WEDNESDAY, 22 JANUARY 2020
16 pages in 1 section
MUMBAI (CITY)
₹9.00
VOLUME XXIV NUMBER 114

www.business-standard.com

Business Standard

THE MARKETS ON TUESDAY		Chg#
Sensex	41,323.8▼	205.1
Nifty	12,169.8▼	54.7
Nifty Futures*	12,203.1▲	33.3
Dollar	₹71.2	₹71.1**
Euro	₹79.1	₹78.8**
Brent crude ($/bbl)##	64.2##	64.7**
Gold (10 gm)###	₹39,854.0▼	₹97.0

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

COMPANIES P2
HIGH DEBT FORCES TEA FIRMS TO PUT ESTATES ON THE BLOCK

BACK PAGE P16
NOTHING'S DONE TO TACKLE CLIMATE CRISIS: THUNBERG

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

GOVT APPROVES 100% FDI IN BHARTI AIRTEL

The Department of Telecommunications has approved raising of foreign direct investment in Bharti Airtel to 100 per cent from 49 per cent allowed earlier, the company said in a stock exchange filing on Tuesday. The company also has the approval of the Reserve Bank of India that allows foreign investors to hold up to 74 per cent stake in the company. The approval comes days before the company has to clear statutory liabilities of up to ₹35,586 crore. 5▶

COMPANIES P2

Brookfield, Prestige eye Graphite's ₹2,500-cr land

Bengaluru's top developers, such as Embassy, RMZ, and Prestige Estates, and big private equity funds, such as Canada's Brookfield Asset Management and Singapore's CapitaLand, are in talks with Graphite India to buy the latter's 25 acres of prime land in the Karnataka capital, said sources. **RAGHAVENDRA KAMATH** reports

COMPANIES P3

Auto retail sales see FY's highest fall in December

Retail sales of automobiles in the country dropped by nearly 15 per cent to 1.6 million units in December 2019, the highest decline in the current financial year. Earlier this month, the data from the Society of Indian Automobile Manufacturers showed that total vehicle sales across categories registered a decline of 13.08 per cent.

ECONOMY & PUBLIC AFFAIRS P5

Asean bloc invites India for RCEP talks in Feb

India has been invited to join talks on the proposed Regional Comprehensive Economic Partnership (RCEP) next month, but is still on the fence about participation, say sources. The 10-member Association of the Southeast Asian Nations bloc has invited India to Bali, Indonesia.

ECONOMY & PUBLIC AFFAIRS P6

Credit risks to remain high in India, says S&P

Standard and Poor's (S&P) on Tuesday said the credit risks will remain high in the Indian financial sector in 2020, despite recognition of legacy stressed assets and infusion of capital by the government in public sector banks.

RESULTS RECKONER

Quarter ended Dec 31, 2019; common sample of 103 companies (results available for 122)

SALES		
Dec 31, '18	**35.7%**	₹3.32 trillion
Dec 31, '19	**2.5%**	₹3.41 trillion
PROFIT BEFORE TAX		
Dec 31, '18	**9.7%**	₹52,261 cr
Dec 31, '19	**16.7%**	₹60,982 cr
NET PROFIT		
Dec 31, '18	**4.3%**	₹36,443 cr
Dec 31, '19	**28.9%**	₹46,991 cr

Companies with zero sales excluded; given the change in corporation tax rates, to give a fair comparison the profit before tax has been considered; compiled by *BS* Research Bureau. Source: Capitaline

DoT talks tough, telecom firms sit on the fence

Telcos discuss giving January 24 deadline a miss

MEGHA MANCHANDA & SURAJEET DAS GUPTA
New Delhi, 21 January

The Department of Telecommunications (DoT) will begin issuing notices to telecom companies after the January 24 deadline for payment of AGR (adjusted gross revenue) dues, set by the Supreme Court, lapses, a senior official said.

This comes even as the apex court on Tuesday agreed to list the "modification petition" filed by Bharti Airtel, Vodafone Idea and Tata Group for "sometime next week". The firms have sought a change to the 90-day deadline for payment of ₹1.47 trillion worth of AGR dues, and permission to engage with the DoT on the terms and timing of payment.

It is learnt that the DoT will issue notices in compliance with the apex court's October 24, 2019, order that stated that the AGR-related dues need to be paid by January 24.

"We cannot go against the SC. Therefore, we have to recover dues from the companies according to their order," an official said. He added that if the companies get any relief from SC next week, their payments will be adjusted for any future settlement.

Meanwhile, leading telecom companies are holding hectic parleys as they consider skipping the deadline for payment of AGR dues.

Rajan S Mathew, director general of Cellular Operators Association of India (COAI), said: "I understand that most of the telcos may wait till the hearing of the new petition before they make the payment."

Mathew said there were enough judicial precedents, where the court had not executed its order, pending further adjudication in the same court. He said that they will continue to hold talks with DoT and are hopeful that no coercive action will be taken, though there has been no official communication to that effect.

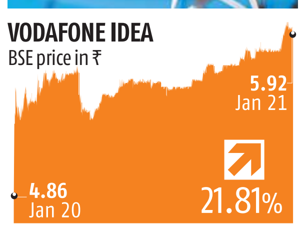
This view was echoed by the lawyer Shally Bhasin, who represented Vodafone Idea. Bhasin told TV channels that no one was going to pay the AGR dues and that telcos have requested the court to let them discuss the matter with DoT and finalise the payment plan.

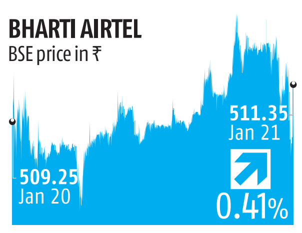
However, Bharti Airtel declined to comment on the issue, and it is not clear whether it will pay some money upfront or follow the same line as Vodafone Idea.

In the case of Jio, which was not part of the review petitions, it is expected to pay by the deadline. Jio declared in its recent financial results that it has estimated the liability for the period from 2010-11 to 2018-19 at ₹177 crore for licence fee and spectrum user charges (SUC), in view of the SC judgment.

Earlier, some of the telcos were thinking of paying part of the sum due — up to 20 per cent — before the deadline, as non-payment would allow DoT to encash on their bank guarantees.

Advocate C A Sundaram, who is representing a telco, said companies were not disputing the payment to be made, rather they wanted to work out a fresh schedule. The telcos also pushed for an open court hearing, but the CJI said that would be decided by the Bench concerned. Turn to Page 15▶





Source: Exchange

Nadella: Back immigration or risk missing out on tech boom

AMY THOMSON & DINA BASS
London/Seattle, 21 January

Microsoft Chief Executive Officer Satya Nadella said he worries that mistrust between the US and China will increase technology costs and hurt economic growth at a critical time.

Using the $470 billion semiconductor industry as an example of a sector that is already globally interconnected, Nadella said the two countries will have to find ways to work together, rather than creating different supply chains for each country.

"All you are doing is increasing transaction costs for everybody if you completely separate," Nadella said in an interview with *Bloomberg News* Editor-in-Chief John Micklethwait at *Bloomberg's* *The Year Ahead* conference in Davos. That's a concern as the executive said the world is on the cusp of a revolution around technology and artificial intelligence.

"If we take steps back in trust or increase transaction costs around technology, all we are doing is sacrificing global economic growth," he said.

The Trump administration is considering steps to further limit the ability of US companies to supply Huawei Technologies, China's flagship tech company, in addition to pressuring countries around the world to avoid using its equipment for 5G mobile networks. The agreement signed last week between the US and China was "not sufficient," said Nadella. **BLOOMBERG**

Turn to Page 15▶

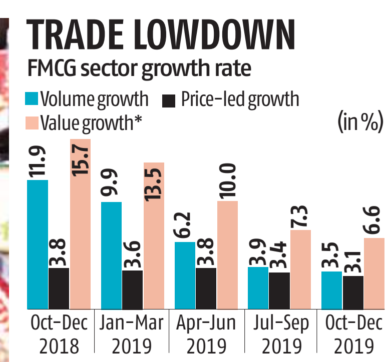
Analysts see FMCG recovery in 2020

Nielsen predicts double-digit growth for the sector this year

ARNAB DUTTA
New Delhi, 21 January

After falling for five quarters, a recovery in growth could be on the horizon for the country's fast-moving consumer goods (FMCG) sector. Both market analyst Nielsen and rating agency CRISIL say the fourth-largest FMCG market in the world will bounce back in 2020 — starting with the quarter ending March 2020.

According to Nielsen's estimates, India's ₹4-trillion FMCG market is expected to grow by 10 per cent in calendar year 2020 (CY20). In the current quarter, it could grow by 8-9 per cent by value. This will be a significant improvement from the previous quarter, when the market grew by 6.6 per cent — the lowest in several years. Turn to Page 15▶



*excludes e-commerce. Sources: Nielsen, CRISIL

IN RACE AGAINST CHINA, POWER EQUIPMENT MAKERS SEEK GOVT HELP

As nations ramp up protectionist measures, India's exports are under threat from non-tariff barriers in key markets. With India's exports contracting for a fifth straight month as of December, the government has asked various domestic industries to identify rising restrictions placed on Indian goods by other nations. **SHREYA JAI & SUBHAYAN CHAKRABORTY** write 4▶


EXPORT LOGJAM
PART-1

Duopoly catches up in food delivery as Zomato acquires Uber Eats

KEY FIGURES

UBER EATS

$143 mn	$20 mn	$61 mn
Uber's estimated gain on divesting	Revenue (as of Sept 30, '19)	Loss (as of Sept 30, '19)

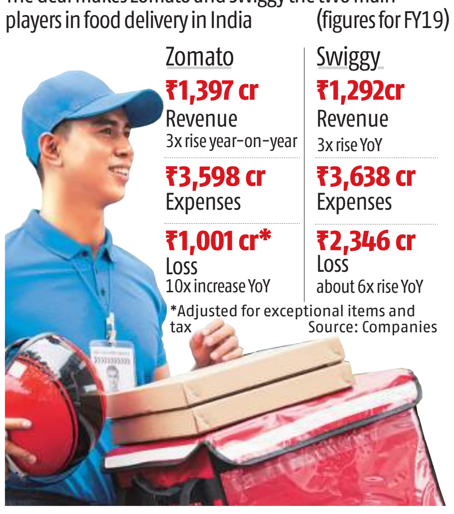
Sources: US SEC Filing, Uber

TOUGH ORDER

The deal makes Zomato and Swiggy the two main players in food delivery in India (figures for FY19)

	Zomato	Swiggy
Revenue	₹1,397 cr (3x rise year-on-year)	₹1,292cr (3x rise YoY)
Expenses	₹3,598 cr	₹3,638 cr
Loss	₹1,001 cr* (10x increase YoY)	₹2,346 cr (about 6x rise YoY)

*Adjusted for exceptional items and tax. Source: Companies



SURAJEET DAS GUPTA & NEHA ALAWADHI
New Delhi, 21 January

If the telecom industry runs the risk of becoming a duopoly, the fast growing $4-billion online food delivery space has already turned into a two-horse race. Cab aggregator Uber India's sale of its food delivery business on Tuesday has clearly set the stage for a Zomato versus Swiggy play.

The signs of consolidation were already there as losses piled up. Last year, Uber India's rival, Ola, which had earlier acquired Foodpanda, closed down its online food delivery business to move into cloud kitchen services due to aggressive competition.

Seven months later, there's no room for a third entity in the fight for domination.

In an all stock deal, Uber will get a 9.9 per cent stake in Zomato. According to analysts, the value of the deal is in the region of $350-400 million.

RedSeer data shows that revenues have seen significant growth—up to 150 per cent in 2019—in the food delivery business. But, losses have hit the roof. In many cases, the losses surpass the revenues.

The huge discounts to acquire customers, clubbed with high delivery costs and aggressive promotions, have caused the bloodbath. Even so, the customer numbers are impressive, helping in the subsequent funding rounds.

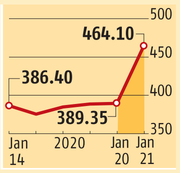
Indeed, cash strapped companies have always looked for fresh funding to continue to grow. For instance, in the case of Uber Eats, India made up for more than 3 per cent of its global gross revenues in the last three quarters and it already grabbed 12 per cent of the market share. At the same time, around 25 per cent of Uber Eats' global losses came from India in the corresponding period.

Profitability, a goalpost for investors, has been a mirage in the food delivery business. Even Zomato, backed by Alibaba, has been struggling to make money with its losses rising tenfold in March 2019 to cross the ₹1,000-crore figure. Its revenues in the same period soared 188 per cent to ₹1,397 crore.

