FRIDAY, 27 DECEMBER 2019
18 pages in 1 section
MUMBAI
₹9.00
VOLUME XXIV NUMBER 96

www.business-standard.com

Business Standard

THE MARKETS ON THURSDAY		Chg#
Sensex	41,163.8▼	297.5
Nifty	12,126.5▼	88.0
Nifty futures*	12,195.8▲	69.2
Dollar	₹71.3	₹71.3**
Euro	₹79.1	₹78.9**
Brent crude ($/bbl)##	67.5##	66.9**
Gold (10 gm)###	₹38,636.0▲	₹345.0

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

COMPANIES P3

SACHIN BANSAL'S NAVI TECH ACQUIRES MAVENHIVE

ECONOMY & PUBLIC AFFAIRS P16

ARMY CHIEF'S REMARKS ON CAA PROTEST LEADERS IRK OPPOSITION

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

OPERATION TWIST 2.0 ON MONDAY

The Reserve Bank of India (RBI) will be conducting one more simultaneous bond purchase and sale in the secondary markets, which has come to be known as India's version of Operation Twist. The RBI, in a notification, said it would purchase 10-year bonds worth ₹10,000 crore, while simultaneously selling four bonds maturing in 2020 for up to the same amount. It conducted such an operation earlier this week on Monday. The next such open market operation (OMO) will happen on Monday. 7▸

THE SMART INVESTOR P12

Scrapped listing weighs on Reliance Retail

Trades in Reliance Retail's unlisted shares are said to have been affected by the announcement of a scheme through which the firm's shares would be exchanged for a stake in the parent company, Reliance Industries. Lower-than-expected valuation for the swap and the dashing of hopes of listing gains are said to have weighed on sentiment, according to unlisted share dealers.

BS SPECIAL ON FRIDAY

2019: GREAT LEAP BACK 17▸
Governance: New ideas of India

COMPANIES P2

GoAir strengthens roster team to avoid disruptions

GoAir, which cancelled dozens of flights earlier this week, said on Thursday it expected schedules to normalise by the weekend. Sources said the airline was hiring in the rostering section. The section, which assigns flights to pilots after taking into account their non-availability, had seen resignations and reshuffle in the past few months.

IT firms stare at $1-bn hit on 737 Max crisis

TCS, HCL Tech, Cyient and Infosys have exposure to Boeing

DEBASIS MOHAPATRA
Bengaluru, 26 December

IT outsourcing contracts of more than $1 billion currently executed by Indian companies are at risk of termination because Boeing has halted the production of its flagship Boeing 737 Max jets with effect from January.

According to sources in the know, major IT firms such as Tata Consultancy Services, HCL Technologies, Infosys, Cyient, and L&T Technology Services have direct exposure to Boeing or its suppliers' ecosystem, which comprises engine manufacturers, body suppliers, and avionics providers.

"Boeing figures on the top ten list of many Indian service providers. So, those players will definitely be affected in the short run. But the larger issue is if Boeing is hit, overall spending in the aerospace segment will also come down," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting.

After temporarily discontinuing the production of 737 Max wide-bodied aircraft earlier this month, the US-based aerospace giant told its suppliers to halt shipments starting from January.

As a sign of the ongoing crisis, the firm earlier this week ousted its Chief Executive Officer (CEO) Dennis Muilenburg as it struggled to win regulators' trust after deadly crashes in Indonesia and Ethiopia.

According to estimates, the aerospace engineering outsourcing market worldwide is estimated at close to $4 billion per year, which is equally contributed by Boeing and Airbus. Of the $2 billion of IT works outsourced by Boeing, Indian service providers get mostly half the deals every year.

Among the global service providers, Accenture and Capgemini lead the list.

Currently, suppliers to Boeing include engine manufacturers like Pratt & Whitney, Rolls Royce, General Electric, and Safran, while body parts of Boeing 737 Max are provided by Spirit AeroSystems and Safran.

Similarly, Rockwell and Honeywell are the major avionics providers to Boeing's programmes.

"Most Indian players have exposure directly to Boeing or to its supplier ecosystem. For instance, TCS, HCL Technologies, and Cyient have direct exposure to Boeing, while Spirit AeroSystem is a client for Infosys," said a person familiar with the outsourcing market.

Detailed emails sent to TCS, HCL Technologies, Cyient, and L&T Technology Services remained unanswered till the time of going to press. Infosys declined to comment.

"Usually outsourcing contracts have safeguard clauses, which are likely to protect IT firms from losses (in the case of termination). But, profitability will definitely be hit in the short run," said Sanchit Vir Gogia, founder and CEO, Greyhound Research.

He, however, added all the suppliers had long-term views about their engagement with Boeing and would overcome this short-term blip.

