ECONOMY

MARKET WATCH

2019 NET FPI INFLOW CROSSES ₹1 TN

New Delhi: Ignoring negative sentiments around falling GDP growth rate and some policy roadblocks, foreign portfolio investors (FPI) seem to have flocked to the Indian capital market in a big way in 2019 with a net inflow of over Rs 1.3 lakh crore. **PTI**

SHARE IN TOTAL CREDIT DOWN FROM 61% LAST SEPT TO 57% IN SEPT 2019: RBI

Slowdown, high NPAs take toll as PSU banks' market share sees 4% decline

GEORGE MATHEW
MUMBAI, DECEMBER 22

PUBLIC SECTOR banks have lost further market share to private banks in the lending business as they curtailed their exposure to stress-prone sectors as part of clean-up exercise and the ongoing slowdown depressed demand for credit.

While the share of private banks in total credit rose to 34.7 per cent as of September 2019 compared with 31 per cent in September last year, the share of public sector undertaking (PSU) banks contracted from 61 per cent in September 2018 to 57 per cent by September 2019.

The outstanding credit of PSU banks showed a rise of just 1.84 per cent from Rs 55.5 lakh crore in September 2018 to Rs 56.6 lakh crore in September 2019, according to data from the Reserve Bank of India (RBI).

The outstanding credit of private banks rose 21.65 per cent to Rs 34.2 lakh crore from Rs 28.1 lakh crore a year ago.

Regional rural banks showed a 104 per cent growth in outstanding credit at Rs 80,000 crore this September as against Rs 40,000 crore a year ago.

"PSU banks were very selective in their lending business following the asset quality review that started three years ago and the ongoing economic slowdown. They are already saddled with huge NPAs (non-performing assets)," said a senior banker with a nationalised bank.

PSU banks account for the bulk of Rs 9.16 lakh crore NPAs of the banking system, as of September 2019.

The state-owned banks had made total provisions of Rs 891,000 crore since financial year 2015-16 with provisions touching Rs 2.86 lakh crore in FY18 and Rs 2.30 lakh crore in FY19, according to data compiled by CARE Ratings.

"This (losing market share) is the result of selective lending undertaken by the government-owned banks, with the intent to curtail the exposures to the stress-prone sectors. Furthermore, private banks benefit from their competitive strengths in risk pricing and operational efficiency, in the retail lending space," said a report by the rating agency.

Furthermore, the announcement of mergers in the public banking space has led to a shift in focus of PSU banks from expanding business to operationalising the mergers.

The ongoing economic downturn and lack of new investments by the corporate sector also led to a deceleration in the growth of credit offtake.

Total non-food credit outstanding posted a small growth of 0.3 per cent to Rs 86.63 lakh crore in the current financial year till October 25, 2019.

Credit offtake by industry declined by 3.4 per cent to Rs 27.86 lakh crore during the same period, according to RBI data.

The central bank had slashed the repo rate by 135 basis points (bps) cumulatively in 2019. However the one-year median marginal cost of funds-based lending rate (MCLR) has declined by only 49 bps.

While the rate cut transmission has failed to keep pace with the repo rate cut by RBI, the demand for credit also dipped due to the moderation in the overall economic growth.

However, lenders have now started to marginally transmit the rate cuts by RBI in their lending rates.

Private banks moved into the retail space much earlier than their public sector counterparts. PSU banks are now focusing on personal, housing, auto loans due to the slow credit offtake by the corporate sector.

"Retail is showing more demand than the corporate. In the retail segment, more demand is coming from housing. In the corporate segment, we have seen demand in very few sectors," said the chief executive officer of a nationalised bank.

As most of the banks have now begun to cut their lending rates in quick succession, creating scope for a spur in domestic demand and thereby incentivising growth in credit, credit growth is likely to be in the range of 8-9.5 per cent year-on-year for March 2020, CARE Ratings said.

The credit growth is, however, contingent on other policy measures that the government would undertake to stimulate demand, it further said.

EXPLAINED

PSU banks see better prospects in retail lending

PUBLIC SECTOR banks were very selective in their lending business following the asset quality review that started three years ago and the ongoing economic slowdown.

