Economy

MONDAY, DECEMBER 30, 2019

EXPERT VIEW

Nascent signs of recovery are noted in the form of improved PMIs of manufacturing and services, jump in passenger air traffic and sharp moderation in the decline in sales of passenger cars.

—Vikram Kirloskar, president, CII

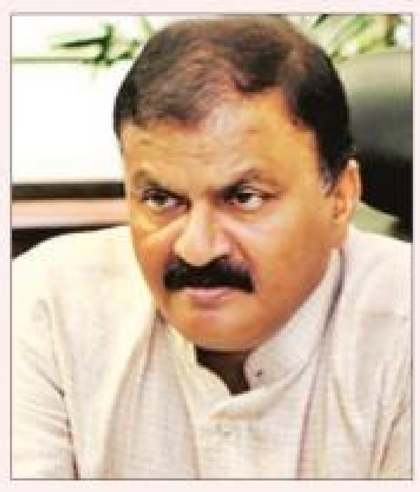
Quick View

PM for promoting indigenous products

PRIME MINISTER NARENDRA Modi on Sunday called upon people to promote indigenous products for the next three years till the completion of India's 75th year of Independence. In his last 'Mann Ki Baat' programme for 2019 aired on the AIR, Modi said, "My dear countrymen, can we pledge, that by 2022, when we achieve 75 years of Independence we insist and remain steadfast at least, for about two-three years on buying local products?"

E-commerce, new industrial policies likely in this fiscal

PRESS TRUST OF INDIA
New Delhi, December 29



DPIIT secretary Gurusprasad Mohapatra

The proposed new industrial policy is aimed at promoting emerging sectors, reducing regulatory hurdles and making India a manufacturing hub

THE DPIIT IS working actively on the e-commerce as well as new industrial policies, and both are expected to be released by the end of this fiscal, a top official has said.

"I personally feel that both these policies will be ready by the end of this financial year," Department for Promotion of Industry and Internal Trade (DPIIT) secretary Guruprasad Mohapatra said. He said that the department has done several round of stakeholders' meetings on both the policies.

The government in February released a draft national e-commerce policy, proposing setting up a legal and technological framework for restrictions on cross-border data flow and also laid out conditions for businesses regarding collection or processing of sensitive data locally and storing it abroad.

Several foreign e-commerce firms have raised concerns over some points in the draft pertaining to data. The department has received huge response on the draft and it is examining all the views and comments. "We are working actively on both the policies," Mohapatra said.

As the draft policy includes several provisions related to data, the department is also looking at the Personal Data Protection Bill approved by the Cabinet earlier this month.

The proposed new industrial policy is aimed at promoting emerging sectors, reducing regulatory hurdles and making India a manufacturing hub.

This will be the third industrial policy after the first in 1956 and the second in 1991. It will replace the industrial policy of 1991 which was prepared in the backdrop of the balance of payment crisis.

The DPIIT had initiated the process of formulation of a new industrial policy in May 2017. The new policy will subsume the National Manufacturing Policy (NMP).

It had also floated a discussion paper on the policy with an aim to create jobs in next two decades, promote foreign technology transfer and attract $100-billion foreign direct investment annually.

FPIs remain net buyers in December

PRESS TRUST OF INDIA
New Delhi, December 29

FOREIGN INVESTORS REMAINED net buyers in December by investing ₹2,613 crore in the domestic markets, mainly due to expectation of a revival in corporate earning, quantitative easing by the US Fed and infusion of funds by central banks globally.

According to the depositories data, a net amount of ₹6,301.96 crore was invested by foreign portfolio investors (FPI) into equities, while ₹3,688.94 was pulled out of the debt segment.

This resulted into a total net investment of ₹2,613.02 crore between December 2 and 27.

"Despite challenges on the economic front and policy road blocks, FPIs continue to have faith in the Indian equity markets ...what has kept them hooked to the Indian equity markets is expectation of a revival in corporate earning in the coming quarter, quantitative easing by US Fed and infusion of funds by central banks globally," said Himanshu Srivastava, senior research analyst, manager research, at Morningstar.

Top 50 corporates cut debt by ₹60k cr in H1

PRESS TRUST OF INDIA
New Delhi, Decelerate 29

TOP 50 CORPORATES reduced debt by ₹59,600 crore in the first half of this fiscal as part of their strategy to deleverage their balance sheets, according to government sources. This had some bearing on the credit growth of the banks as corporates borrowing from domestic lenders has come down, sources said.

