founder, Corporate Professionals.

Responding to the changing demand, audit firms have been ramping up their forensic teams. Many have seen a near doubling of strength in the last two years alone. Forensic & Integrity Services, EY India, for instance, had 100 employees in 2011. It's 800 in 2019. Deloitte's forensic team has about 1,000, up four to five times since 2015.

In many cases, forensic tools are being used in statutory audit. "The mindset of a forensic audit, which differs from a statutory one - is being increasingly put to use. This means developing a higher level of scepticism, IT skills to use data effectively and to point gaps," a senior auditor said.

Advance corporate...

The government reduced the corporation tax rate for existing and newly incorporated companies to 25 per cent and 15 per cent, respectively, in late September, after the September 15 deadline for advance tax payment was over. However, many companies have not yet taken a call on the new rate structure.

The official data released by the government showed the country's gross domestic product (GDP) growth in the July-September quarter of 2019-20 slowed to a 26-quarter low of 4.5 per cent.

About 45 per cent of collection comes from advance tax and the rest from TDS (tax deduction at source) and others.

Advance tax is filed by the 15th of third month of every quarter. Assessees falling within the ambit of advance tax payment are required to pay 15 per cent of the calculated tax liability in the first quarter, 25 per cent in the second, and the rest in equal instalments in the remainder of the year.

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Medium:
★★★
Solution tomorrow

HOW TO PLAY

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