As they are already saddled with huge non-performing assets, state-owned lenders are now focussing on retail lending, which is showing more demand than corporate.

NCLAT gives nod to demerger of Reliance Jio, dismisses objections by I-T on 'avoidance and evasion'

AASHISH ARYAN
NEW DELHI, DECEMBER 22

Reliance Jio had sought to hive off its tower and fibre assets into two firms, Jio Digital Fibre Private and Reliance Jio Infratel Private

THE NATIONAL Company Law Appellate Tribunal (NCLAT) has dismissed objections on avoidance and evasion of taxes raised by the Income Tax (I-T) department against a scheme of the demerger of Reliance Jio Infocomm. The Mukesh Ambani-led company had sought to hive off its tower and fibre assets into two different companies, namely, Jio Digital Fibre Private and Reliance Jio Infratel Private.

The I-T department had, however, opposed the scheme and alleged that by seeking to hive off these two units into separate entities and by cancelling the preference shares and instead of turning it into a loan, Jio was seeking to "avoid and evade taxes".

The demerger would also bring down substantially the profit of Reliance Jio, which would, in turn, mean reduction in payment of dividend distribution tax and income tax by the company, the tax department had alleged.

"There are two consequences of such conversion of preference shares into loan. Firstly, the shareholders who are now creditors can seek payment of the loan irrespective of whether there are accumulated profits or not and secondly, the company would be liable to pay interest on the loans to its creditors, which it otherwise would not have had to do to its shareholder," the I-T department had alleged.

Reliance Jio had, on April 2, said that it had transferred the control of its fibre and mobile tower units to two infrastructure investment trusts set up by Reliance Industrial Investments and Holdings Ltd (RIIHL). Subsequently, Reliance Jio Infratel had allocated shares worth Rs 200 crore to Reliance Jio, while Jio Digital Fibre had allocated shares worth Rs 500 crore to the flagship company Jio, as on March 31, 2019, as per a regulatory filing.

The I-T department had in its submissions said that even if it assumed a rate of interest of 10 per cent, the total interest payable on the profits of Reliance Jio would be around Rs 780 crore per year, which would in turn result reduce the company's tax by Rs.258.16 crore each year, thereby "clearly resulting into tax evasion".

"Payment of interest on such huge amounts of loan would lead to reducing the total income of the company in an artificial manner which is not permissible in law," the I-T department had alleged.

The NCLAT, however, dismissed the petitions with an observation that merely because a "scheme may result in reduction of tax liability, it does not furnish a basis for challenging the validity of the same". Earlier this year, the Ahmedabad bench of the National Company Law Tribunal (NCLT) had approved the demerger plan or Reliance Jio. The I-T department had in March approached the NCLT and requested that the matter be taken up sometime in April as March was "very busy period" for the department.

The NCLT, however, refused the adjournment and had passed the order in absence of the tax department on March 20. In its submissions, Reliance Jio had told the NCLT, as well as the NCLAT, that it had no objections to "to being subjected to tax on the transactions under the scheme as per law and that the sanctioning of the scheme would not adversely impact the rights of the appellant (I-T department) in this regard".

'India's crude steel output sees 2.8% fall in Nov'

India's crude steel output fell for the second straight month in November, declining 2.8 per cent to 8.934 million tonne (MT), according to a report by World Steel Association (worldsteel)

9.192 MT India's crude steel output in November 2018

3.4% Fall in India's crude steel output during October 2019; from 9.408 MT in October 2018 to 9.089 MT this October

1% Decline in global steel production in November 2019; from 149.356 MT in November 2018 to 147.791 MT last month

4% Rise in steel production last month in China — world's largest steel producer; from 77.213 MT in November 2018 to 80.287 MT in November 2019

10.6% Fall in crude steel production in Japan; from 8.659 MT in November 2018 to 7.743 MT in November 2019

2.2% Decline in crude steel production in the United States; from 7.399 MT in November 2018 to 7.233 MT in November 2019