In the previous financial year, sources said, these companies had reduced their debt burden by about ₹43,000 crore.

Companies are preferring to raise funds through alternative instruments like external commercial borrowing (ECB), which is available at a comparatively lower rate, sources said, adding that the evolving legal framework, including the IBC, is also prompting India Inc to reduce their dependence on debt.

India Inc's foreign borrowings grew over two fold to $3.41 billion in October over the corresponding month a year ago, as per the latest Reserve Bank of India (RBI) data. Indian companies had raised $1.41 billion in borrowings from overseas markets in October 2018.

Of the total money borrowed by domestic companies, $2.87 billion was through the automatic route of ECB, and $538 million came in through the approval route of ECB.

RBI governor Shaktikanta Das in the foreword to the latest Financial Stability Report said while consumer credit has been growing, wholesale credit growth has been nudging lower as companies and financial intermediaries are deleveraging to improve their business practices.

As per sectoral deployment data for October, non-food bank credit growth was 8.3%, the credit growth to industry segment came down to 3.4% and retail loans rose to 17.2%.

For the current financial year so far, bank credit has grown by just 1.7% as opposed to a growth of 6.7% in the corresponding period last year, as per the RBI data.

DICGC sees ₹14,100-crore claims amid PMC Bank crisis

PRESS TRUST OF INDIA
Mumbai, December 29

THE DEPOSIT INSURANCE and Credit Guarantee Corporation is likely to receive a total claim of about ₹14,100 crore in case of default from cooperative banks amid the massive scam at Punjab & Maharashtra Cooperative Bank, according to the RBI.

However, the regulator in the financial stability report was quick to add that all the claims may not materialise at the same time and some may even revive.

The extent of devolvement on the Deposit Insurance and Credit Guarantee Corporation (DICGC) in the event of all the banks "under direction" or weak banks going into liquidation or ordered to be wound up, would be ₹14,098 crore as of September-end, said the RBI's Financial Stability Report released recently.

PMC Bank inspection report not finalised: RBI

ASHWINI SHRIVASTAVA
New Delhi, December 29

THE INSPECTION REPORT on the financial position of Punjab and Maharashtra Co-operative (PMC) Bank as on March 31 this year is yet to be finalised, the Reserve Bank of India has said.

Replying to an RTI query, the RBI said preliminary findings indicated large-scale irregularities in the bank, warranting supersession of its board of directors and imposition of all inclusive directions of the Banking Regulation Act, 1949.

"The inspection report is yet to be finalised as inspection of the bank with respect to its financial position as on March 31, 2019, is under progress," the central bank said in response to the RTI application filed by this PTI journalist.

The RBI declined to give copies of two complaints received by it regarding "irregularities" in the bank and the action taken on them, citing exemption clause in the transparency law that bars disclosure of information that would impede the process of investigation or prosecution of offenders.

"In view of the ongoing investigation into the bank's affairs by various authorities, an exemption is sought from disclosing the information under Section 8 (1) (g) and 8 (1) (h) of the Right to Information Act, 2005," the RBI said.

The Section 8 (1) (g) bars information "the disclosure of which would endanger the life or physical safety of any person or identify the source of information or assistance given in confidence for law enforcement or security purposes". PTI

Market intervention scheme for J&K apple growers extended

THE CENTRE ON Sunday extended the market intervention scheme aimed at providing optimum price for apple growers in the Kashmir Valley till March next year, an official spokesman said.

"The market intervention scheme has been extended by the Union government till March 2020," the spokesman said.

The plan is being implemented by the Directorate of Planning and Marketing, supported by the Directorate of Horticulture (Kashmir) and Jammu and Kashmir Horticultural Produce, Marketing and Processing Corporation. PTI

From the Front Page

Review pleas: DoT to take call on PSUs' AGR dues after SC order

HOWEVER, THEY have pointed out to the DoT that they do not owe any dues to the government. The last date for making the payments for all set of licensees is January 24, 2020. The telecom operators need to pay ₹1.47 lakh crore as dues and have filed review petitions seeking waiver from paying interest, penalty, and interest on penalty.

The core operations of the PSUs are not telecom but they have telecom licence of some nature or use spectrum for some part of their operations, and hence, are covered under the SC order.