Turn to Page 15▶

STOCKS IN THE NEWS

Can Fin Homes

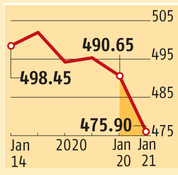


Q3 PBT up 20% at ₹146 crore YoY

₹464.10 CLOSE

▲19.20% UP*

Tata Steel

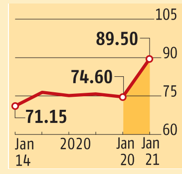


Top loser among the S&P BSE Sensex stocks

₹475.90 CLOSE

▼3.01% DOWN*

Spencers Retail

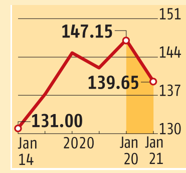


Radhakishan S Damani acquired 2.09% stake in December quarter

₹89.50 CLOSE

▲20.00% UP*

Granules India

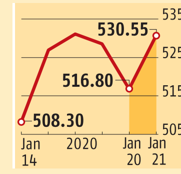


Board approves share buyback at ₹200/share via tender offer route

₹139.65 CLOSE

▼5.10% DOWN

KEI Industries



Q3 PBT up 29% at ₹97 crore YoY

₹530.55 CLOSE

▲2.66% UP*

* OVER PREVIOUS CLOSE

IN BRIEF

RBI nixes Voda's certificate of authorisation for m-pesa

The Reserve Bank of India on Tuesday said it has cancelled the Certificate of Authorisation (CoA) of Vodafone m-pesa on account of voluntary surrender of authorisation. Following the cancellation of the CoA, the company cannot transact the business of issuance and operation of prepaid payment instruments, the central bank said. However, customers or merchants having a valid claim on the company as a PSO, can approach the company for settlement of their claims within three years from the date of cancellation i.e. by September 30, 2022. Vodafone m-pesa, a Payment System Operator (PSO), had voluntarily surrendered the authorisation, it said. Last year, Vodafone Idea had decided to close m-pesa vertical following the closure of Aditya Birla Idea Payments Bank Ltd (ABIPBL), with which it was being merged. Vodafone m-pesa was one of the 11 firms that was given payments bank licence by the RBI in 2015. PTI

Larsen & Toubro to raise ₹1,000 crore through NCDs

Larsen & Toubro (L&T) on Tuesday said it will raise up to ₹1,000 crore through issuance of non-convertible debentures. "... the Company proposes to issue Rated, Listed, Unsecured, Redeemable Non-Convertible Debentures aggregating up to ₹1,000 crore, on private placement basis," Larsen & Toubro said in a regulatory filing to the BSE. PTI

Essar Exploration names Pankaj Kalra CFO, strategy head

Essar Global Fund on Tuesday announced the appointment of Pankaj Kalra as chief financial officer and head-strategy, Essar Exploration & Production Ltd Mauritius. EEPLM is the downstream energy arm of the Essar Group and a key portfolio company of EGFL. PTI

Sanjay Kumar back in IndiGo as chief strategy officer

AirAsia India's former COO Sanjay Kumar has come back to IndiGo, an airline he was associated with for more than a decade before quitting in late 2018. Kumar has joined IndiGo as chief strategy and revenue officer. PTI

Digit Insurance gets Irdai nod to raise $84 million

Fairfax Group-backed general insurance start-up Digit Insurance on Tuesday said it has received approval from the Insurance Regulatory and Development Authority of India (Irdai) to raise $84 million (about ₹600 crore) from equity investors A91 Partners, Faering Capital and TVS Capital. The new round of investment will take Digit's total funding to $224 million (about ₹1,600 crore), the company said. PTI

Apollo Hospitals, Bajaj Finserve unveil health EMI card

Healthcare major Apollo Hospitals on Tuesday unveiled co-branded health EMI card in association with Bajaj Finance to ensure patients undergo hassle-free payment during hospitalisation. "Users of this co-branded healthcare card will be able to convert their medical expenditure into no cost EMIs that can be repaid over a period of 12 months," officials said. PTI

High debt forces tea firms to put estates on the block

Warren Tea and Jay Shree Tea & Industries latest to announce sale of estates

AVISHEK RAKSHIT
Kolkata, 21 January

With limited funds available to sustain daily operations, the financial crisis in the tea sector is deepening, with several companies putting up their estates on sale. This despite tea prices improving marginally last year and projections of a good opening this year once auctions re-commence.

After McLeod Russel, two other tea majors — Warren Tea and Jay Shree Tea & Industries — have announced the sale of their estates to pare debts and bring in financial prudence.

Apeejay Tea also underwent an insolvency trial before the National Company Law Appellate Tribunal (NCLAT) quashed the proceedings against it. Assam Company, on the other hand, underwent a change of hands via the insolvency route.

The root cause of the stress, according to industry officials, is the sudden stoppage of lines of credit to tea plantation companies. This has affected their cash flow.

"After banks pulled the plug on their lines of credit, many plantation companies have struggled. This move has affected cash flow and some plantations are not in a position to honour their financial commitments," said Razi Khan, director of sales and marketing at Appejay Tea.

Rating agencies had downgraded their ratings for various tea companies which, sources said, squeezed the flow of credit to tea firms.

For example, ICRA downgraded term loans and fund-based working capital limit from BB+ with a stable outlook to BBB with a negative outlook for Warren Tea, while it downgraded term loans of Jay Shree from BBB+ with a stable outlook to BBB with a negative outlook. Apeejay Tea also suffered a similar fate with its long-term bank facilities being revised A+ to A.

Various factors like consecutive losses by certain companies, repayment obligations, projections of lower income, and overall group stress were factored in the rating revisions, besides the stress on the tea sector.

In fact, lack of funds has been an impediment for companies to diversify into other sectors, such as tourism, or adopting alternative crops.

The root cause of the stress, according to industry officials, is the sudden stoppage of lines of credit to tea plantation companies. This has affected their cash flow

'STORM' IN A TEA CUP

Figures in ₹ cr	Net profit/loss in FY13-14	FY18-19
Goodricke Group	22.24 *	9.49
McLeod Russel	257.15	- 4.42
Warren Tea	20.24	- 15.92
Rossell India	20.40	0.57

* Calendar year 2014 Source: Companies

"Tea prices haven't increased for the past five years. On the other hand, the cost continues to increase and the majority of tea estates are now making losses. This has created a serious imbalance in the plantation business," said Vivek Goenka, executive director of Warren Tea. Officials said while costs have risen by around 15-18 per cent over the past five years, tea prices shot up by only 5-7 per cent.

For instance, during 2013-14, Warren Tea made a net profit of ₹20.24 crore and in 2018-19, it reported a net loss of ₹15.92 crore. For the past three financial years, the company hasn't been making any profit. Same has been the case with McLeod, which posted a ₹257.15-crore net profit during 2013-14, but a net loss of ₹4.42 crore last financial year.

For McLeod, apart from prices, group affairs have been a drag on its balance sheet, resulting in a debt of around ₹1,700 crore.

In the case of Goodricke, it posted ₹22.24 crore as profit in the calendar year 2014, but this figure dropped to ₹9.49 crore in FY19. Rossell India, too, had posted a profit of ₹20.40 crore during 2013-14 which fell to ₹0.57 crore in FY19.

Sources said besides the larger estates offering their tea estates for sale, numerous single-estate plantations are up for grabs in Assam and the Dooars region of West Bengal.

"Those companies which are diversified and have retail brands are hedged from plantation risks to an extent, but pure-play plantation companies are at a huge risk", Khan said.

McLeod and Warren Tea, as well as Assam Company, are pure plantation players. Companies like Goodricke, Apeejay, and Jay Shree, which have been able to evade plantation risks, have a retail presence.

Brookfield, RMZ vie for Graphite's ₹2,500-crore land

RAGHAVENDRA KAMATH
Mumbai, 21 January

Some of Bengaluru's top developers, including Embassy, RMZ, Prestige Estates, Salarpuria Sattva, and big private equity funds, such as Canada's Brookfield Asset Management and Singapore's CapitaLand, are in talks with carbon and graphite maker Graphite India to buy the latter's 25-acre prime land in the Karnataka capital, said sources.

The plot is in the Brookfield area of 'India's Silicon Valley'. The land has development potential of 3.5 million square (sq) feet (ft) and the buyer can build a large office complex, added the sources.

The land could fetch anywhere between ₹2,000 crore and ₹2,500 crore, informed sources. "The plot is close to an upcoming Metro station and connected to the Outer Ring Road. Since it has large development potential in a tech zone, many top developers have evinced interest in the land parcel," said a source.

Graphite's factory was located on the land parcel, which was shut down last year. Anarock Property Consultants is running the mandate to sell the plot.

Sources said if Embassy gets the land, it could tie up with its partner Blackstone to buy it. "Embassy, RMZ, and Prestige Estates are keen on it because they have large properties in nearby areas," said sources.

Emails sent to Graphite India, RMZ, Embassy, Prestige Estates, and CapitaLand did not elicit any response. Brookfield Asset Management declined to comment.

Interestingly, the companies looking to buy the plot have raised capital in the recent past. RMZ is in talks with CPPIB, Japan's Mitsui to raise ₹3,000 crore by selling stake in its portfolio, said reports. Singapore's GIC invested ₹434 crore in Prestige Estates recently. Embassy's joint venture with Blackstone raised ₹4,750 crore through the country's first real estate investment trust, last year.

Sources said CapitaLand is keen to build a portfolio of office properties, including IT parks. Singaporean sovereign fund GIC and CapitaLand are in separate talks with Hines Real Estate, the development manager for tile maker Nitco's land in Mumbai's Kanjurmarg, to buy the commercial property from the latter for about ₹2,000 crore.

Bengaluru absorbs the highest office properties in the country. It saw gross absorption of about 15 million sq. ft in 2019, an increase of 6 per cent from 2018.

Technology and IT- business process outsourcing sector accounted for 39 per cent of the total leasing during the year, followed by the engineering and manufacturing segment's share at 16 per cent and the flexible workspace share at 15 per cent.

MEGA DEALS

Biggest commercial property deals in 2019

Buyer	Seller	Property	Value (₹cr)
Blackstone	Radius	One BKC, Mumbai	**2,600**
Shapoorji Pallonji-Allianz	GIC-Tishman Speyer	WaveRock, Hyderabad	**1,800**
Xander	NA	Weikfield IT Park, Pune	**900**
Blackstone	Indiabulls Real Estate	Properties in Mumbai, Gurugram	**810**

Source: Companies, reports

A brand of many firsts, JK Group trying to live up to its legacy

The British-era company that started as textiles business has diversified significantly to become the conglomerate it is today

RUCHIKA CHITRAVANSHI
New Delhi, 21 January

Last year, as the JK Group celebrated its 135th founder's day, it was also a personal milestone for its patriarch Raghupati Singhania, whose association with the company neared the 50-year mark.

From the time he joined the company in 1970 at a young age of 22, Raghupati learnt everything on the job.

He got so engrossed in the daily works of the group and its rapid expansion across diversified sectors that his plan of pursuing an MBA from MIT did not materialise.

However, the senior Singhania is now busy passing on all the knowledge he gathered over half a century to his grandson, Chaitanya Hari Singhania, a Yale graduate, who is the son of his nephew Harshpati Singhania.

"The young generation is better qualified than me in a sense...But grooming is a hands-on experience. We have all been groomed on the job," Raghupati said.

The British-era company, which started as textiles business, has diversified significantly into other businesses to become the conglomerate it is today.

The Street in which the company headquarters sits has a distinct stamp of one of its most successful operations, JK Tyre, which makes up over a third of its total revenues.

The nearest Metro station of ITO wears the brand name and colours of JK Tyre – yellow and black. Most vendors on the street go about their business sitting under the shade of the JK Group umbrella.

On its other business, including auto components, Raghupati says, "There is not a vehicle in India without a JK product."

However, the next goal is to go beyond its usual capital intensive businesses and get into something more consumer facing. To this effect, the group just acquired a snack food business — Fun Flips. It is also working on a project to get into the back-end of the food processing industry.

Why the shift? While one reason the company feels is that the consumer side of the business is growing at a faster pace, the other has to do with faster returns on investments.

Harshpati, managing director, JK Group, said, "Cost of money in India is fairly high. In a capital-intensive businesses you make big investments and then wait several years before you start getting returns out of that and then you invest again. As a group, because we are diversified, we are trying to ask ourselves what are less capital intensive businesses."

Naushad Forbes, former chairman of CII and chairman of Forbes Marshall, said many of the old family-run businesses started in the commodity sector and later got into more consumer facing businesses.

