COMMENT

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RBI likely to cut rate by 25-35 basis points

India's July–September real GDP growth slowed sharply to 4.5 per cent year-on year (YoY) (vs. 5.0 per cent YoY in April–June), in line with our estimate. While a weak GDP print was expected, as already indicated by the trend of various high frequency growth indicators, the slowdown in nominal GDP growth to 6.1 per cent YoY in July-September (from already a weak 8.0 per cent YoY outturn in April-June) was particularly striking. After all, nominal GDP growth matters more for corporate sector profitability and deficit-debt dynamic. GDP deflator moderated to 1.5 per cent YoY in July–Sep, from 3.0 per cent YoY in April–June, led by exceptionally low WPI inflation during the quarter (0.9 per cent average).

Real GDP growth has averaged 4.8 per cent YoY in 1HFY20, as against India's potential growth rate of about 6.5–7 per cent. While growth may have bottomed in July-September, the recovery is expected to remain shallow in the quarters ahead, despite a positive base effect. Core sector data recorded a 5.8 per cent YoY decline in October (though partly due to Diwali holiday related distortions) and even with some improvement in November–December, industrial sector activity is likely to remain muted. We expect October-December real GDP growth to be slightly below 5 per cent, thereafter rising to 5.5 per cent YoY in January-March. According to our forecast, real GDP growth will likely average about 5.2 per cent in 2HFY20, which should lead to a full-year growth of 5 per cent in FY20.

RBI's projection for July-September growth was 5.3 per cent YoY and 6.6–7.2 per cent YoY for 2HFY20, leading to a full-year growth estimate of 6.1 per cent for FY20. These forecasts will surely be revised downwards, probably somewhere between 5–5.5 per cent, and the Monetary Policy Committee (MPC) will likely acknowledge that the growth recovery in the coming quarters is also expected to be shallow. We have a growth forecast of 6.2per cent YoY for FY21, but even then output gap will likely remain negative for most of next year.

RUN -UP TO MONETARY POLICY REVIEW

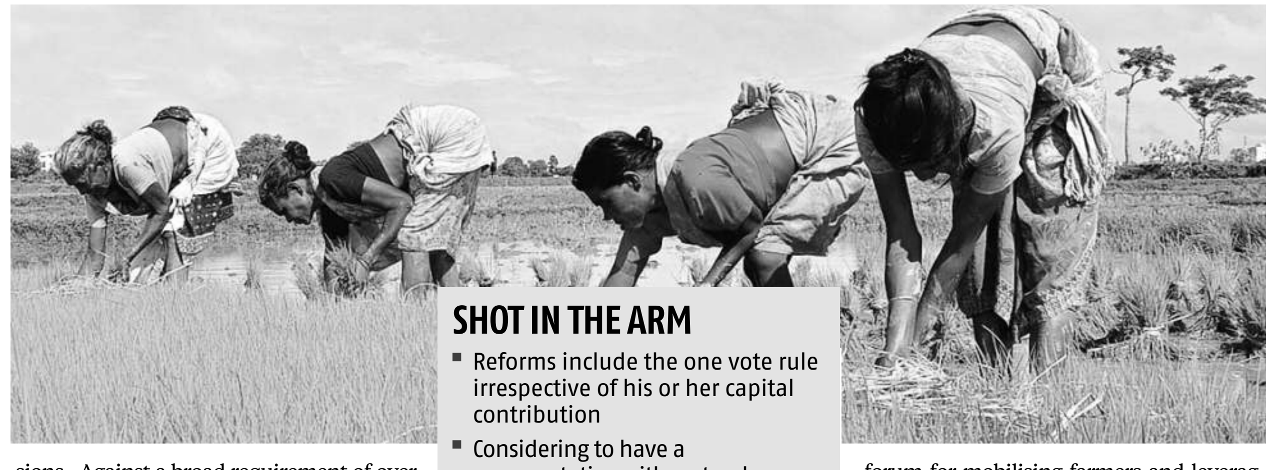
While it will take time to sort out the non-banking financial companies (NBFC) sector issues, and with little space to provide support from the fiscal front (without breaching the fiscal deficit target materially, which can have negative consequences as far as ratings outlook and debt dynamics are concerned), the onus will likely fall on the monetary authorities to support growth, by reducing interest rates further. While CPI inflation has moved to 4.6 per cent YoY in October and probably will rise a bit more in November, due to higher food prices, it will likely come back to the 4 per cent mark by March–April of next year. The RBI will probably increase its inflation forecast (3.5–3.7 per cent range) by about 70–80bps for 2HFY20, but will also acknowledge the drop in core CPI inflation to 3.5 per cent in October (3.2 per cent without gold) and a particularly weak GDP deflator (1.5 per cent YoY in July–September).