A non-telecom PSU, Gail for instance, now needs to pay around ₹1.83 lakh crore as and has written to the DoT that the department has miscalculated its telecom-related dues.

According to sources, in a series of letter to the DoT, Gail has explained that DoT has taken into account the company's entire revenues while calculating its AGR dues instead of taking only the optical fibre-related revenues. Though the DoT has agreed to look into its representations, going by the SC order, it can do little. The problem is that the telecom-related licences are held by Gail and not by any of its telecom subsidiaries, and therefore, going by the SC order, the entire revenues of the company holding the licence needs to be taken into account to calculate the AGR dues. The dues of Gail, according to DoT, is ₹1.83 lakh crore.

Similarly, another PSU, PowerGrid, which has both a national long distance as well as an ISP licence, has said it has paid whatever is due as per its licence condition and owes nothing more to the government.

"When PowerGrid signed the licence agreement with DoT, it was clear that only telecom revenue would be considered for the purpose of calculation of licence fees...telecom services contribute about 2% to the company's revenue and the company made ₹742 crore in 2018-19 from its telecom business which puts the licence fee at ₹59 crore... PowerGrid would not make any further payment to the DoT and as it had already paid ₹59 crore as licence fee, which is up to date," an official said.

DoT has estimated dues to be paid by PowerGrid at ₹22,168 crore.

Sources said DoT has been meeting the top officials of the PSU firms concerned but no headway has been made so far. Officials have indicated that if the SC accepts the review petitions of the telecom operators, clarity would emerge on the issues involved.

Beating the slowdown: New cars race ahead in 2019

MONTHLY VOLUMES of Seltos kicked off with around 6,000 units in August and touched the 14,000 mark in November, while Brezza sales averaged at around 10,000 units. Manohar Bhatt, V-P & head of sales and marketing at Kia Motors India, said Seltos not only achieved good sales numbers but also received appreciation from several automotive experts. "2019 has been an outstanding year for the company with respect to everything around Seltos," Bhatt said.

Hyundai's compact SUV Venue, which was rolled out in May, gave the competitors a run for their money, with monthly sales averaging at about 9,000 units since launch. This was much ahead of models like Maruti S-Cross, Ford EcoSport, Renault Duster and Honda WR-V, among others, which have been present in the market for around five years. SS Kim, managing director at Hyundai Motor India, said with the new launches, consumers start rethinking if they have planned to hold the purchase. "The reason why we chose to launch all new models during the downturn was because this is exactly the time to excite customers with differentiated products. Customers who postpone their purchase get a reason to visit showrooms again," Kim told FE.

Maruti Suzuki's small car S-Presso, which was launched in September, touched the 10,000-mark within a month, surpassing competitors like Renault Kwid, Hyundai Santro, Tata Tiago and Datsun redi-Go, with a wide margin of over 50%. Renault's Triber launched in August soon went ahead of the existing cars like Ford EcoSport, Honda BR-V and its own vehicle Duster, with average monthly sales of over 4,500 units. Mahindra's compact SUV XUV300 also averaged around 4,000 units since its launch in February, outpacing several competitors.

A total of around 20 cars were launched in 2019, of which a dozen were new while the remaining were upgrades of the existing models.

Experts said new age technology and comfort features including ventilated front seats, sunroof, better quality music systems and 360-degree camera attracted consumers, some of which were lacking in the older models. Besides, the quest to look different on the road by driving new brand boosted sales of newer models at a time when the passenger vehicle industry is going through a prolonged slowdown.

The passenger vehicle industry is going through one of the worst slowdowns in two decades, with sales falling virtually every month in double digits since the second half of 2018 on account on rise in prices and costlier finance options. Total car sales during the first eight months of this fiscal (April-November 2019) fell 18% year-on-year (y-o-y). In FY19 too, car sales grew by a mere 2.7%, slowest in last seven fiscal years, when volumes grew in the range of 6-9%.

Manufacturers who launched new products also gained market share. "Hyundai and Kia have gained 160 bps and 210 bps y-o-y so far this fiscal, respectively, led by new SUV launches," analysts at CLSA noted. Anlaysts at Axis capital believe there will be a competitive intensity in the industry over the next 2-3 years driven by slew of new launches by new entrants, alongwith the existing new manufacturers Kia Motors and MG Motor. "New model launch pipeline shows a clear trend of OEMs focusing on SUV segment given increasing customer preference and relatively-fragmented market," they wrote.