"It has helped companies create brand value. Companies such as the JK Group should not be judged by the business they started with but the areas they got into much later," he said. He said that the older companies learnt to compete in the licence raj and some of them could transition into a time where there is so much global and domestic competition.

Over the past few years, the JK Group has entered into the dairy industry and hybrid seeds business.

In the last five years, the conglomerate has invested over ₹8,500 crore and lined up another ₹6,000 to ₹7,000 crore investments till 2023-24, subject to the present state of the economy.

"You would appreciate that we would not put the money until and unless things improved. However, we have continuous growth plans," the senior Singhania said.

Raghupati Singhania (*left*), vice-president; and Harshpati Singhania, director, JK Organisation PHOTO: SANJAY SHARMA

> IN A CAPITAL-INTENSIVE BUSINESSES, YOU MAKE BIG INVESTMENTS AND THEN WAIT SEVERAL YEARS BEFORE YOU START GETTING RETURNS OUT OF THAT AND THEN YOU INVEST AGAIN. SINCE WE ARE DIVERSIFIED, WE ARE ASKING OURSELVES WHAT ARE LESS CAPITAL-INTENSIVE BUSINESSES"
>
> **HARSHPATI SINGHANIA**
> Managing director, JK Group

The group, with a total revenue of ₹26,000 crore, has doubled profits and increased sales by 70 per cent, in the last five years. As the company plans to invest 'judiciously' in view of the current slowdown in the economy, it has had to put on hold some of its plans.

For instance, its ₹1,000 crore investment in boosting its truck radial capacity has been postponed by two years due to the slowdown. "In order to help ourselves, we have put a bigger thrust in the replacement market and doubled our push on exports. There is certainly a concern but market growth should come back," Harshpati said.

For now, besides the tyre business, there are three main focus areas the company is betting on – paper, cement and JK Fenner, which is into manufacturing auto components.

Last year, the JK Group acquired the ailing Sirpur Paper Mill through the corporate insolvency resolution process. The increase in demand for its paper products from the pharma, cosmetics and ecommerce industries has encouraged the company to set up a new paper board plant and a pulp mill with an overall investment of over ₹1,700 crore.

In the cement business, the company recently revived and recommissioned one of its plants in Rajasthan.

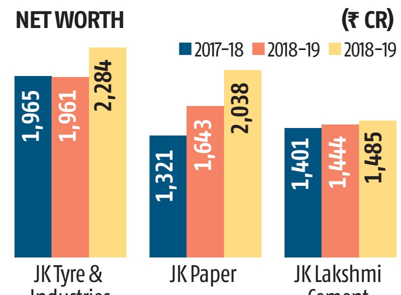
"While it is an ongoing process, in the last two years, we have focused a lot of attention internally to improve our efficiency. Not just the slowdown, but also the technology is now affording us an opportunity," Harshpati said.

Deploying technology such as automated sensors and machinery in its factories, the company, in its tyre and cement business, has started geotagging its customers and dealers. Through this, it is heat mapping clusters to better understand its customer needs and improve processes.

"We are continuously reinventing ourselves in terms of every product we make, whether it's tyres or paper. We were the first to introduce radial technology for four wheelers in India way back in the 1970s," Harshpati said.

FINANCIAL HEALTH

NET WORTH (₹ CR)



PROFIT AFTER TAX (₹ cr)	JK Tyre & Industries	JK Paper	JK Lakshmi Cement
2017	375	172	86
2018	66	261	55
2019	**176**	**427**	**51**

NET SALES (₹ cr)	JK Tyre & Industries	JK Paper	JK Lakshmi Cement
2017	7,689	2,881	2,922
2018	8,272	3,088	3,748
2019	**10,370**	**3,492**	**4,316**

Compiled by *BS* Research Bureau Source: Capitaline

The 1970s era of the JK Group is still something senior Singhania (Raghupati) draws inspiration from. Its slogan of import substitution in those days has again become the flavour of the season with Make in India.

He added, "We were among the first groups in India who truly brought that concept to life."

There were uncertainties even then. He recalls a particular incident of 1980 when one morning he found that his three-year-old Rajasthan tyre plant had got shut due to an unprecedented power cut in the state. "In the last 50 years, according to data, we had checked Rajasthan had a record of zero power cuts. So, we did not even put up generators...We were aghast."

Raghupati, along with his brother, then located four generators of 4 mega watt each in the US and air freighted them by chartering two jumbo jets. Within 21 days, the plant was back in business. "I am trying to illustrate that challenges come your way but you've got to adapt and find a solution. You cannot afford to fail," he said.

Over 13 years ago, the JK Group underwent a corporate restructuring to have more focus on manufacturing companies and untangle cross holdings. "Each business now is a different company, different vertical and management," he said.

The next big dream for the septuagenarian is to become a market leader in all sectors it has a presence. "We want to excel in what we do. It does not mean we want to be the largest."

To achieve this, although the Singhania family is highly involved in the functioning of the group such as strategic planning, setting a direction and financial aspects. It has hired a team of professionals from the best of global universities to run the group. "We are an interesting hybrid of family and professionals. Each company is run by professionals on a day-to-day basis...We don't interfere in that," Raghupati said.

The group, as a whole, employs nearly 35,000 people. Going forward, the idea is minimal addition to workforce and more and more technology deployment.

As for Raghupati himself, there are no plans to hang the boots, just yet. "Let's see how long I survive," he said.

For the JK Group, which prides itself in many firsts, the challenge now is to live up to its own legacy.

Hyundai buckles up to ace diesel space

- ROLLS OUT COMPACT SEDAN AURA AT ₹6 LAKH
- MARUTI HAS SIGNALLED TO QUIT THE SEGMENT

ARINDAM MAJUMDER
New Delhi, 21 January

Pricing the Aura at less than ₹6 lakh, South Korean carmaker Hyundai took a firm step to grab market share in the compact sedan segment, which has so long been ruled by rival Maruti Suzuki.

With India's largest carmaker deciding to quit the diesel segment, Hyundai feels it can rule the segment, thanks to its efficient engineering and economy of scale.

From April 1, Bharat Stage (BS)-VI emission norms for automobiles will become mandatory across the country. Passenger vehiclemakers, such as Maruti Suzuki India, Mahindra & Mahindra, Tata Motors, Toyota Kirloskar Motor, Volkswagen India, and Renault India, have announced plans to pull the plug on smaller diesel variants (those powered by 1.2-1.3-litre engines) due to the high cost of transition from BS-IV to BS-VI.

According to industry estimates, the prices of smaller BS-VI-compliant diesel cars could rise by ₹1.3 lakh to ₹1.5 lakh per unit. Most carmakers believe buyers will not loosen purse strings.

"While the prices of BS-VI diesel vehicles will rise, we are trying to ensure this increase will be tolerable. We are trying to reduce the expected burden on consumers by rationalising costs.

S S Kim, MD & CEO, Hyundai Motor India, at the launch of Hyundai Aura in New Delhi on Tuesday PHOTO:SANJAY K SHARMA

Our procurement and research and development did an excellent job to control costs. The price of the Aura is a reflection of that initiative and effort," said S S Kim, chief executive officer and managing director, Hyundai Motor India.

For long, Hyundai has been unable to crack the segment due to Maruti Suzuki's strong product portfolio.

According to the data from the industry, the Indo-Japanese carmaker's product Swift Dzire has a 55 percent market share of the segment. With Maruti opting to quit the diesel segment, Hyundai feels the Aura will provide customers the option to shift from Dzire.

"The overall diesel sales reflect the changes, except that the percentage of sale of diesel in the industry has been sliding. In the first half, it has come down to almost 22 per cent for Maruti, and for the industry overall, it has come down from 38 per cent to 33 per cent," said Shashank Srivastava, executive director (marketing and sales), Maruti Suzuki.

But Hyundai instead is looking to monopolise the compact diesel car segment, which includes sedans and sport utility vehicles smaller than 4 metres.

"Yes, there is a feeling that diesel may not be popular in the entry-level segment. But there is still a 30-40 per cent market for diesel in the sub-4 metre segment in personal vehicles. That segment is up for grabs because those customers will be looking for a good diesel option. We have been able to develop a 1.2-litre with good emission and full efficiency. Now, the Aura will be the only diesel vehicle in the compact segment," said Tarun Garg, director (sales and marketing), Hyundai.

However, experts warned that the scope of making money in that segment is extremely limited for automakers, but Hyundai's economy of scale — thanks to its presence in multiple markets — may give it the edge.

"The market share and profit may not be in tandem for the compact sedan segment because companies find it difficult to maximise profit. However, a global company with volumes and expertise can really make the most of it, if the pricing is correct," said Kavan Mukhtyar, partner and leader-automotive, PwC India.

Auto sales see FY's steepest fall in December

T E NARASIMHAN
Chennai, 21 January

Sales of automobiles in the country dropped nearly 15 per cent to 1,606,002 units in December 2019, the steepest decline in the current financial year.

Earlier, the Society of Indian Automobile Manufacturers (Siam), which monitors wholesale data, showed that total vehicle sales across categories registered a decline of 13.08 per cent to 1,405,776 units from 167,398 units in December 2018.

The Federation of Automobile Dealers Associations (FADA) data shows that total vehicle registrations dropped to 1,606,002 units in December 2019 from 1,880,995 units a year ago. While commercial vehicle (CV) sales were the worst hit, down by 21 per cent to 67,793 units from 85,833 units, two-wheeler sales dropped by 16 per cent to 1,264,169 units from 1,500,545 units. Passenger car sales dropped nine per cent to 215,716 units from 236,586 units.

FADA President Ashish Harsharaj Kale said December sales de-growth was not on expected lines as enquiry levels all through the month were quite robust. Consumer sentiment continues to be very weak as customers did not conclude their purchase even after enquiring and despite the best offers being available. The federation expressed concern on falling auto sales and shifted its stance to 'very cautious' for near and mid term as the industry moves towards BS-VI transition.

"The sharp decline in growth has denied the dealer community an opportunity to reduce BS-IV inventory, making the transition to BS-VI trickier. With such a weak consumer sentiment, FADA recommends a very cautious approach to its members with serious focus on BS-IV inventory liquidation," said Kale.

FADA, which represents the dealer community, said it will work towards seeking relief from the Supreme Court on BS-IV inventory with its members. With such weak consumer demand, near-term retail sales are unpredictable. This makes it extremely difficult for FADA's members to continue the current business and ensure selling entire BS-IV inventory by March 31.

Kale said, although there was a slight reduction across all segments, CV and two-wheeler inventory still remains a concern, especially looking at the transition and the current weakness in demand.

HITTING THE BRAKES

Category	Dec '18	Dec '19	YoY (%)
Two-wheeler	1,500,545	1,264,169	-16
Three-wheeler	58,031	58,324	1
Commercial vehicle	85,833	67,793	-21
Passenger vehicle	236,586	215,716	-9
Total	**1,880,995**	**1,606,002**	**-15**

Source: FADA

Auto exports rise 3.9% in Apr-Dec amid slide in domestic sales

Overall auto exports from the country rose 3.9 per cent year-on-year (YoY) between April and December of FY20, despite the continuing depressing sentiment in sales. A report by CARE Ratings shows that automobile sales witnessed the steepest decline of 12.8 per cent YoY in the past five years during April-December. Sales plummeted as price hikes of passenger vehicles and two-wheeler segments due to new safety norms, higher insurance costs, higher ownership costs, liquidity crisis in the NBFC (Non-Banking Financial Companies) sector, reduced turnaround time and increased load carrying capacity for commercial vehicles led to higher inventories and slow movement in segment sales. That apart, lower farm wage growth led by uneven rainfall hurt rural spending. JAYAJIT DASH

Over 70 new launches at upcoming Auto Expo

Despite slowdown in the automobile sector, more of new model launches are expected at the biennial automotive industry show, Auto Expo 2020, starting February 7 in Greater Noida, as compared to last year.

The number of such launches is expected to cross 70, indicate members from the Society of Indian Automobile Manufacturers (Siam). Also, non-Siam numbers (including Chinese ones) would launch or showcase dozens of others. In the 2018 Expo, the total number, from Siam members and others, was around 85. All these should improve customer sentiment, and in turn a rise in sales, said Rajesh Menon, director-general (DG) of Siam. It appears 10-odd global launches, 26 India launches, six concept vehicles, seven facelifts and 21 unveilings (only display) are planned. The largest occupant will be Tata Motors. Some Chinese companies, including GreatWall, will mark their foray this year. Other major Chinese companies include BYD and Haima. Volkswagen, Skoda and Nissan, which did not come in 2018, will now do so, said Sugato Sen, deputy DG at Siam.