0.5% Fall in South Korea's crude steel production; from 5.923 MT in November 2018 to 5.895 MT in November 2019

PRODUCTION IN EUROPEAN UNION NATIONS IN NOVEMBER

Italy	2.0 MT
France	1.1 MT
Spain	1.1 MT

PRODUCTION IN OTHER MAJOR NATIONS IN NOVEMBER

Brazil	2.6 MT
Turkey	2.9 MT
Ukraine	1.3 MT

Source: PTI

AGR dues of telcos, PSUs: Govt yet to seek legal opinion on relief

As per the SC order, dues need to be paid by January 24, 2020

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 22

While the telecom operators have filed a limited review petition in the Supreme Court seeking waiver of interest, penalty and interest on penalty, which comprises 75 per cent of their dues, the non-telecom PSUs have not

THERE'S JUST about a month left for telecom operators and non-telecom public sector undertakings (PSUs) to pay their adjusted gross revenue (AGR) dues totalling more than Rs 3 lakh crore, but the government is yet to take a legal view on the way forward.

According to the October 24 order of the Supreme Court the dues need to be paid by January 24, 2020.

Official sources confirmed the Department of Telecommunications (DoT) is yet to approach either the Attorney General (AG) or the Solicitor General (SG) seeking legal advice so as to be able to offer some relief to telcos which are required to pay Rs 1.47 lakh crore. "No legal opinion has been sought on the issue as of now," the offices of AG and SG said.

While the approach towards telecom operators is understandable, to an extent, what's perplexing is that the DoT has not sought any legal advice on non-telecom PSUs.

These companies together need to pay more than Rs 2 lakh crore either because they hold some form of a telecom licence or spectrum for a part of their operations.

While the telecom operators have filed a limited review petition in the Supreme Court seeking waiver of interest, penalty and interest on penalty, which comprises 75 per cent of their dues, the non-telecom PSUs have not.

However, companies including GAIL, PowerGrid, among others have categorically told the DoT that they owe the government no money and do not intend to pay anything.

According to some officials, what is strange is that even the administrative ministries of the concerned PSUs have not taken up the issue with DoT, nor has there been a constitution of any kind of inter-ministerial body to tackle the issue.

On their part, the telecom operators have been making appeals to DoT for relief. Bharti Airtel chairman Sunil Bharti Mittal recently said he is hopeful that the government will provide some form of relief.

Vodafone Idea chairman Kumar Mangalam Birla has categorically said since the government won the case, it is in the ideal position to take up the matter with the judiciary. Birla added that if no relief comes its way, Vodafone Idea would have no option but to shut shop.

"The big elephant in the room is AGR, which is actually I think something which lies in the court of judiciary. I believe the government can have a dialogue. This was a suit filed by the government against telecom service providers. Since the government has won, it gives them headroom to talk to the judiciary and try to find some solution. I don't know which form or shape it takes," Birla had said earlier this month.

Bharti Airtel, besides its limited review petition, has also filed a supplementary petition, urging the apex court to empower DoT to engage with the operators to discuss timelines and quantum of payment etc.

Even as such appeals have been made by the private telecom operators and strict 'no dues hence no-payment' stance has been adopted by the non-telecom PSUs, DoT — apart from sending notices to pay up the amount on time on self-assessment basis — has even followed up with reminder letters. **FE**

Stake sale to Aramco: RIL counters govt affidavit

PRESS TRUST OF INDIA
NEW DELHI, DECEMBER 22

RELIANCE INDUSTRIES (RIL) has mounted a strong counter to the government petition in the Delhi High Court seeking to block its $15 billion deal with Saudi Aramco, saying "the petition is an abuse of process as no arbitration award has fixed any final liability of dues on the company."

In a counter affidavit, RIL said it was a "falsehood" to say that the arbitration tribunal had passed an award requiring the company and its partners to pay $3.5 billion to the government.

It said the petition is an abuse of process as "it portrays that a sum of money is due and payable under the final award and purports to compute the money payable on a basis neither found in the arbitration award nor disclosed in the petition."