Nearly 250 Star Export Houses denied GST refunds

IN A letter to senior indirect tax officials, the director general of analytics and risk management (DGARM) noted that verification reports for 94 Star Export Houses out of 245 identified had been received while 161 reports were still pending.

"Out of the 161 pending verifications, in 103 cases scroll are suspended. Therefore, there is an urgent need to expedite the verification in respect of the 103 Star Export House," DGARM wrote.

"The tax department seems to have overreached in its bid to curb frauds. These (Star Export House) exporters are not among the typical fly-by-night operators and they should not have been targeted by the GST system," a government source said. He added that the policy tools aimed at curbing malpractices among exporters have either been blunt or draconian.

Star Export House exporters are certified by the government on the basis of export performance (₹15 crore to ₹5,000 crore FOB in the current and three preceding years). They are extended certain benefits including customs clearance on self-certification basis and exemption from furnishing bank guarantee under certain schemes.

The system typically red-flags exporters who are discharge a high share of their tax liability through the input tax credit accumulated in their accounts. Some of them have also been profiled as 'risky' if their suppliers fail to upload invoices in their returns. However, merchant exporters for instance are at the receiving end of such parameters as their exports usually consist of low value addition and hence they utilise large portion of ITC to pay taxes. Similarly, exporters argue that failure of their suppliers to upload invoices shouldn't reflect on their credibility as genuine taxpayers.

Exporters can either pay IGST at the time of exports and claim refund for the same. The other option is to export goods without payment of tax by furnishing a bond or letter of undertaking. In this case, the accumulated input tax credit is available for refund.

"It is vital that exporters who have been classified as 'risky' and have had their refund blocked are told in clear terms the reasons for the same. They must also be made aware of the procedure to extricate themselves from this list. However, currently the department has no answer for these exporters," Ajai Sahai, director general and ceo of Federation of Indian Exports Organisation (FIEO) said.

FIEO has estimated that about 5,000 relatively small exporters have been red-flagged so far which account for about 7% of MSMEs. The exports are considered as zero-rated supplies under GST, for which the exporters claim a refund on integrated GST paid on the exported goods.

Sahai said even after department conducts a thorough examination of the 'risky' exporters and finds them to be genuine, the system isn't being updated in a timely manner to allow such taxpayers to continue their business without hassles. Additionally, a profiled exporter is also subjected to a complete cargo check at ports which is creating huge bottlenecks for businesses as the department doesn't have enough manpower to carry out such checks.

"Procedure for claiming IGST refunds is automated, however, tax authorities have also identified risky exporters at the national level in case of which 100% examination is being made mandatory before sanction of any GST refund. This process of identification and deferral of tax refunds for so-called "risky exporters" are leading to blockage for funds for genuine exporters who have fallen prey to the discriminatory profiling mechanism of the system," Rajat Mohan, senior partner at AMRG & Associates, said.

Posco, RINL close to ₹20k-cr JV

IF THE Posco investment materialises, it will be the first instance of FDI in a greenfield steel project in the country. Posco's plan to set up a mega steel manufacturing facility in Odisha was abandoned after several years of planning and negotiations due to environmental issues, row over rights to use ore and local protests.

Earlier this month, ArcelorMittal announced completion of its acquisition along with Nippon Steel of Essar Steel under a ₹42,000-crore deal with the lenders of the stressed firm, that was struck under the insolvency and bankruptcy code (IBC) process.

According to sources, the proposed Posco-RINL plant will primarily produce hi-grade automotive steel, the demand for which is currently met from imports to a large extent even as Tata Steel, JSW Steel and AM/NS India (formerly, Essar Steel) produce auto-grade steel in the country.

In his last visit to RINL's Vizag steel plant, steel minister Dharmendra Pradhan had pitched for RINL forging a foreign collaboration for the "collective good" of the company that has sufficient land parcels available to set up an additional 15 mtpa capacity within the existing plant premises. RINL operates a 6.3 mtpa unit now at its Vizag facility The company mainly produces long products used in the construction and infrastructure sectors.

Representatives from the Korean steelmaker have been in talks with the steel ministry for more than a year now on the proposed joint venture and have made a number of visits to Vizag to get a first-hand experience of the existing facility.

The Prime Minister's Office (PMO) had earlier asked the steel ministry to held talks with the Japanese and Korean steel mills for setting up a 5-mtpa steel plant through the joint venture route to produce high-end steel meant for automotive and other sectors, aimed at imports substitution.