Given the current weak GDP data (80bps lower than RBI's forecast), we expect RBI to cut the policy repo rate by 25 bps on December 5, though we do not rule out the possibility of a larger cut of 35 bps. Based on a simple Taylor Rule formula, we forecast the terminal repo rate to be 4.5 per cent in this cycle, which implies another 65 bps additional rate cuts to be delivered over the next few policy meetings.

Views are personal

A leg-up for FPCs on the cards

Centre is thinking of making capital and expertise easier so that farmer-producer firms can mobilise farmers and leverage their produce



RUCHIKA CHITRAVANSHI & SANJEEB MUKHERJI
New Delhi, 1 December

Farmer-producer companies could receive more benefits if the Centre goes ahead with reforms to make them a more effective tool to help farmers by allowing them more access to capital and helping them multiply.

The Ministry of Corporate Affairs is seeking inputs from the states on how these companies can get capital more easily and improve profitability.

The idea is not just to encourage farmers to get more value for their harvest but also give a boost to the organised sector. The Ministry wants to liberalise the current regime for producer companies in the Companies Act.

"We want these companies to be able to raise much more capital than they have access to now. There are issues and limitation in the current law...One of the indicators of growth will be an increase in the number of companies. We will try to remove the roadblocks," a senior government official told *Business Standard*.

Farmer-producer Organisations (FPOs) or Companies (FPCs) are collectives which are formed under Section 25 of the Companies Act and governed by its provisions. Against a broad requirement of over 60,000 FPOs, India has managed to create just around 4,000 of them in the past decade.

Some of the issues that are being considered for reform include the one vote rule which gives each member of the board a single vote irrespective of his or her capital contribution.

FPCs also do not get access to the capital market and the Ministry believes this may be a constraint on raising funds.

One of the suggestions being considered is whether the board of FPCs should have a representative with sectoral or technical expertise. Currently, only farmers are allowed to be part of the board. If required, the government can allow universities or people with technical expertise to be part of the board to provide some 'hand-holding' to farmers.

"The best hand-holding can be provided by the professional resource institutions and there is a need to allocate more resources to them so they can provide continuous support to the FPOs and FPCs," said Ashis Mondal, Director of Action for Social Advancement.

SHOT IN THE ARM

- Reforms include the one vote rule irrespective of his or her capital contribution
- Considering to have a representative with sectoral or technical expertise in the FPC Board
- Might ask the states to provide seed funding for a minimum shareholding on a temporary basis

The Ministry might also consider asking the states to provide seed funding for a minimum shareholding on a temporary basis. "If infusing capital is the issue, then the government can do it by providing equity grant support as currently done by the Small Farmers' Agribusiness Consortium (SFAC) up to ₹15 lakh. This limit can be increased, it can be made performance-based," added Mondal.

Although FPOs have been around for more than a decade, they received a fresh impetus in 2013 when the Agriculture Department issued a national policy and guidelines for them. The policy recognised them as the most appropriate institutional forum for mobilising farmers and leveraging their production and marketing strength.

This was followed up with the setting up of a credit guarantee fund of ₹100 crore for FPOs in the SFAC and also a matching equity grant of ₹15 lakh to all registered FPOs by the UPA government to enable them to leverage working capital from financial institutions.

The second big push came in 2015 when the National Bank for Agriculture and Rural Development issued its own guidelines for the promotion of FPOs. Then, in the 2018-19 budget, the government announced an income tax holiday for the first five years for FPOs up to a total annual turnover of ₹100 crore. Till then, FPOs were taxed at the rate of 30 per cent.

However, despite these measures, FPOs still haven't managed to replace cooperatives as the main instrument for farmer collectives and a key reason seems to be the lack of easy financing solutions, restrictions on their operations in *mandis* and the absence of proper guidelines for growth.