On the allegation by some of a lack of return on the investment in showcasing at the Expo, the DG said the rentals had not changed for the past five editions. Customer sentiment is weak, though sales in the December quarter were slightly better as compared to the earlier two. One reason is new launches, said Menon.

On the companies staying away from the Expo, he said the industry was in difficult times and many of these were preoccupied with business challenges. He said the participants would account for nearly 85 per cent of passenger car sales in the country; in the commercial vehicle segment, 75 per cent.

T E NARASIMHAN

"You (Nitish Kumar) mentioned that the BJP was leading India into a dangerous space. If these are your real views, I fail to understand how the JD(U) is extending its alliance with the BJP beyond Bihar, when even long-standing allies of the BJP like the Akali Dal have refused to do so"

PAVAN VARMA, JD(U) leader, in a two-page letter to party chief

"Reality check from IMF. Growth in 2019-20 will be below 5% at 4.8%. Even the 4.8% is after some window dressing. I will not be surprised if it goes even lower"

P CHIDAMBARAM, Senior Congress leader, in a tweet

"The Opposition is giving money for arson and sponsoring sit-ins and agitations against the CAA to mislead people. But the people have stood behind Prime Minister Narendra Modi and against those who speak the language of our enemies"

YOGI ADITYANATH, Uttar Pradesh chief minister

IN BRIEF

China coronavirus: 7 airports to conduct thermal screening

The civil aviation ministry has directed seven airports — Delhi, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, and Cochin — to make arrangements for screening of passengers arriving from China in the wake of outbreak of an infection caused by a new strain of virus (coronavirus) there. Airlines flying in from any airport in China have been asked to make in-flight announcements, requesting passengers to self-declare on arrival. The virus brought this year's global rally to a halt on Tuesday, hammering Asian equities and dragging both European and US stocks lower. FTSE 100 suffered its worst day in two weeks. AGENCIES

Govt considering lifting ban on onion exports

The government may lift ban on exports of onion as fresh arrival of the commodity has started softening its prices in the domestic market, an official said. "Fresh onion will soften the prices here," the official said. PTI

Rethink powers of Speaker in deciding pleas, SC tells Parl

The Supreme Court said Parliament should "rethink" whether the Speaker of a House should continue to have powers to disqualify lawmakers as such a functionary "belongs to a particular political party". PTI

PM to chair 32nd Pragati review meet today

PM Narendra Modi will on Wednesday review the progress of various projects in the 32nd meeting of 'Pragati', a multi-modal platform for proactive governance and timely implementation. PTI

Axis Bank initiates insolvency process against RPower arm

Reliance Power on Tuesday said one of its lenders Axis Bank has initiated insolvency process against its subsidiary Vidarbha Industries Power for a claim of ₹553.28 crore. PTI

Air India sets up panel to look into employees' issues

Air India on Tuesday set up a nine-member committee to look into staff-related issues in the wake of proposed disinvestment of the carrier, according to a notification. PTI

Slowdown to hit insurance premium collections: Moody's

Despite low penetration, the economic slowdown will impact insurance premium collections over the next two to three years, Moody's Investors Service said on Tuesday. The total insurance premium collected slowed down marginally for the year-ended March 2019, while the dip in growth was much sharper for general insurance, it said. PTI

GUJARAT REPLACES BENGAL AS TOP GOVERNING STATE: STUDY

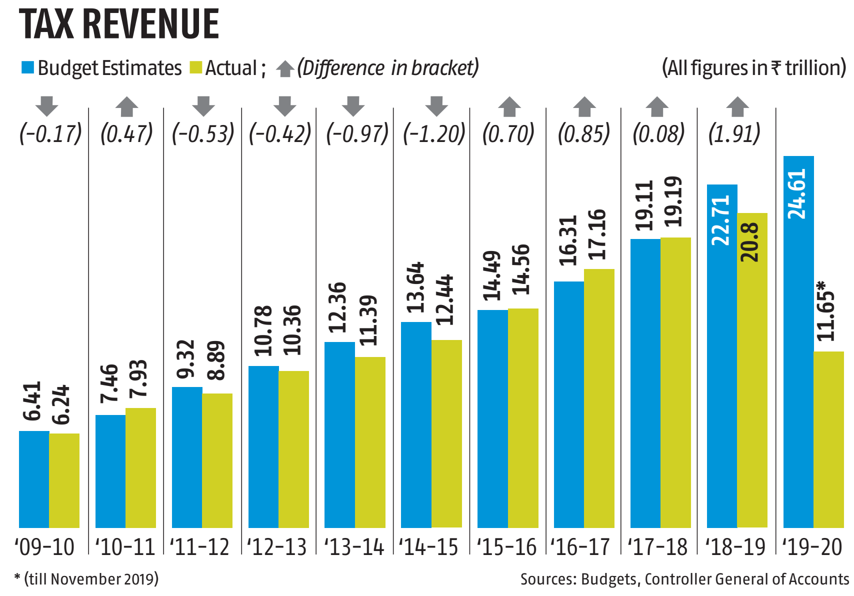
Gujarat replaced West Bengal as the top governed state in the 2019 Skoch rankings. While there are 22 parameters that go into the overall ranking, health and cleanliness dominated the good governance initiatives across the country in 2019, says the report. Poll-bound Delhi was at the 19th place, lower than 15th spot it occupied in the previous two years. Delhi is ranked fifth on the parameter of health, one of its main claims of governance INDIVJAL DHASMANA

	2017	2018	2019
Gujarat	13	5	1
Maharashtra	3	8	2
W Bengal	9	1	3
Andhra Pradesh	10	2	4
Tamil Nadu	6	17	5
Telangana	2	2	6
Madhya Pradesh	7	10	7
Karnataka	11	11	8
Haryana	4	14	9
Odisha	12	13	10

Source: Skoch state of governance, 2019

All eyes on tax receipts as mop-up dips

TAX REVENUE



* (till November 2019)

Sources: Budgets, Controller General of Accounts

INDIVJAL DHASMANA
New Delhi, 21 January

With just days to go before the Union Budget 2020-21 is presented, all eyes are on tax receipts for the current fiscal year (April 2019-March 2020, or FY20) which would be revised in the Budget. The numbers become all the more important because actual tax collections fell short by ₹1.91 trillion, compared to what was projected in 2018-19.

Besides, the Budget for FY20 did not give actual figures for 2018-19, but the revised numbers given in the interim Budget. The actual numbers missed the Revised Estimates figures by ₹1.68 trillion in 2018-19. The growth projected in revenue collections was just 9.47 per cent for FY20, compared to the Revised Estimates of 2018-19. However, it meant a growth of 18.31 per cent, compared to the actual numbers of FY19.

The first year of the Modi government in the previous stint (2014-2019) also registered a fall of over ₹1 trillion, compared to initial projections for tax collections. Then finance minister Arun Jaitley had blamed it on his predecessor P Chidambaram whose numbers in the interim Budget were taken as it is by Jaitley. However, the interim Budget this time was presented by the Bharatiya Janata Party government, with Piyush Goyal as the finance minister.

(A CUT IN PERSONAL INCOME TAX IS) ONE AMONG THE MANY THINGS WE ARE LOOKING AT"

NIRMALA SITHARAMAN
Finance minister

Here's how the 'winners' from last Budget fared

KARTHIKEYAN SUNDARAM
New Delhi, 21 January

From banks to farmers to the property market, the gains from July Budget haven't yet panned out as expected.

In her maiden budget six months ago, Finance Minister (FM) Nirmala Sitharaman pledged to boost revenue collection by 13 per cent, narrow the fiscal deficit to 3.3 per cent of gross domestic product and spur the economy to $3 trillion by March. Things haven't gone according to plan though, largely because of a worsening slowdown in the economy. As the FM prepares to deliver her second Budget, here's a look at how the expected winners from last year's fiscal plan fared:

State-run banks

In July, Sitharaman said the government would inject 70,000 crore of capital into state-run banks, including Union Bank of India, Bank of Baroda and Canara Bank. In August, the government followed up by announcing the biggest-ever consolidation of banks it controls to spur lending. However, that's done little to boost credit growth, which is at a three-year low and has weighed on profitability of banks, including State Bank of India.

Rural India

The July Budget gave bigger allocations for rural housing, roads and programmes that support small businesses producing cattle feed, measures that were seen buoying companies like Hindustan Unilever, ITC and Mahindra & Mahindra.

However, the slump in consumption has hit the rural sector hard. Unilever, the parent of Hindustan Unilever, cited India's slowdown as a reason for its weaker growth outlook. Carmakers like Mahindra, which sells SUVs and tractors, have also suffered from declining vehicle sales. Godrej Agrovet, a local animal feed and edible oil producer, bucked the trend.

Aviation

The government's plan to consider further opening up foreign investment in aviation and forming an aircraft financing and leasing company remain incomplete, and carriers including SpiceJet, InterGlobe Aviation and TATA SIA Airlines are yet to see any real benefits. At the same time, the economic slowdown has meant local air traffic has been growing at low single digits from double-digits previously.

Water

A plan to provide piped water to households across the country by 2024 was seen benefiting companies such as Shakti Pumps India, Jain Irrigation Systems, Kirloskar Brothers, VA Tech Wabag and PI Industries. Given the long gestation period of the programme, any gains are yet to reflect in the stock prices of most of those companies.

Real estate & construction

The Budget outlined plans to build 19.5 million rural homes by 2022 and continue the government's focus on road construction — steps that would help builders like Larsen & Toubro, Dilip Buildcon, IRB Infrastructure, GMR Infrastructure, Oberoi Realty, and DLF. But domestic orders continue to be affected by the slowdown. BLOOMBERG

No plan to raise alcohol duty: Govt

SUBHAYAN CHAKRABORTY
New Delhi, 21 January

There is no proposal to raise overall import duty on foreign alcohol, government sources said, days after news broke that the government plans to limit the purchase of alcohol at duty-free shops.

The commerce department has reportedly suggested to the finance ministry that the upcoming Budget prohibit purchase of cigarette cartons at duty-free shops.

Importers were waiting for clarity on govt's plan to restrict overall alcohol sales spread

Officials say the move is to crack down on the import of non-essential items, but large-scale import duty hikes are not planned at the moment. Instead, the government is going ahead with a move to place restrictions on 371 items ranging from toys, plastic goods, sports items and furniture, after they were categorised as "non-essential".

The latest information is expected to calm the nerves of alcohol importers who had panicked after rumours about the government planning to restrict overall alcohol sales spread.

As of now, strong alcohol, including vodka, whiskey and liqueur, among others, attract a basic customs duty of 150 per cent along with other charges, while beer has a customs duty of 100 per cent. Import of alcohol has grown over the past couple of years.

AGRICULTURE

Budget 2020-21 WISH LIST

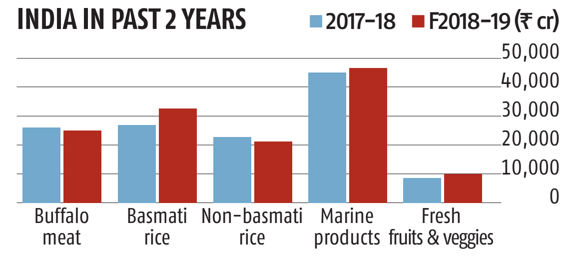
At a glance

- Agriculture and allied sector GVA growth rate declined from 6.3% in 2017 to 2.9% in 2019
- Export in terms of value of agri commodities and processed food jumped 7% in 2019
- Erratic weather patterns disrupted agri activities
- Production is expected to decline for most crops as compared to the previous years
- Cereals and food grains are expected to have a surplus production, while pulses and oilseeds will be short in supply as compared to demand, in the coming decade

Key challenges

- Agri-insurance scheme (PMFBY) is facing issues
- Capacity utilisation in edible oil refining has decreased from 65% to 46% in five years
- High-yielding cattle can be developed by using high quality sorted semen or live embryos
- Climate change and bio-security affect agri
- Only 52% of the potential of inland fishery has been realised so far

EXPORT OF TOP AGRICULTURAL COMMODITIES FROM INDIA IN PAST 2 YEARS



BUDGET INSIGHT OUT 2020-21

Industry-ask

- PMFBY needs to be revamped in terms of design
- Both short- and long-term measures needed to promote indigenous edible oil
- Regulatory mechanism for import of high-quality semen and live-embryo for livestock needs to be simplified
- Need improvement in fishing gear, infra for deep sea fishing, collection, storage and traceability of harvest, and processing of aqua produce
- Export needs to be supported through awareness programmes
- Start-ups and ag-tech promotion
- A multi-faceted, systemic approach needed for climate change issue
- There is a need for planning in sowing, connecting various markets digitally for a better price discovery mechanism, and regular flow of marketable surplus

PwC POINT OF VIEW

AJAY KAKRA
Leader - Food and Agriculture, PwC India

"There is a huge potential for investment in various sub-sectors across thematic areas like insurance, marketing infrastructure, cold chain and food processing. Policy thrusts in the right area can improve sector's performance. However, climate change poses a huge threat and needs to be countered with a robust policy and agri infrastructure"

INDUSTRY VOICE

SHAILENDRA JAGTAP
MD & CEO, John Deere India

"Looking at this sector holistically across the value chain, addressing every stage from farm to fork, shall prove beneficial. The entire crop diversification needs a robust incentive and implementation plan. Climate issues are rising. This brings opportunities in areas such as R&D, Innovation, AI, ML, remote sensing, etc.