The Boeing crisis, which has brought down American manufacturing output apart from its trade and sales of durable goods, has a silver lining. Turn to Page 15▸

Bank credit growth may touch 58-yr low in FY20

Likely to plunge to 6.5-7% from 13% in FY19: ICRA report

SUBRATA PANDA & ABHIJIT LELE
Mumbai, 26 December

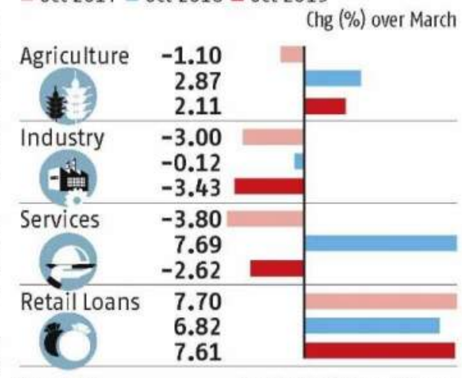
With the Indian economy caught in a slowdown, bank credit is expected to expand at a muted 6.5-7 per cent in 2019-20 (FY20) from 13.3 per cent in FY19, rating agency ICRA said in a report. This will be the lowest in 58 years, mainly on account of lower working capital requirements by companies and risk aversion among lenders.

According to ICRA, even in a high-growth scenario, wherein the second half of FY20 sees the incremental bank credit rise to ₹6.5-7 trillion, there will still be a 40-45 per cent year-on-year (YoY) decline.

As of December 6, 2019, incremental bank credit increased by ₹80,000 crore, whereas banks disbursed ₹5.4 trillion during the same period in FY 19 and ₹1.7 trillion in FY18 (till December 2017).

Bankers said that with private investment practically coming to a halt, there was little demand for corporate credit. While activity may show an uptick in the second half, it will hardly compensate for the extended slowdown seen since the beginning of the year. Companies are battling stress and are deleveraging wherever possible. The retail segment is showing steady growth, but it is not in a position to make up for the slump in the industry segment. Turn to Page 15▸

SECTOR-WISE SCENARIO



Source: RBI
Compiled by BS Research Bureau

Rly hints at freight rate cut

Passenger fares also part of proposed rationalisation

SUBHAYAN CHAKRABORTY
New Delhi, 26 December

The railways may cut freight rates in a bid to boost economic growth, besides "rationalising" passenger fares. While Railway Board Chairman V K Yadav refused to say if passenger fares would see an increase, he hinted that freight rates might be reduced.

"We are going to rationalise the fares and freight rates. Something is being thought about. I cannot divulge more as this is a sensitive subject. While freight fares are already high, our target is to draw more traffic from road to railways in this regard," Yadav said on Thursday.

In September, the railways had announced several incentives to boost freight traffic. These included deferring the levy of busy season charge, waiving the supplementary charges applicable to loading rakes, and introducing the round-trip charge on container traffic.

The railways has been hit hard by the economic slowdown, with earnings from passenger fares dropping significantly. Passenger earnings stood at ₹40,415 crore in the April-December period of 2019-20, according to Rail Drishti, the national transporter's publicly available monitoring platform. Passenger earnings stood at ₹51,066 crore in 2018-19.

The Comptroller and Auditor General (CAG) in its report tabled in the recent Parliament session said the railways recorded an operating ratio of 98.44 per cent in 2017-18, the worst in the previous 10 years. Turn to Page 15▸

THE TEAM BEHIND FM'S BUDGET 2020

Finance Minister Nirmala Sitharaman will present her second Budget in a little more than a month from now. Her team will include Finance and Financial Services Secretary Rajiv Kumar, Revenue Secretary Ajay Bhushan Pandey, Economic Affairs Secretary Atanu Chakraborty, DIPAM Secretary Tuhin Kanta Pandey, Expenditure Secretary TV Somanathan, Chief Economic Advisor Krishnamurthy Subramanian, and Principal Economic Advisor Sanjeev Sanyal. 7▸

$ BOND ISSUANCES SEE FIVEFOLD JUMP

The lack of access to funds for below-top-rated corporates, along with attractive borrowing costs in the offshore market, has driven Indian firms to raise $23.6 billion through dollar bonds in 2019 — a nearly fivefold jump from the previous year. An analysis of the data showed that firms from infrastructure, power, non-banking financial companies, and metal industries issued a slew of such bonds to meet their funding needs in the current year. Domestic players are also using the external commercial borrowings route to tap into offshore liquidity.

JASH KRIPLANI & ANUP ROY report 4▸

After a high comes the sharp slide

MIHIR SHARMA
New Delhi, 26 December

THE DECADE THAT WAS
ECONOMY

The 2010s has been an up-and-down decade for the Indian economy. The country began 2010 on a high — it seemed to have weathered the global financial crisis much better than many of its emerging market peers, and was heading for record levels of growth in gross domestic product (GDP). Since then it has been battered by a slowdown caused by the weakness of its external account, a slow recovery that gained some momentum after the crash in the price of oil following the election of Prime Minister Narendra Modi in 2014, and the twin shocks of demonetisation and goods and services tax. It exits the decade with many problems left unresolved — including that of non-performing assets, which had already begun to build up 10 years ago — and with growth plumbing historic lows, alongside unemployment and investment.