MMTC to buy 11,000-tn onion from Turkey

PRESS TRUST OF INDIA
New Delhi, 1 December

State-owned trading firm MMTC, which is importing onion on the behalf of the Centre, has placed an order of 11,000 tonnes of onion from Turkey as part of its efforts to boost domestic supply and ease soaring prices, sources said.

This is the second import order placed by the MMTC. The public sector firm is already importing 6,090 tonnes from Egypt.

Last month, the Union Cabinet approved importing 1.2 lakh tonnes of onion to improve the domestic supply and control prices that have skyrocketed to ₹75-120 per kg across major cities now. The Centre has already banned exports and imposed stockholding limit on wholesalers and retailers for indefinite period.

According to sources, MMTC has contracted 11,000 tonnes of onion imports from Turkey and the consignments are expected in January next year. The company had placed an order for the first consignment of 6,090 tonnes of onion from Egypt which will be arriving at Nhava Sheva (JNPT), Mumbai in the second week of this month. The imported onion is being offered to state governments for distribution at the rate of ₹52-55 per kg excluding Mumbai, and ₹60 per kg excluding Delhi.

A panel of ministers, chaired by Home Minister Amit Shah, has already been constituted, to monitor onion prices. The Finance minister, consumer affairs minister, agriculture minister, and road transport minister are also members of this panel. A Committee of secretaries (CoS) and Consumer Affairs Secretary Avinash K Srivastava is also constantly reviewing the situation.

Onion prices remain high across the major cities of the country as the average selling price ruled at ₹75 per kg on Saturday (November 30) while the maximum rate of ₹120 per kg was recorded in Mayabunder, according to the data compiled by the Consumer Affairs ministry.

FROM PAGE 1

Telecom firms...

In a massive blow to telecom companies, the apex court, on October 24, allowed the central government to recover ₹92,641 crore in AGR from telecom operators, including Bharti Airtel, Vodafone Idea, and Reliance Jio.

The apex court ordered the telecom companies to pay as much as ₹1.4 trillion in past statutory dues after considering non-telecom revenues for their calculation.

The companies are seeking waiver of interest and penalties on the dues and extended payment timelines instead of three months mandated by the SC.

However, in a relief to telecom companies, the Union Cabinet on November 20, 2019, announced a ₹42,000-crore package to debt-laden telecom companies after it agreed not to take any payments for spectrum they use for the next two years.

It approved giving Bharti Airtel, Vodafone Idea, and Reliance Jio the option to avail a two-year moratorium on payments they were supposed to make in yearly instalments for the spectrum bought in auctions.

Effectively, the benefit accruing to Bharti Airtel will be about ₹11,746 crore, Vodafone Idea ₹23,920 crore, and Reliance Jio ₹6,670 crore.

Power demand...

POWER SUPPLY GROWTH (%)

	2015 vs 2014	2016 vs 2015	2017 vs 2016	2018 vs 2017	2019 vs 2018
Jan	3.29	6.53	3.87	6.45	-0.69
Feb	5.91	9.61	0.31	2.99	1.04
Mar	2.01	11.78	5.78	3.68	1.21
Apr	-0.52	14.59	3.84	0.71	5.17
May	6.01	4.72	11.7	-0.46	5.38
Jun	1.32	8.11	0.2	6.66	8.58
Jul	3.54	1.57	3.7	4.68	5.56
Aug	5.61	0.12	7.81	3.04	0.39
Sep	11.42	1.82	5.15	5.69	-2.89
Oct	8.69	-3.06	7.89	10.33	-12.88

Source: Central Electricity Authority's power supply position reports

While the extended monsoon might be the reason for low demand in September and October, it was lower than the government's forecast since January this year.

In the past five years, there has never been a situation where demand has fallen in all months against planned energy generation.

Programmed energy generation is the anticipated demand for the year, depending on the economic growth forecast, while the actual demand is reflected in the power distribution companies' (discoms') purchase from generators.

Sector experts point out states are not buying in line with the demand but only as much as they can prepay the generation companies for. Buying less than what is programmed could indicate less supply to consumers and power cuts.

India does not maintain household/city-level data for power supply and outages. The Urja Mitra portal, launched by the Ministry of Power to track them, shows 99 per cent average all-India power availability. It does not show district-wise outages and average household supply.