Source: PWC

In race against China, power equipment makers seek govt help

The first of a three-part series on export hurdles looks at how India's high-value power equipment exports to China have been hit by bureaucratic obstacles

SHREYA JAI & SUBHAYAN CHAKRABORTY
New Delhi, 21 January

An Indian electric equipment maker recently spent six months translating from Mandarin to English all the documents and allied rules, laws and regulations of a tender floated by the State Grid Corporation of China.

"We realised that none of the conditions favoured our participation. Our request for a translated copy of the tender fell on deaf ears. Moreover, if I was eligible under one criterion, I wasn't meeting the sub-criteria. It's a mesh of rules to prevent Indian companies from entering the Chinese market while they continue to flood our market," said a senior executive of the company mentioned above.

At a time when global trade growth remains slow, exports from India face restrictions in the form of harsher sanitary and phytosanitary rules, stricter standards, labelling requirements and import controls in key markets.

Reacting to complaints from exporters, the Union Commerce Department has asked industry bodies to map out the problems being faced by the entire value chain of a product, such as inverted duties, dumping or unfair subsidies.

In response, the Indian Electrical and Electronics Manufacturing Association (IEEMA), the representative body for the industry, has submitted a note to the Piyush Goyal-led department on the non-tariff barriers they face in the countries they export to. The biggest complaints are against China. *Business Standard* has accessed the note and a copy of a tender floated by the State Grid Corporation Limited of China.

EXPORT LOGJAM
PART-1

The concerns of the domestic industry are not unjustified. Manufacturers say that Chinese imports in power, renewable and electric equipment sectors have flooded the Indian market because of lax rules, which they feel should be addressed. As Chinese exporters get sovereign support in the form of preferential tenders, Indian companies say the same should be done in India, too.

The estimated market size of India's electrical industry is ₹2.08 trillion. In 2018-19, exports of IEEMA's member companies stood at ₹21,235 crore, most of which was to China, Japan, Korea, the US, Russia and European countries such as Germany, France and Italy. As for China, it is the world's largest producer and exporter of electrical machinery, and accounted for more than a fifth of the total global electrical exports in 2016.

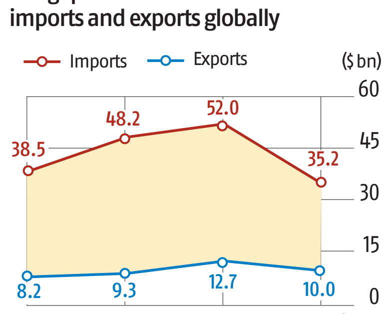
IEEMA has listed several issues with the tenders floated by Chinese state-owned power companies for procuring equipment. One of the main grievances is that the tender is always in Mandarin and no copy is available in English, even on request.

TRADE IMBALANCE

Chinese electricals pour in, but few Indian exports find their way to China

($ bn)	2016-17	2017-18	2018-19	2019-20*
Imports from China	21.9	28.6	20.6	14.0
Exports to China	0.39	0.47	0.57	0.54

The gap between what India imports and exports globally



* (Apr-Dec)

Source : Commerce department

"This makes it difficult for us to understand the fine print and terms and conditions. Moreover, the terms are so strenuous that it is difficult for Indian companies to participate," said an industry executive.

China's tender specifications mandate that participating companies be legally registered in that country. Bids placed through a joint venture with a Chinese company or through an agency tenderer are not accepted. Yet, as IEEMA points out, these are allowed in India and other countries, and are used by foreign companies to access the local market.

"Electrical machinery provided the initial impetus to Chinese exports post the country joining the World Trade Organization in 2000. As a result, the firms in the sector enjoy special privileges from their government in the form of tax rebates and political patronage," said a senior official who has worked on Chinese trade flows.

"There is a chance that more non-tariff barriers may be deployed by China now that the Regional Comprehensive Economic Partnership deal has gone sour. The mega trade deal would have allowed China a much larger market access to India," said trade expert and Jawaharlal Nehru University professor Biswajit Dhar. China could be sending a message to New Delhi, apart from protecting its own market, he added.

China also mandates that foreign manufacturers get a quality certificate from it. Industry executives say this is an impossible exercise in the case of 90 per cent of the equipment, as they cannot be physically carried to China. "Due to the language barrier, cumbersome procedures, the time and cost involved, it becomes next to impossible for Indian industry to take the CCC (China Compulsory Certification)," said the note.

IEEMA has also complained that China does not recognise quality certificates issued by the Central Power Research Institute (CPRI), a body under the ministry of power. But it is not only China — more than 30 countries do not recognise CPRI as a testing agency and ask for quality certificates from international laboratories outside India. These include Oman, Mexico, Malaysia, Argentina, Kuwait, United Arab Emirates and even neighbours Bangladesh, Nepal and Sri Lanka.

The industry body has requested the commerce ministry to make certification by Indian agencies compulsory for imports into India. "IEEMA requests mandatory third party testing requirements and Bureau of Indian Standards (BIS) certification while importing electrical products from these countries as a reciprocal measure," said the note.

The Directorate General of Foreign Trade is expected to take up the issues with its Chinese counterpart soon, a senior official said.

Next: Agriculture

IT firms stare at revenue loss as core biz falters

While Infosys, Wipro saw their revenues from core segment declining in Q3; TCS has discontinued giving figures

DEBASIS MOHAPATRA
Bengaluru, 21 January

Indian IT services firms will increasingly find it difficult in posting double-digit growth as revenues from their core application development and maintenance business continue to decline. This is, despite the fact that digital revenues now constitute 40 per cent of their top line, at least 10 percentage point increase over the past one year.

Experts are of the opinion that though digital services hold the future, the companies are likely to take a hit during the transition period.

"While the pressure on traditional services is extremely high, we are not in position to judge the speed of decline as of now. However, there is a clear message that the overlap between traditional and digital services is growing, leading to some level of cannibalisation," said Sanchit Vir Gogia, chief analyst and chief executive officer (CEO), Greyhound Research.

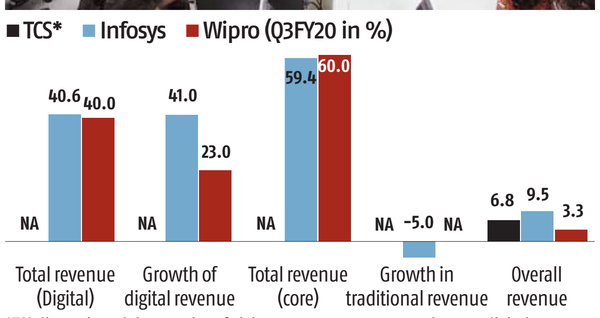
Analysis of the third quarter earnings for this financial year pointed out that revenues of these companies from traditional businesses either declined or grew at a slower pace. For instance, Infosys' core revenues declined 5 per cent year-on-year basis while HCL Technologies' mode-I revenues (mostly constituting the core segment) grew 0.3 per cent. While the numbers for Wipro were not available, sources said it was on a negative zone. The market leader, Tata Consultancy Services (TCS) has discontinued the practice of providing separate figures for digital versus core revenues from third quarter onwards.

"Digital is not growing that fast, while core is declining every year. That is the reason that for most firms, growing at double digit has become a challenge," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting. "IT firms are witnessing cannibalisation of their revenues to an extent, which is visible from the fact that clients are asking for discount during the time of project renewal."

Experts opined that the line between core and digital are getting blurred and in the absence of any reporting framework, TCS' decision not to differentiate between the two is logical. "If you see, TCS is taking the approach of Accenture, which has also stopped reporting digital revenue as in every project, there is a component of digital now," Jain said.

Interacting with analyst, the CEO and MD of TCS, Rajesh Gopinathan, had echoed this sentiment. "It is becoming difficult to differentiate between what is digital and what is existing, and that boundary has become a very nebulous boundary. That is why, we are discontinuing reporting from this quarter onwards," Gopinathan had said.

Despite the fall in core revenues, IT firms are recovering faster owing to new revenue streams. "The growth of newer revenue lines has started in a significant way. So, it's not May Day yet," said Gogia of Greyhound Research.



*TCS discontinued the practice of giving separate revenue numbers on digital from Q3FY20
Source: Companies

Asean bloc invite India for RCEP dialogue next month

But govt yet to take a call on participation

SUBHAYAN CHAKRABORTY
New Delhi, 21 January

India has been extended an invitation to join talks on the proposed Regional Comprehensive Economic Partnership (RCEP) next month, but is still on the fence about participation, say sources.

The 10-member Association of the Southeast Asian Nations (Asean) bloc has invited India to Bali, Indonesia, for RCEP talks on February 3-4.

The Asean secretariat hopes the meet may be able to iron out existing wrinkles raised by India. Since there had been no significant progress on the matter over the past two years on most issues, New Delhi is yet to decide on the invite, an official said.

The RCEP is a proposed pact between 10 Asean economies and six others (New Zealand, Australia, China, India, Japan, and South Korea) with which the grouping currently has free-trade agreements.

In November last year, the Narendra Modi government had announced it was pulling back from RCEP talks, arguing doing so would adversely affect national interest. Modi had informed the other leaders that the deal in its latest form "does not fully reflect the basic spirit and the agreed guiding principles of the RCEP".

This was a nod by the government to concerns raised by domestic industry and farmers, most of whom had opposed the pact, fearing it would lead to uncontrolled dumping by China. But the RCEP nations had left the door open for India — the largest untapped consumer and industrial market — in the bloc.

All nations, apart from India, went ahead with the deal after the conclusion of the summit in Bangkok. "Participating countries have concluded text-based negotiations for all 20 chapters and essentially all their market-access issues," said the joint statement issued after a meeting of RCEP leaders.

"All RCEP countries will work together to resolve these outstanding issues in a mutually satisfactory way. India's final decision will depend on satisfactory resolution of these issues," the joint statement had said.

Negotiations, started in 2012, are currently expected to culminate in a final deal being signed by end-2020. The deal is now being scrubbed for legal issues.

The RCEP issue had divided the domestic industry, with various sectors like retail, dairy, and electronics vehemently opposing the deal, fearing an onslaught on imports from China and other nations. But other sectors, such as textiles and pharma, had supported India's participation, citing the deal provides access to the huge Chinese consumer market.

NITI Aayog had pointed out that existing trade agreements with Malaysia, Japan, Singapore, and South Korea are grossly unfavourable to India and have led to a widening trade deficit with these nations.

India has repeatedly maintained that if other RCEP nations come up with better offers, it will be open to discussion. Currently, India is exploring trade agreements with the US and the European Union to allow the manufacturing and services sectors to benefit from access to large developed markets.

Major issues and What it would have meant

IMPORT CAP FORCHINA
Mechanism to raise tariffs on Chinese imports if it crossed certain threshold

MORE TRADE IN SERVICES
Cross border movement of Indian IT, medical workers, teachers

ASSURANCE ON MARKET ACCESS
Preferential access to Indian goods in Chinese, Asean markets

2019 TARIFF BASE YEAR
Tariffs would have been slashed on prevailing duties in '19, others wanted '14

NO MFN COMMITMENT
India would have had to give similar benefits to all nations irrespective of earlier trade deals

Irdai defers execution of IndAS in insurance sector

SUBRATA KUMAR PANDA
Mumbai, 21 January

The Insurance Regulatory and Development Authority of India (Irdai) has decided to defer the implementation of Ind AS (Indian Accounting Standards) in the insurance sector until the International Accounting Standards Board (IASB) issues final amendment to International Financial Reporting Standard 17 (IFRS 17).

The regulator had planned to implement IndAS 117, which is an equivalent of IFRS 17, and IndAS 109 from April 1 onwards, but the IASB decided to amend IFRS 17.

"While the insurance sector was preparing to implement Ind AS, it was noted that the IASB has taken a considered view to amend IFRS 17. The IASB has indicated that it aims to issue the final amendments in mid-2020," the regulator said.