Here are the five people who best represent the story of the Indian economy in the 2010s:

Narendra Modi: The one man who dominated the 2010s in India is, of course, the prime minister, who stamped his personality not just on Indian politics but on the economy as well. Although in his initial election campaign in 2013-14 he spoke of "minimum government, maximum governance", his first term featured a retreat from the market in many ways — especially following Rahul Gandhi's jibe that Modi was running a "suit-boot ki sarkar". Privatisation efforts never really took off, and trade liberalisation went into reverse as India erected tariff walls.

Modi's political capital, his unchallenged authority, and his willingness to take major decisions meant that there were some major steps forward for the economy in his first term — the bankruptcy mechanism, for example, and goods and services tax. But the same instincts also led to inexplicable and damaging decisions such as demonetisation. Turn to Page 16▸

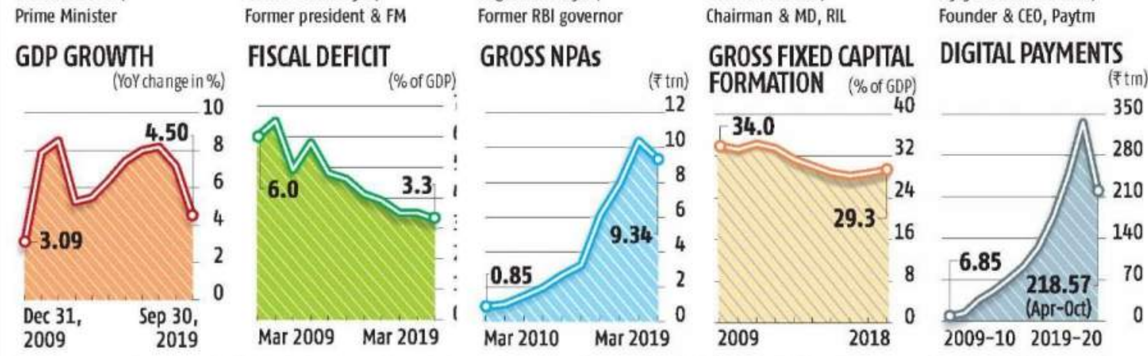

Narendra Modi, Prime Minister


Pranab Mukherjee, Former president & FM


Raghuram Rajan, Former RBI governor


Mukesh Ambani, Chairman & MD, RIL


Vijay Shekhar Sharma, Founder & CEO, Paytm



Digital payments include retail electronic clearing, cards, wallets, mobile banking; Sources: Govt, RBI, World Bank, Bloomberg; Compiled by BS Research Bureau

▸AUTO 2010-2019: SMART DESIGN, SUVS AND THE DEATH OF DIESEL PAGE 18

Yield on LIC investment the least in eight years

KRISHNA KANT & SACHIN P MAMPATTA
Mumbai, 26 December

Poor industrial growth and the downward pressure on bond yields and interest rates have begun to take a toll on the investment portfolio of Life Insurance Corporation of India, probably the country's single-largest investor in fixed income securities and the equity market.

The yield on LIC's investment portfolio declined to an eight-year low of 7.59 per cent during 2018-19, down 12 basis points (bps) on a year-on-year (y-o-y) basis, according to its annual report for FY19. As a result, the spread of LIC's yield over the 10-year government of India bonds shrank to a five-year low of 24 bps in FY19, as against 31 bps in the previous year.

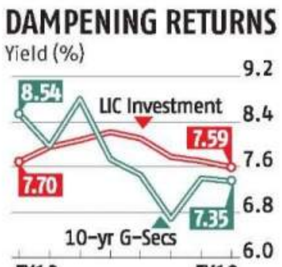
One basis point is one-hundredth of a per cent.

The data suggests that the decline in yield is largely due to slower growth in net income from investment compared to the growth in the insurer's investment portfolio. It had a net investment income of ₹2.2 trillion in FY19 on an investment portfolio of ₹29.3 trillion. In the last five years, LIC's investment portfolio has grown at a compound annual growth rate (CAGR) of 12.8 per cent from ₹16 trillion in FY14 to ₹29.3 trillion in the last financial year. In the same period, the corporation's income from investment grew at a CAGR of 9.3 per cent from ₹1.43 trillion in FY14 to ₹2.22 trillion in FY19.

The insurer mostly invests in fixed-income instruments such as long-term debt issued by the government of India, state governments, and public sector companies. Analysts say the yield on its fixed-income portfolio is highly correlated to the movement in the yield on 10-year government bonds, and largely explains the recent decline in returns for LIC's portfolio. According to the LIC annual report, equity (at market value) got a significantly smaller share in the portfolio.

Deven Choksey, managing director of KRChoksey Investment Managers, said an increase in allocation towards equity could help. Turn to Page 15▸

DAMPENING RETURNS



Note: Yield on G-Secs is the average for the respective fiscal year
Sources: LIC annual reports, BS Research Bureau