The Centre in June announced that discoms would mandatorily prepay power generators through a letter of credit (LC) issued by banks.

The energy demand fell by 0.33 per cent the following month, and it tanked 6.46 per cent over the previous year when the new regime kicked in August. The gap widened in October to 14.35 per cent.

On top of it, no bank is ready to finance the LC of discoms after they burnt their fingers under the Ujjwal Discom Assurance Yojana (UDAY), said the executive quoted above.

Meanwhile, beleaguered state-owned power discoms are in a fix. Due to economic slowdown, their paying industrial consumers are not buying more electricity and they have to supply more to subsidised rural consumers, which have been newly connected under the Saubhagya scheme.

This newspaper recently reported that major industrial states such as Maharashtra, Gujarat, Karnataka, Andhra Pradesh, and Madhya Pradesh have witnessed a fall in power demand.

"We have reports of factories shutting for one day a week and reduced working hours, which impacts their electricity demand. When the bulk buyer goes missing, revenues of the discoms are affected," said a sector executive.

At the national level, annual all-India power demand growth has hovered around a sub-optimal 2-4 per cent in the past five years. Demand rose by 7.9 per cent in 2018-19 and by 8.8 per cent in 2014-15.

This setback comes within months of India declaring all villages and households (99.9 per cent) electrified. But this has increased the expenditure of the discoms, apart from raising the cost of power. Now with the new compulsion of prepayment over them, discoms are stalling and reducing their power purchase.

Sambitosh Mohapatra, partner, PwC India-Power and Utilities, however, said the positive impact of Saubhagya on revenues was not evident because of a lag in billing and the demand factor.

The efforts of the Centre to turn around discoms have faltered. UDAY, launched in 2015, would conclude at the end of this fiscal year, but could leave the discoms in the red and the finances of state governments in trouble, this newspaper reported recently. The cumulative loss of discoms (21 states) stands at ₹28,369 crore at the end of 2018-19, up by 88 per cent over the previous year.

Some sector experts also cite the shifting load curve of the country due to more efficient supply to agriculture customers.

"Apart from the factors of demand slowdown across specific consumer categories and financial health of discoms, the impact of rainfall and management of demand is possible. With feeder segregation and efficiency measures, the supply for agriculture consumers has evened out," said Mohapatra.

While India has started recording renewable generation only recently, it accounts for barely 4-6 per cent of the energy supply. Experts rule out its impact on the supply-demand gap.

GST mop-up...

The government's monthly GST collection target is around ₹1.18 trillion. Being a festival month, GST collection on domestic transactions witnessed a 12 per cent growth — the highest during the year. GST collection on imports continued to see negative growth of (-)13 per cent, against (-)20 per cent in October.

"This is the eighth time since the inception of GST in July 2017 that the monthly collection has crossed the ₹1-trillion-mark. Also, the November 2019 collection is the third-highest monthly collection since the introduction of GST, next only to April 2019 and March 2019 collections," the Ministry of Finance said in a release.

Pratik Jain, partner, PwC India, said that while the increase in collection was encouraging, it is difficult to read too much into the numbers for one month, particularly because October was also a month of festivals. "We need to see what the trend is. The Centre has taken steps in the right direction by simplifying compliance, going after tax evaders with more efficient use of technology/data analytics, and not succumbing to the temptation of increasing tax rates. These efforts, coupled with the introduction of e-invoicing from next year, should lead to a gradual increase in GST collections as well, though it would also depend upon the overall economy," said Jain.

Central GST (CGST) collection stood at ₹19,592 crore, against ₹17,582 crore in October. State GST collection was ₹27,144 crore, up from ₹23,674 crore in the previous month. The integrated GST mop-up was also higher at ₹49,028 crore, against ₹46,517 crore in the previous month.

"The festival season in the month of October caused the rise in revenue figures. Moreover, another major reason for the increase in revenue is the insertion of a new provision which allows credit only to the extent of 120 per cent of invoices available in GSTR-2A as maximum input tax credit. This must have forced taxpayers to discharge liability in cash instead of input tax credit, as all invoices are not uploaded by their supplier," said Vishal Raheja, deputy general manager-GST, Taxmann.

In order to plug revenue leaks, the government in October decided to restrict input tax credit to 20 per cent of the eligible amount for an entity if its supplier has not uploaded relevant invoices detailing the payments made.