While the equivalent standard of IFRS 17 is yet to be notified in India, after the final standard is notified by the IASB, the corresponding standard in India will have to be notified by the ministry of corporate affairs (MCA).

"Once the standard equivalent to IFRS 17 is notified in India, Irdai will be in a position to notify the regulations on the preparation of Ind AS-compliant financial statements. Several other regulations that may be impacted because of the implementation of IFRS 17 may also have to be modified appropriately", Irdai said.

Central Government approves 100% FDI in Airtel

The Department of Telecom (DoT) has approved raising of foreign direct investment in Bharti Airtel to 100 per cent from 49 per cent allowed earlier, a stock exchange filing of the company said on Tuesday.

The company also has the approval of the Reserve Bank of India (RBI) that allowed foreign investors to hold up to 74 per cent stake in the company.

"Bharti Airtel has received the approval from the Department of Telecommunications (DoT) vide its letter dated January 20, 2020, for increasing the limit of foreign investment up to 100 per cent of the paid-up capital of the company," the filing said. PTI

Credit risks to stay high this year too for India, says S&P

ABHIJIT LELE
Mumbai, 21 January

The credit risks will remain high in the country's financial sector in 2020, despite the recognition of legacy stressed assets and capital infusion by the government in public sector banks, Standard and Poor's (S&P) said on Tuesday.

India will go through a tug of war on the economy, resolution of bad loans, and health of non-banking financing companies (NBFCs). Private sector banks and top-tier public sector banks with better franchises, profitability, and capitalisation are likely to increase their market share, S&P said in reports on banks in 15 emerging markets.

Reduction in stressed assets is contingent upon the insolvency and bankruptcy process. India's corporate bankruptcy process has been a mixed bag. The process has yielded recovery rates that are higher than the earlier regime and stabilised non-performing loan (NPL) ratios for the system in the past financial year. However, it is taking longer than originally envisaged.

Large banks have 30-50 per cent of their NPLs undergoing resolution under bankruptcy proceedings and a sizable amount of this is scheduled to be resolved in the FY21. Stabilisation in asset quality is contingent upon these resolutions. S&P said it expects the Indian government to remain supportive of public sector banks, as reflected in its ongoing recapitalisation plan. Weak operating income at several public sector banks will make them reliant on government capital infusions.

Timely and sufficient infusions are critical for these banks to tide over the provisioning hump. Referring to credit drivers, the rating agency said the Indian economy has cooled off in recent quarters because of weak private consumption and is likely to remain soft in FY20.

The government's fiscal push in the form of corporation tax cuts, income transfers to farmers, and the RBI's policy rate cuts and transmission may lead to some recovery.

"We expect GDP growth of 6.5 per cent in FY21 and 7 per cent in FY22," it added.

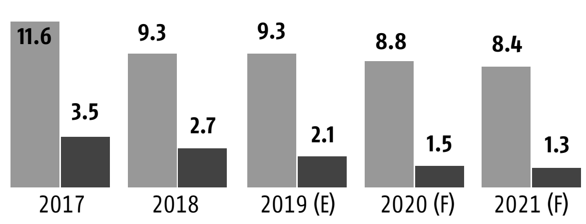
PSB's purchase of high-rated pooled assets of ₹1 trillion is eligible for a one-time six months' partial credit guarantee by the government for the first loss of up to 10 per cent. The central bank is facilitating these transactions by providing banks with a liquidity backstop against their excess holdings of government securities. However, market volatility developments stemming from financial firms may have broader economic effects on financial conditions and borrowers, thus affecting bank asset quality, S&P added.

ILLUSTRATION: BINAY SINHA

THREE KEY RISKS TO BANKS

- Disruption in global trade and volatile capital flows
- Geopolitical tensions and domestic policy uncertainty
- Commodity price volatility

Banks' asset quality trajectory



E: estimated; F: Forecast
Source: Standard and Poor's

Frost Int'l booked for ₹3,592-cr scam

PRESS TRUST OF INDIA
New Delhi, 22 January

The Central Bureau of Investigation (CBI) has booked Mumbai-based Frost International, its directors Uday Desai and Sujay Desai, besides 11 other individuals and companies for allegedly cheating a consortium of 14 banks to the tune of over ₹3,592 crore, officials said.

The action has been taken on the complaint of Kanpur Zonal office of Bank of India, which alleged that the directors had worked in the guise of undertaking merchanting trade without genuine business.

It is alleged that they had defaulted in meeting payment obligation towards the lending banks of the consortium, led by Bank of India, the officials said. The company and its directors, guarantors and unidentified others submitted forged documents, diverted and siphoned off the bank's funds, they said.

The action of the company and its directors cheated the banks to the tune of over ₹3,592.48 crore, they added.

ED attaches ₹107-cr assets of Kolkata firm

PRESS TRUST OF INDIA
New Delhi, 21 January

Assets worth over ₹107 crore of a Kolkata-based firm have been attached in connection with a money laundering probe linked to an alleged bank fraud case, the Enforcement Directorate (ED) said on Tuesday.

The action has been taken against directors of Fair Deal Suppliers, their land and building in Coimbatore, an office building, a farm house, bungalow in Ahmedabad and seven fixed deposits have been attached under PMLA. The total value of the properties is ₹107.73 crore.

ED said that the firm and its

directors Ram Prasad Agarwal, Narayan Prasad Agarwal, Pawan Kumar Agarwal and Saurabh Jhunjhunwala and others were booked by it after studying a CBI charge sheet filed against them for "defrauding" a UCO Bank flagship corporate branch in Kolkata.

CBI books ex-DGFT officer, others in ₹20-cr duty fraud

CBI filed a corruption case against a former Directorate General of Foreign Trade along with directors of a private company for allegedly cheating the exchequer of nearly ₹20.26 crore through fraudulent claim of terminal excise duty in 2014-15, officials said on Tuesday. They said the action has been taken against A K Singh, the former DGFT joint director, Ahmedabad and Mohit Kumar Goel, Ankur Aggarwal and Nand Kishore Aggarwal — all directors of Crystal Crop Protection. The CBI had sought sanction from the commerce ministry before proceeding against the officer.

Rupee-dollar derivatives to enter Gift City

RAJESH BHAYANI
Mumbai, 20 January

Rupee-dollar derivatives are set to enter stock exchanges established by the BSE and NSE in the International Financial Service Centre (IFSC) at Gift City in Gandhinagar, Gujarat.

The Reserve Bank of India (RBI) has permitted rupee-derivatives (with settlement in foreign currency) to be traded in all IFSCs. The consequent amending of regulations under the Foreign Exchange Management Act has been notified.

"We will be keen to launch the rupee-dollar Futures and Options contracts on our India INX Derivatives platform on a non-delivery basis after obtaining necessary regulatory approvals. Introduction of rupee-dollar pair will enable India's own IFSC to bring the offshore market onshore," said V Balasubramaniam, MD & CEO, India International Exchange.

"Already the offshore rupee-dollar market is pretty large and our effort will be to get the international investors and non-resident investors to engage on this at the IFSC for all their needs including hedging," said Balasubramaniam.

Now a circular with clarification from Sebi is expected with position limits and other details pertaining to trading.

An IFSC caters to customers outsider the jurisdiction of a domestic economy. Such centres deal with flows of finance, financial products and services across borders.

The RBI has permitted both rupee exchange rate futures and options. The notification says currency derivatives in any currency pair involving the rupee or otherwise are permitted on recognised stock exchanges set up in IFSCs. Contracts in the rupee shall be settled in a currency other than the rupee and anyone residing outside India may undertake these.

The aim is to bring in the offshore rupee market. As of now, huge rupee trades take place in non-deliverable forwards (NDFs) abroad. In last October's policy statement, The RBI had said two recommendations by a task force chaired by ex-deputy governor Usha Thorat had been accepted — one of these was to permit rupee exchange rate derivatives in exchanges at Gift City.

The task force had also recommended allowing domestic banks to freely offer foreign exchange prices to non-residents at all times, out of their Indian books, either by a domestic sales team or through their foreign branches.

Currently, cross-currency trades are permitted on the International Exchange floated by the BSE and NSE IFSC exchange in Gift City. However, the volume is minuscule because of the absence of rupee exchange trade.

In 2018, the Bank of England reported $23 billion in offshore rupee trade. RBI sources estimated deliverable daily onshore forwards at $21 billion for 2019. In sum, the rupee's offshore market is bigger than the domestic one.

RBI earlier had reservations on the latest move, due to concern regarding impact on the domestic market. However, that impact also happens when there is huge movement in the international (offshore) market.

Exchanges in Gift City operate 22 hours a day and, hence, foreign portfolio investors would find it efficient to hedge their requirement on NDFs which can now be in Gift City-based exchanges, once RBI clears the rules.

RBI restricts participation of resident entities in currency derivatives on Indian exchanges to the extent of their underlying exposure. A large market, outside the influence of regulatory authorities, undermines their effectiveness. At Gift IFSC exchanges, all products in derivatives are permitted except rupee exchange rate ones.

NDF markets are not a phenomenon peculiar to the rupee; they are common for currencies of many emerging market economies.

THE LOWDOWN

- RBI has allowed rupee futures and options settled in foreign currency
- The daily volume in NDF markets is $200 bn
- 2/3rd of this volume is in currencies of Korea, India, China, Brazil, Taiwan and Russia
- India's share is 18.22% of the trade in NDFs globally
- In 2018, $23 bn was in offshore rupee trades
- In 2019, onshore daily forward volume was $21 billion

Source: Paper presented by Dipesh Shah, head, GIFT City

Riding power without bridles

An undefined constitutional clause has grown too big for the times

OUT OF COURT

MJ ANTONY

Few provisions in the Constitution have grown from apparent insignificance to acquire formidable power as Article 142. It grants power to the Supreme Court to pass any decree to do "complete justice". The founding fathers did not expect this enormous transformation and passed the rule without debate in May 1949. But gradually, the court invoked this Article more and more and it has become an immense source of judicial authority. It was used in the recent Ayodhya judgment, orders in the National Register of Citizens, coal mine cases, constitutional appointments and ban on liquor shops on highways, to name a few.

The term complete justice consists of two words which are elastic at the hands of judges, who interpret it in different contexts. Several judgments have tried to explain the phrase, but it still remains fuzzy. Some decisions assert that it could be used to fill a vacuum when the statutes are silent. Some others maintain that the power is supplementary, complementary and affirmative. In one judgment, the Supreme Court declared it is advisable to leave this power "undefined and uncatalogued". The power is vested only in the Supreme Court and that was assumed to be a guarantee that it will be used only with "restraint and circumspection". The judges, however, have cautioned that this provision, which is not found in any revered democratic constitutions, should be used sparingly. But the current trend is to invoke it in high profile cases fraught with political and economic consequences. The sword of "complete justice", held by unelected judges, hangs over sensitive cases and could strike at any time.

In the Ayodhya judgment, two crucial orders were based on this Article -- the grant of five acres to build a mosque and the representation of Nirmohi Akhara in the proposed scheme. Earlier, the criminal cases involving the demolition of the structure were transferred from Rae Barely to Lucknow court when the trial was about to end after 25 years.

In the contentious issue of NRC in Assam, orders were passed in the same manner in two parallel public interest petitions. The matter is now in suspended animation before the court in view of the protests in the streets.

In the coal block allotment scam, this extraordinary power was exercised with disastrous consequences. Allocations granted from 1993 were cancelled in 2004 without hearing the allottees. The relentless march of this rule has caused anxiety in the field of environment.

The official Supreme Court Reports (SCR) recorded the use of Article 142 for the first time in the Nanavati case (1961) in which a naval officer convicted of murder was granted suspension of sentence pending appeal. SCR was silent after that for a long time on this power. It was understood that the power to do "complete justice" was to be exercised only in procedural matters. But after the Emergency of 1975, the law expanded to cover all injustices through public interest litigation. This Article was increasingly used to chase corrupt politicians (Vineet Narain judgement, 1997), judges (K Veeraswami,1991), to settle claims in the Union Carbide case (1989), examine the Emigration Act (1979) and to device rules to tackle sexual harassment at workplace (Vishaka, 1997). Often the decrees are forgotten soon after they are passed, like the guidelines on the implementation of the Dowry Prohibition Act. How many would remember, for instance, the fiat that hospitals which import equipment with customs concessions must publish the names of the poor persons it has treated every month?