The government, it said, has calculated on its own volition the revised figure of its share of profit from oil and gas production allegedly due by extrapolating the purported finds.

The affidavit came in response to the government moving the Delhi High Court seeking to block Reliance selling 20 per cent stake in its oil and chemical business to Saudi Aramco for $15 billion, in view of pending dues of $3.5 billion in Panna-Mukta and Tapti oil and gas fields.

BRIEFLY

Flight returned to Mumbai due to glitch: GoAir

Mumbai: A Chandigarh-bound GoAir flight from the Chhatrapati Shivaji Maharaj International Airport was diverted back to Mumbai Sunday within minutes of departure due to a technical snag, a source said. The plane, a Pratt&Whitney engine-powered Airbus A320neo landed safely and was grounded for inspection, a GoAir statement said, adding there were 169 passengers on-board. "GoAir flight G8 2506 from Mumbai to Chandigarh did an air turn back to Mumbai due to a technical glitch," it said.

Glenmark recalls ranitidine tablets from US

New Delhi: Glenmark Pharmaceutical Inc, USA said it is recalling unexpired lots of its ranitidine tablets from the US market, after the US FDA flagged them for presence or potential presence NDMA levels above acceptable daily intake levels.

Avanti Finance to soon raise $30-40 mn

Mumbai: Microloan-focused NBFC Avanti Finance is looking to raise $30-40 million in fresh equity from impact investors and domestic financial institutions to fuel growth. **PTI**

Highways sector to see ₹15 lakh crore investments in five years: Gadkari

PRESS TRUST OF INDIA
NEW DELHI, DECEMBER 22

THE GOVERNMENT'S endeavour for world-class infrastructure will continue unabated with commitment to pump in another Rs 15 lakh crore in the highways sector in this five-year term, says Nitin Gadkari, the man in charge of India's infrastructure.

Armed with the new Motor Vehicles Act, e-tolling and instruments like InvIT, for Road Transport and Highways Minister Gadkari "funds have never been a problem or will be a problem" when it comes to highways or infrastructure building. "We have spent Rs 17 lakh crore in the highways and shipping sectors combined in the last five years ... Coming five years will see infusion of Rs 15 lakh crore in highways sector alone to provide world-class roads including 22 green expressways," Gadkari told *PTI*.

The minister said with e-tolling coming into force, the toll income alone will cross Rs 8,000 crore per annum as ever since the FASTag system has been made mandatory at national highways, toll income has seen a jump of Rs 25 crore per day.

IBA to bring framework to address consortium lending issues in April

PRESS TRUST OF INDIA
NEW DELHI, DECEMBER 22

THE INDIAN Banks' Association (IBA), headed by SBI Chairman Rajnish Kumar, will come out with a framework around April to address issues related with consortium lending to industry and finding solution for alternate sources of borrowing for them.

Industry faces problem, particularly in consortium and multiple lending and if even a small NOC (no objection certificate) is required, the borrower keeps going around the banks, so it may take six months or one year or even one-and-a-half years to get the funding, Kumar said at an industry event.

"And the NOC may come or may not come and all your (industry borrower) plan goes for a toss. So there has to be a system in the decision making where these decisions can be taken on time," he said while speaking at the FICCI Annual Convention here Saturday.

And to address these issues, there are two things which are happening, one is at the IBA level and another by Reserve Bank of India to develop secondary market for loan to corporates.

"I have decided to set up a working group that will examine all these issues around consortium and multiple banking lending and see to it that standardisation happens and it becomes hassle free as far as the borrowers are concerned," Kumar said.

"We will try to make an arrangement that if there are some dissenting lenders, how we can give them exit (from consortium of lenders), all these issues will be deliberated. So that is a step you will see next three months or at least from April, IBA should be able to come out with a framework," said the SBI Chairman addressing concerns of the industry regrading borrowing.

He said the working will comprise six members with representatives from public, private and foreign banks.