India imports value-added steel from Korean firms including Posco. The steel ministry thinks that the proposed joint venture between Posco and RINL will be a win-win for both the parties.

Sources said Posco has been assured of the required land and uninterrupted supply of iron ore, a key raw material in steel-making, for the proposed unit. The government has targeted to jack up the domestic installed steel-making capacity to 300 MTPA by 2030-31 from around 142 mtpa now.

Posco has been trying hard to enter into Indian steel-making space since long. In 2005, it had signed an agreement with the Odisha government to set up a 12 mtpa steel plant with an estimated investment of $12 billion; but had to suspend the project ten years later for want of available land, iron ore linkage and other clearances. In 2007, it had signed an initial pact with state-run Steel Authority of India (SAIL) to form a joint venture in India but could not taste success.

Outlook for 2020: Divestment, consumption boosters to drive markets

THIS SHOULD support emerging market flows.

Chandresh Nigam, MD and CEO, Axis Mutual Fund, is of the view that the appreciation of the dollar would plateau in 2020 and so, emerging markets could witness an increase in FPI inflows. "2020 is an election year (for the USA) so there are some chances of inflows coming in towards the second half of the year," Nigam said.

Among emerging markets, India witnessed highest foreign inflows so far in 2019. Foreign portfolio investors (FPIs) pumped in $14.3 billion in India since January 2019 compared to nearly $9.8 billion inflows into Taiwan. While Indonesia saw an inflow of $ 3.4 billion, overseas investors bought equities worth $ 1.1 billion from South Korea.

In addition, the economic slowdown, which plagued the world in 2019, thanks to the trade tensions between China and the USA could ease in 2020. UBS Securities says: "A deal to reduce or remove existing tariffs and a pledge to stop adding more could dramatically reduce global economic uncertainty, unlock pent-up investment demand, and enable US President Donald Trump to 'declare victory' in an election year."

Calendar 2019 saw extreme volatility in the markets as a combination of global and domestic factors impacted investments. The euphoria over the return of the Narendra Modi-led government was short-lived as it was followed by the Union Budget that saw the imposition of a tax surcharge, which spooked foreign portfolio investors. Weakening macro economic data further fuelled the rally in quality stocks. But the cut in corporate taxes and lending rates have paved the way for a better 2020.

For the last 10 years, emerging markets have underperformed the developed markets. But the tide could turn in favour of EMs if both global and domestic triggers are in place. HDFC Securities of the view that emerging markets as an asset class could start performing better over the next few years after underperforming over the past 10 years. Even though corporate earnings have grown at an abysmal 6% CAGR over the last seven years, HDFC Securities expects India to benefit from demography, an aspirational middle class, and recent economic reforms that give it a constructive outlook over the coming decade.

Govt's SUUTI stake to be leveraged for NBFCs

TO ADDRESS the liquidity issues faced by NBFCs, in the Budget for FY20, the government offered a one-time partial guarantee of ₹1 lakh crore to public-sector banks for purchasing consolidated high-rated pooled assets of financially-sound NBFCs. This has covered their first loss of up to 10% and was aimed at easing the liquidity stress in the NBFC/HFC sector and increase the access of these institutions to bank finance. On Saturday, Sitharaman said after a meeting with chiefs of state-run banks that approvals were given for PSBs to purchase NBFC assets worth ₹4,294 crore since December 11. After the IL&FS default that brought to the fore the crisis among NBFCs, assets of NBFCs rose 12.8% to close to ₹32 lakh crore, she said, adding that some good NBFCs, including housing finance companies, are now able to raise funds from the market at rates lower than before the IL&FS crisis broke out.

Former chief economic adviser Arvind Subramanian and Josh Felman wrote in a paper recently that with growth collapsing, India was facing a 'Four Balance Sheet' challenge -- the original two sectors of over-leveraged firms and banks, plus NBFCs and real estate companies. They said given the recent credit bubble and the series of problems, involving so many financial institutions, the time could be ripe for a second Asset Quality Review (AQR), which would allow the government and RBI to assess the precise magnitude and sectoral nature of the problem and thereby facilitate better-tailored and better-designed policies to solve it. They stressed that the AQR should cover not just the NBFCs but also the banks, which are experiencing renewed stress from the real estate, steel, power, and telecom sectors.