Discussions on Article 142 are usually couched in blurred or inscrutable language, disregarding the dictum that language of law must be clear and simple. An ordinary person, for instance, would be nonplussed by a passage in the Ayodhya judgment: "Where rigidity is considered inadequate to address a situation, the plenary power of this court for doing complete justice is an appeal of last resort to the inherent quality of equity that the law is designed to protect, to ensure that the court is empowered to craft a relief that comports with both reason and justice." In the present volatile situation in multi-religious polity and law, it is important to follow transparent and strict guidelines on the use of Article 142. A torrent of words, as lawyers know, hides a weak stance. Commenting on the trend some time ago, the present Attorney General K K Venugopal quoted US Justice Benjamin Cardozo, who said that a judge "is not a knight-errant roaming at will in pursuit of his own ideal..."

A natural growth story in artificial diamonds

LGDs are becoming the rage in China and the West; but the trend eludes India

RAJESH BHAYANI

ROCK OF THE FUTURE

4% Current market share of LGDS

15% 2030 market share

15% India's share of global LDG exports

$800 or ₹56,800 Cost per carat of LGD

₹4 lakh a carat: Cost per carat of natural diamond

Indian jewellery processors mostly focussed on natural diamond

Sources: Bain & Co; Industry

For some decades, De Beers, the world's largest diamond miner, has been focusing on a product that essentially competes with its core business: synthetic or lab-grown diamonds (LGDs). Initially, the UK-headquartered major produced LGDs for industrial purposes through a subsidiary called Element Six. Then in 2018, it set up Lightbox Jewelry, a fashion jewellery business built on LGDs.

This retail line from the conglomerate that controls a third of the world's natural diamond business is the strongest signal yet of a growing market that offers India major opportunities for exports and creating a domestic market. Being lab-created, LGDs are considerably cheaper than natural diamonds — they cost about $800 or ₹56,800 a carat compared with ₹4 lakh a carat for a benchmark variety of polished diamonds (they should not be confused with Cubic Zirconia, which is a cheaper variety of stone).

With global natural diamond supplies predicted to start declining from this year (unless new mines are found), LGDs are gaining ground as a useful disruptive technology. They account for just 4 per cent of natural diamond market right now, but are projected to grow to around 15 per cent by 2030.

Paul Zimnisky, a New York-based independent diamond analyst and consultant, estimates that LGD production has grown 35 per cent in 2019 (about 4-5 million rough carats), over the year before. Ziminisky excludes diamonds below 0.5 carat but, according to Bain and Co, it is on this subone carat category that producers are now focusing.

What's driving this growth is falling prices. Zimnisky said LGDs are selling 45 to 55 per cent less than the price of equivalent natural diamonds, down from a 35 to 45 per cent discount a year ago. According to De Beers' research, consumers view LGDs as a product category distinct from natural diamonds. "Following the launch of Lightbox Jewelry, wholesale prices for LGDs decreased by around 60 per cent within a six-month period. Retail prices have also seen consistent declines, having fallen by around 20-30 per cent since the start of 2019," a company spokesman said. This trend is consistent with prices for laboratory-grown ruby, sapphires and other precious stones, which retail at 10 per cent the price of the natural stone.

This trend has, however, eluded India, one of the world's largest exporters of polished natural diamonds and gems. India accounts for 15 per cent of global LGDs, mainly in polished form, and exports virtually all it produces. In contrast China, which produces about 40 per cent of LGDs, mainly in the form of roughs, accounts for 10 per cent of global demand, the largest after the United States.

Cultural factors chiefly account for the poor LGD market in India. As the Global Diamond Industry Report (prepared by Bain and Antwerp World Diamond Center) pointed out, "Acceptance of lab grown diamonds in India is negligible as people seek spiritual meaning in the natural gemstones." This apart, rich consumers in India prefer the uniqueness of natural diamonds.

Adds Rajiv Popley, director, Popley Group, which has jewellery stores in India and in Dubai, "Indian consumers have always valued higher quality jewellery. Through mythology & history, premium gemstones and high quality diamonds have always been iconic to the Indian community."

Even if the domestic market doesn't acquire critical mass, the LGD market offers India's languishing gems and jewellery business a sparkling new opportunity. India is the world's second largest LGD producer, and in the April- December 2019 period, India's polished LGD exports doubled to $312.06 million, according to the Gems and Jewellery Export Promotion Council (GJEPC). Exports of natural polished diamond exports, by contrast, have been down 17.89 per cent to $14.67 bn in the same period.

According to GJEPC vice chairman Colin Shah, "With the help of new technology for lab grown diamonds manufacturing, LGDs are expected to redefine the global gem and jewellery industry. Newly developed categories of LGD are characterised with the same properties of natural diamond but with a difference of cost, time and has positive ecological impact because they don't have to be mined."

In India, the traditional jewellery processing centres of Mumbai and Surat are centres for LGDs (the latter mainly for polishing). Many traders also prefer to deal in import of rough LGDs from China and export polished ones to the US, the largest market for India's polished diamonds. In India, however, many of these players prefer to remain low profile because they have been trading or dealing with natural diamonds, which has been through a rough patch recently.

De Beers' Lightbox Jewelry is expected to change the rules of the game. Element Six is currently constructing a new LGD production facility in Gresham, Oregon to produce stones for Lightbox; this facility will ramp up to full production over the course of the next year and will have the capacity to produce around 200,000 – 250,000 polished carats of LGDs annually. Prices are expected to fall further when this line comes to market, suggesting an opportunity for jewellers to create a vibrant new market in India.

CHINESE WHISPERS

Son-in-law of MP

The elevation of Jagat Prakash Nadda (*pictured*) as the new Bharatiya Janata Party (BJP) chief brought a lot of joy to Madhya Pradesh — especially to the city of Jabalpur. That's because Nadda's wife Mallika, a professor of history at the Himachal Pradesh University, hails from that city. Many of the family's neighbours were seen distributing sweets. Nadda's mother-in-law Jayshree Banerjee has represented the town both in the MP Assembly as well as in Parliament. Madhya Pradesh Chief Minister Kamal Nath congratulated Nadda addressing him as the son-in-law of the state. "Many congratulations to the state's son-in-law JP Nadda-*ji* for being elected the national president of BJP," Nath tweeted.

In-house criticism

The UN climate summits or the COP (Conference of the Parties) might be doing all it can to demonstrate to the world what can be achieved through a consistent policy of sustainable development and economic transformation, but at home some members are facing stiff criticism. Britain's Claire O'Neill, COP26 president, is one of them. "My daughter is an Extinction Rebellion protestor. She tells me you are just not doing enough. And all I can say is I am doing whatever I can," she described with a mother's angst during a round table held in Delhi recently.

Conspiracy theory

When Aam Aadmi Party (AAP) chief and Delhi Chief Minister Arvind Kejriwal (*pictured*) reached the office of the returning officer to file his nomination papers on Tuesday, he found a long queue of people waiting to file theirs. The AAP alleged it was a conspiracy. "Small room packed with 40-plus candidates who want to file nomination. Each nomination takes 30-45 minutes. These 40-plus candidates know each other well. Yesterday, the CM was supposed to file his nomination, so 53 candidates came to file, but most of them did not as the CM did not," tweeted AAP legislator Saurabh Bharadwaj. The party alleged a group of 50 was taking tokens to file their papers for Kejriwal's constituency, New Delhi, every day, for the last four days but were not filing nominations. "They just wanted to harass Kejriwal," Bharadwaj said, tweeting a photograph of Kejriwal seated in the office for six hours.

INSIGHT

Neither affordable nor relevant

Is it time to review the need to maintain CRR funds with the central bank?

DEEP NARAYAN

India's banking regulator has the unenviable task of nursing the banking sector back to health as well as address macro growth challenges. On the one hand, the country's banks, particularly PSU banks, are struggling with reduced profit and eroding capital, on the other, the RBI's is trying to revive credit growth by reducing the interest rate and enhancing liquidity. A wide range of decisions have been taken to address the issues facing industry. While the efforts continue it is somewhat surprising that not much action was seen on the cash reserve ratio (CRR) front. Indian banks currently maintain an estimated ₹5.25 trillion with the RBI, without any income from the same. However, they incur a deposit cost of about ₹25,000 crore annually. Rethinking CRR might help address some of the challenges the RBI is trying to address.

Textbooks continue to tout the money-multiplier (MM) argument for CRR (or reserve requirement in a global context). However, the credibility of the money multiplier argument based on the fractional reserve banking (FRB) construct has waned over the years. The whole hypothesis was weak to start with. There are at least six countries — Australia, Canada, Denmark, New Zealand, Norway, and Sweden — where the legal reserve requirement is zero. Clearly the money multiplier does not become infinite!

Jaromir Benes and Michael Kumhof of the IMF state that the logic of RR enabling high-powered money (M1) to get multiplied by bank lending is contrary to the operational mechanism of credit and money creation. The same researchers find that central banks oblige whenever banks require money to compensate for depleted reserves. Thus the argument that banks need to keep cash in vaults or with the central bank is less tenable than popularly believed. With the two popular reasons for CRR either theoretically untenable or practically irrelevant, one might ask why India persists with CRR and that too at the current levels.

Is CRR useful? CRR along with open market operations (OMO) and standing facilities are a central bank's tools to operationalise monetary policy. CRR is a quick way to adjust the demand for liquidity while the other two tend to impact the supply of liquidity (O'Brian, Federal Reserve Board, Washington). In the past, developing countries have used RR in conjunction with domestic interest rate as a macro prudential tool.

Between 1970 and 2011, India was one of the most active users of CRR as a monetary stabilisation tool (Frederico, Vegh, Vuletin; 2014). This was a classic developing market behaviour. In that context, the fact that the CRR rate has remained at 4 per cent since February 2013 suggests a significant divergence from the pre-2011 behaviour. Of course, the RBI did increase the incremental CRR to 100 per cent during the demonetisation period, but it was used as a temporary measure.

Not using the CRR as a macro-prudential tool is a significant evolution in India's behaviour. Stable, infrequently altered reserve requirements, is a feature of OECD nations.

India's reduced dependence on CRR may not be coincidental. India's overall macro-prudential strategy is closer to the OECD playbook. The country has adopted inflation targeting and its stated fiscal deficit target is based on a target debt-to-GDP ratio of 60 per cent (NK Singh committee). The same debt-GDP ratio is required for European countries as per the Maastricht Treaty, an eligibility criteria for Eurozone membership. You can have too much of a good thing and that is equally applicable to macro-prudential norms. The existence of CRR and that too at current levels looks out of misplaced.

After hovering at peak rates of 14.5-15 per cent between 1988 and 1994 the trajectory of our CRR has been largely falling in line with most of the world. During that period quite a few countries reduced RR to zero, while a number of OECD and other industrial nations have got them at levels of 1.5-2 per cent.

If deployed as interest earning asset, the current CRR an interest income to the tune of Rs40,000 crore or more. To put things in perspective, PSU banks' cumulative annual PBT for FY19 is estimated at Rs 1.15 trillion. Two-thirds of the CRR can safely be attributed to PSU banks. Any support coming via redeployment of CRR will have a meaningful impact on PSU profitability. Not to mention the fact that it would unleash ₹5.25 trillion worth of liquidity into the market.

A conservative and calibrated reduction of CRR to a level of 1.5 per cent over the next couple of years is a viable option. In any case there should be a debate on whether India needs a CRR in the first place. Burdening banks with CRR may not be in the best interest of the economy.

The writer is a visiting faculty of Finance at IIM Calcutta & a risk consultant

LETTERS

Missing link

This refers to "Leaving RCEP: A missed opportunity?" (January 17). The article rightfully emphasises the role of trade in realising the untapped potential of a country. At present India has bilateral trade agreements with Japan, Malaysia, Singapore, Thailand and South Korea as well as an FTA with members of ASEAN. Thus, in ratifying the RCEP, the barriers would have been lowered with only China, Australia and New Zealand. Therefore, this dilutes the spillover effects of intensive and extensive margin arising from trade as stated in the article. Further, an examination of India's current trade agreements doesn't enthuse much confidence. For instance, between 2014-15 and 2018-19 India's trade deficit with the ASEAN increased from $13bn to $22bn. This story rhymes when one looks at the trade deficit with other members of the RCEP, like Japan and South Korea.

There is no denying that trade based on comparative advantage benefits countries, so an apposite analysis could have been based on the reasons for India remaining non-commital even after seven years of negotiations. An analysis of the unresolved issues, such as rules of origin, auto trigger and safeguard mechanism for surge in imports and rules governing e-commerce, transfer of information and server locations, can reveal the missing link in deciphering the denouement of RCEP saga.

Durgesh Pawar Pune

The bottom line

This refers to the well written letter by the veteran RBI-ite Shri R C Mody ("History repeats itself", January 20). As an officer who was engaged in the

inspection of commercial banks across the country for over 20 years, I can say that if generalists could manage the Reserve Bank of India, there would be no need for a separate organisation; it could have been a department of the Union Ministry of Finance.