Lower-than-expected revenues are also putting pressure on the Centre to compensate states for the revenue shortfall. The compensation cess collection stood at ₹7,727 crore during the month, which appears much smaller than the approximately ₹13,000-crore compensation going out to states on a monthly basis. States are up in arms with the Centre over a delay in payment of compensation dues for August and September, which was to be cleared by October under the bi-monthly payment mechanism.

The exchequer is staring at an overall shortfall of over ₹2 trillion for the fiscal year. A 12-member panel comprising officers from the Centre and the state was formed in October to recommend measures for revenue augmentation in GST. The panel is examining a mechanism to plug evasion lacunae and increase rates where necessary.

The steep growth target of 16 per cent for CGST in FY20 will likely be revised downwards in the upcoming Budget in February. The CGST collection target was, in fact, revised downwards to ₹5.26 trillion for the fiscal year, from ₹6.1 trillion estimated in the interim Budget, following a 9 per cent shortfall in the actual collection for the previous year.

M S Mani, partner, Deloitte India, said that crossing ₹1 trillion in a festive month after a few months of tepid collections would act as sentiment booster and help in keeping fiscal deficit under control, hoping the trend continues in the coming months.

The total number of GSTR-3B returns filed for the month of October up to November 30, 2019, was ₹77.83 lakh.

The government is working on measures to plug tax evasion, including data analysis, new return formats, e-way bill, e-invoicing, and mandatory e-ticketing for movie theatres.

Xiaomi, Samsung...

But it has had to compromise on profitability to stay ahead. Globally, the company plans to maintain its net profit margin below 5 per cent, but in FY19, for the first time, it posted a net loss in India.

Analysts point towards the heavy discounts that Xiaomi has been offering to customers as a possible factor. After the big shopping festivals in September and October that led to heavy discounting, Xiaomi is currently having its own shopping bonanza — the Black Friday Sale on Mi.com.

According to Anshika Jain, research analyst at Counterpoint Research, aggressive pricing, consumer offers, and easy financing options on e-commerce portals have benefited brands that are heavily focused on online channels.

Xiaomi, which entered India as an online-only brand, continues to rule the market, with over 40 per cent market share in the online channel. Its in-house e-commerce portal Mi.com alone accounts for 12 per cent of all online smartphone sales.

The combined efforts of Chinese brands in this space took the share of the online channel to an unprecedented 45.4 per cent in the September quarter.

In the online arena, Samsung has been launching online-only brands and exclusive tie-ups since 2017 to break into Xiaomi's turf, but it continues to trail.

Car sales drop...

However, the industry expects things might change in December with another rush of positive sentiment from buyers when the marriage season picks up. "The month, after the festive season, is historically a lean month for the automotive industry. Consumer demand, especially for passenger vehicles, typically picks up in the year-end, that is December. Therefore, we expect December to pan out better for the automotive industry," said Veejay Ram Nakra, chief of sales & marketing, automotive division, Mahindra & Mahindra (M&M).

The company reported a 9 per cent year-on-year decline in its wholesale volumes in November. Its sales of passenger vehicles and commercial vehicles stood at 41,235 units in November, against 45,101 units in the year-ago period. Domestic volumes in this category fell to 38,614 units, while exports were 2,621 units.

That the rural economy is yet to show signs of recovery is evident from M&M's numbers in the farm equipment sector. Domestic tractor volumes fell 19 per cent to 20,414 units. Rajesh Jejurikar, president, farm equipment sector at M&M, however, remains optimistic on the recovery in tractor volumes in the coming months. "With government support on agriculture and the rural sector and healthy reservoir levels due to the above-normal monsoon, we expect good rabi output in the coming months," said Jejurikar.

Rahul Bajaj...

"Hope the government reaches out to India Inc for working out solutions to revive consumption and growth. So far we are all pariahs and the government does not want to hear any criticism of our economy," she tweeted. Other senior ministers however, said there is indeed freedom of expression. "That Rahul Bajaj could stand up to Amit Shah's face, express himself freely, and instigate others to join him clearly indicate that freedom of expression and democratic values are alive and flourishing in India, " said Minister of Housing and Urban Affairs Hardeep Singh Puri.

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Very Hard: ★★★★★
Solution tomorrow

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