TOTAL LOSSES FOR A CLUTCH OF INDIA'S TOP E-RETAILERS CROSS ₹17,000 CRORE IN 2018-19

FY19: Mounting expenses extend losses for e-retailers

ASMITA DEY
NEW DELHI, DECEMBER 22

THE TOTAL losses for a clutch of India's top e-retailers — Amazon, Flipkart, BigBasket, Grofers, Swiggy, Zomato, Paytm and OYO — crossed Rs 17,000 crore in the year to March 2019, a 70 per cent jump over losses in the previous year. While revenues rose a smart 80 per cent to Rs 26,066 crore, this was not enough to cover the sharp rise in expenses to a staggering Rs 43,431 crore, up 72 per cent.

Backed by their sponsors, e-commerce players continue to make large investments to win over customers and gain share in what are intensely competitive markets. Not everyone's growing at a breakneck pace and some have lost momentum.

Swiggy, for example, grew revenues by 154 per cent in 2018-19, somewhat slower than the 200 per cent plus in the previous financial year. CEO Sriharsha Majety recently said Swiggy was aiming to generate about 30 per cent of its revenues from areas other than food delivery.

Both Flipkart and Amazon have recorded only a marginal revenue growth in the past two years, but BigBasket fared better in FY19, growing at 69 per cent compared with the pace of 29 per cent in 2017-18, though this was much slower than the 107 per cent rise in revenues seen in FY17.

The large losses don't seem to have deterred investors who believe there's money to be made in India's online market. Internet firms raised $9.13 billion in funding in the nine months to September, a rise of 28 per cent year-on-year, data from Tracxn show.

The losses aren't going away for at least the next two years, given investments need to be made in marketing and infrastructure. As Satish Meena, senior analyst at Forrester Research, points out, e-tailers may have been able to win the first 100 million customers but the next batch will take a lot more doing.

At Zomato, for instance, expenses on advertising and promotions soared to Rs 1,214 crore a 15-fold increase over the spends in the previous year.

Subhendu Roy, partner at AT Kearney, explains that the customer acquisition cost (CAC) is about 20 per cent of sales — 10-15 per cent of price discount and 5-10 per cent of marketing expenses. While CAC may have stabilised for some categories, they are on the rise for emerging categories like grocery.

Typically, e-commerce firms incur four types of costs — cost of goods sold or COGS, (manufacturing, raw materials and packaging), distribution costs, internal expenses and marketing costs. While COGS forms the bulk of expenses, marketing cost makes up over 10 per cent of the overall sales, and distribution costs account for more than 5 per cent of sales, Roy says.

At Swiggy, which has rolled out services in 450 cities, the expenses rose multi-fold to Rs 7,762 crore. Analysts estimate food delivery firms' monthly operating cash burn to be about Rs 200 crore as they offer new services such as on-demand delivery and home-style meal subscription.

Founder and CEO Deepinder Goyal recently said Zomato has been able to reduce its cash burn by about 70 per cent from what it was seven months ago.

As e-commerce firms continue to expand into newer cities and diversify their businesses, they will remain in the red, says Ankur Pahwa, partner at EY.

Meena adds that till a new lot of customers gets accustomed to online shopping, companies are investing in other businesses to retain the existing ones. Flipkart Internet's advertising expenses shot up to Rs 1,141.5 crore in FY19 from Rs 731.3 crore in FY18.

Group CEO Kalyan Krishnamurthy said recently that while business from small towns is growing at 90 per cent, generating nearly 70 per cent of transactions, bigger cities are growing at half the rate.

Flipkart and Amazon jointly hold close to 80 per cent share in the e-tail segment and are wooing shoppers from beyond metros — tier II cities and beyond.

To turn profitable, the companies are adopting two strategies — moving to private labels that make them less dependent on large suppliers and passing on the burden of discounts to brands. **FE**

'INTERNET FIRMS RAISE $9.3 BN IN 9 MONTHS'

■ Large losses don't seem to have deterred investors who believe there's money to be made in India's online market. Internet firms raised $9.13 billion in funding in the nine months to September, a rise of 28% y-o-y, Tracxn data show

■ Backed by their sponsors, e-commerce players are making large investments to win over customers and gain share in what are intensely competitive markets. However, not everyone's growing at a breakneck pace