C V Subbaraman
former Regional Director, RBI

Limit the damage

This refer to "What next, Reliance Home Finance?" (January 20). If Reliance Home Finance goes bust it will be in a long line of NBFCs/HFCs, namely, IL&FS, Altico, Reliance Capital, DHFL, DHIL to have gone that way. Many of them have diverted bank funds to either group companies or related ones. Some of them have lent for infrastructure without carrying out due diligence and with disregard to their asset-liability structures. One of the reasons for the downturn in the Indian economy is problems in the NBFC/HFC sector. The bad news there doesn't seem to end. Since banks have lent to these institutions it impacts them as well.

This is an appropriate time for the supervisory authorities to conduct asset quality reviews (AQR) of the large NBFCs/HFCs which are facing problems to know the real quality of the assets they hold. The advantage of this is not only greater transparency, but also that timely steps can be taken to ameliorate the situation. By not doing AQRs we will continue to be surprised seeing some of the big ones fall. The problems of these institutions won't go away immediately, but timely proactive steps will limit the damage they cause to financial system.

Arun Pasricha New Delhi

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 • E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE

Business Standard
Volume XXIV Number 114
MUMBAI | WEDNESDAY, 22 JANUARY 2020

The other population problem

Many parts of India are already ageing

For years, one of the major problems facing the world and India was an exponential growth in population. But, in recent years, that problem might have reversed. The United Nations estimates that 27 countries have fewer people now than in 2010, and 55 will have their populations decline in the decades to 2050, which means falling populations will become normal. This brings with it a series of worrying geo-economic consequences. For example, some economists who see economic growth per capita arising from productivity increases, which in turn are driven by innovation, worry that a smaller population might produce fewer innovations — thus, eventually leading income per capita to stagnate even as the population falls. Others are concerned that expectations of a falling population mean that producers' expectations of future demand are similarly lowered, leading to a crisis of aggregate demand and investment. Yet some others point out that these very effects could lead to a further decline in fertility, as parents feel the need to invest in fewer children given their dimmer prospects.

Population stagnation, once associated only with the rich economies, is now also seen in middle-income countries — and in those states of India that are also at the upper-middle income level. *The Economic Survey* of 2019 had an entire chapter on Indian demographics that will likely become a standard reference in the years to come. It projects total Indian population growth in the two decades between 2020 and 2041 as being just over 12 per cent. But this conceals great variation in population growth and fertility across regions and states. Some states, such as Bihar, will grow by 25 per cent — in other words, at historically comparable levels. Others, such as Andhra Pradesh (AP), will barely see any population increase — the *Economic Survey* suggests that AP will have its population grow by only 3.4 per cent between 2021 and 2041. By the fourth decade of this century, the *Survey* suggests that the population of Tamil Nadu will actually be shrinking. The implications of a changing age distribution will begin to be felt even sooner. By 2031, the size of the working-age population will start to decline in 11 states. In other words, Indian policy-makers should be preparing for a situation in which large parts of the country will suffer the "rich economy" problem of stagnant or declining populations.

Kerala, which has impressive human development indicators, saw annual population growth of only 0.5 per cent between 2001 and 2011. There is much to be learned from those areas of the country that are dealing with the peaking of school-age population. The effects are already being seen on the school infrastructure. The *Survey* reported that the number of elementary schools with under 50 students has increased in the 2010s for every state in the country, with the sole exception of Delhi. Health infrastructure will also have to be upgraded to deal with more older patients. With fewer students and a large number of older people to support, the level of human capital imparted to each member of the workforce becomes vital. The macro-economic effects must also be kept in mind. India can no longer hope to depend on the growth impetus that came from an increasing proportion of the workforce — unless that is augmented in other ways. Getting more women into the workforce is the only way to counteract this phenomenon.

Simplifying tax on capital

A clear timeline needed for transition to a transparent regime

The government is reportedly considering abolishing the dividend distribution tax (DDT) and making dividend income taxable in the hands of shareholders. The move is expected to boost investor sentiment as it will reduce multiplicity of taxes for companies. DDT is currently levied at a rate of 20.55 per cent, including surcharge and education cess, on dividends paid by companies to shareholders. The government has reasons for reconsidering the DDT. Finance Minister Nirmala Sitharaman had termed the tax a "regressive measure" in the last session of Parliament because it leads to cascading of taxes. It affects foreign investors who are unable to claim credit in their home country since they don't pay DDT directly. The removal of DDT would also benefit domestic investors who are in a lower tax bracket. Another big reason for reconsidering DDT could be that it was initially imposed to increase the ease of collection. However, most transactions in this category are now done electronically, so it's no longer difficult for the tax department to track the flow. The removal of the tax was also suggested by the Akhilesh Ranjan panel, which reviewed direct tax laws.

The government, however, would do well to take a holistic view of the taxation structure, as frequent changes in the tax system result in instability and increase complications for taxpayers. For example, the government imposed tax on share buybacks in the current financial year to remove the arbitrage between dividends and buybacks. Companies were returning surplus cash to shareholders through buybacks to avoid DDT. But the imposition of tax has significantly reduced buybacks. The bulk of the buybacks that happened in the current fiscal year were announced before the July 2019 Budget. It's intriguing that the government in July wanted to remove the arbitrage between dividend and buybacks but is now considering abolishing DDT. This reflects incoherence and a lack of objectivity in policymaking. If DDT is removed, companies will start returning surplus cash to shareholders through dividend distribution and avoid buybacks.

What is needed at this stage is simplification of the capital gains tax regime. For instance, the definition of long-term varies not only for various asset classes but also for assets in the same category. Long-term for listed shares is one year, but for unlisted share it's two years. They are also taxed differently. Definition of short-term and long-term is also different for listed and unlisted debentures. Things get more complicated in the case of housing property with several exemptions and restrictions. Clearly, there is an urgent need to bring simplicity and uniformity in the tax structure. It is likely that the direct tax panel would have recommended changes in this area. The government should release the report, as it will enable an informed discussion and help policy-makers make the right intervention. The overhaul of the tax system should be done after proper consultation to avoid recurring changes. A simple and stable tax system, apart from improving compliance, will help both firms and individuals to plan their economic lives better. It is high time that the government avoided further flip-flop and provided a clear timeline for transition to a new transparent regime.

ILLUSTRATION: BINAY SINHA

The truth about the Trump economy

It is becoming conventional wisdom that Trump has been good for the economy. Nothing could be further from the truth

JOSEPH E STIGLITZ

As the world's business elites trek to Davos for their annual gathering, people should be asking a simple question: Have they overcome their infatuation with US President Donald Trump?

Two years ago, a few rare corporate leaders were concerned about climate change, or upset at Trump's misogyny and bigotry. Most, however, were celebrating the president's tax cuts for billionaires and corporations and looking forward to his efforts to deregulate the economy. That would allow businesses to pollute the air more, get more Americans hooked on opioids, entice more children to eat their diabetes-inducing foods, and engage in the sort of financial shenanigans that brought on the 2008 crisis.

Today, many corporate bosses are still talking about the continued GDP growth and record stock prices. But neither GDP nor the Dow is a good measure of economic performance. Neither tells us what's happening to ordinary citizens' living standards or anything about sustainability. In fact, US economic performance over the past four years is in the indictment against relying on these indicators.

To get a good reading on a country's economic health, start by looking at the health of its citizens. If they are happy and prosperous, they will be healthy and live longer. Among developed countries, America sits at the bottom in this regard. US life expectancy, already relatively low, fell in each of the first two years of Trump's presidency, and in 2017, midlife mortality reached its highest rate since World War II. This is not a surprise, because no president has worked harder to make sure that more Americans lack health insurance. Millions have lost their coverage, and the uninsured rate has risen, in just two years, from 10.9 per cent to 13.7 per cent.

One reason for declining life expectancy in America is what Anne Case and Nobel laureate economist Angus Deaton call deaths of despair, caused by alcohol, drug overdoses, and suicide. In 2017 (the most recent year for which good data are available), such deaths stood at almost four times their 1999 level.

The only time I have seen anything like these declines in health — outside of war or epidemics — was when I was chief economist of the World Bank and found out that mortality and morbidity data confirmed what our economic indicators suggested about the dismal state of the post-Soviet Russian economy.

Trump may be a good president for the top 1 per cent — and especially for the top 0.1 per cent — but he has not been good for everyone else. If fully implemented, the 2017 tax cut will result in tax increases for most households in the second, third, and fourth income quintiles.

Given tax cuts that disproportionately benefit the ultrarich and corporations, it should come as no surprise that there was no significant change in the median US household's disposable income between 2017 and 2018 (again, the most recent year with good data). The lion's share of the increase in GDP is also going to those at the top. Real median weekly earnings are just 2.6 per cent above their level when Trump took office. And these increases have not offset long periods of wage stagnation. For example, the median wage of a full-time male worker (and those with full-time jobs are the lucky ones) is still more than 3 per cent below what it was 40 years ago. Nor has there been much progress on reducing racial disparities: In the third quarter of 2019, median weekly earnings for black men working full-time were less than three-quarters the level for white men.

Making matters worse, the growth that has occurred is not environmentally sustainable — and even less so thanks to the Trump administration's gutting of regulations that have passed stringent cost-benefit analyses. The air will be less breathable, the water less drinkable, and the planet more subject to climate change. In fact, losses related to climate change have already reached new highs in the US, which has suffered more property damage than any other country — reaching some 1.5 per cent of GDP in 2017.

The tax cuts were supposed to spur a new wave of investment. Instead, they triggered an all-time record binge of share buybacks — some $800 billion in 2018 — by some of America's most profitable companies, and led to record peacetime deficits (almost $1 trillion in fiscal 2019) in a country supposedly near full employment. And even with weak investment, the US had to borrow massively abroad: The most recent data show foreign borrowing at nearly $500 billion a year, with an increase of more than 10 per cent in America's net indebtedness position in one year alone.

Likewise, Trump's trade wars, for all their sound and fury, have not reduced the US trade deficit, which was one-quarter higher in 2018 than it was in 2016. The 2018 goods deficit was the largest on record. Even the deficit in trade with China was up almost a quarter from 2016. The US did get a new North American trade agreement, without the investment agreement provisions that the Business Roundtable wanted, without the provisions raising drug prices that the pharmaceutical companies wanted, and with better labour and environmental provisions. Trump, a self-proclaimed master deal maker, lost on almost every front in his negotiations with congressional Democrats, resulting in a slightly improved trade arrangement.

And despite Trump's vaunted promises to bring manufacturing jobs back to the US, the increase in manufacturing employment is still lower than it was under his predecessor, Barack Obama, once the post-2008 recovery set in, and is still markedly below its pre-crisis level. Even the unemployment rate, at a 50-year low, masks economic fragility. The employment rate for working-age males and females, while rising, has increased less than during the Obama recovery, and is still significantly below that of other developed countries. The pace of job creation is also markedly slower than it was under Obama.

Again, the low employment rate is not a surprise, not least because unhealthy people can't work. Moreover, those on disability benefits, in prison — the US incarceration rate has increased more than sixfold since 1970, with some two million people currently behind bars — or so discouraged that they are not actively seeking jobs are not counted as "unemployed." But, of course, they are not employed. Nor is it a surprise that a country that doesn't provide affordable childcare or guarantee family leave would have lower female employment — adjusted for population, more than 10 percentage points lower — than other developed countries.

Even judging by GDP, the Trump economy falls short. Last quarter's growth was just 2.1 per cent, far less than the 4 per cent, 5 per cent, or even 6 per cent Trump promised to deliver, and even less than the 2.4 per cent average of Obama's second term. That is a remarkably poor performance considering the stimulus provided by the $1 trillion deficit and ultra-low interest rates. This is not an accident, or just a matter of bad luck: Trump's brand is uncertainty, volatility, and prevarication, whereas trust, stability, and confidence are essential for growth. So is equality, according to the International Monetary Fund.

So, Trump deserves failing grades not just on essential tasks like upholding democracy and preserving our planet. He should not get a pass on the economy, either.

The writer, a Nobel laureate in economics, is University Professor at Columbia University and Chief Economist at the Roosevelt Institute. His most recent book is People, Power, and Profits: Progressive Capitalism for an Age of Discontent. *©Project Syndicate, 2020*

Revival lessons from 2008 stimulus

AJAY SHANKAR

When the global financial crisis occurred in September 2008, India's growth rate over the previous years had been averaging 8.9 per cent. There was initially a sense of complacency that India would remain untouched as it had been cautious and had not deregulated its financial system. There was no exposure to the high-risk financial products that caused the crisis in the US. So, the precipitous fall that occurred in the Indian economy came as a shock. India's integration with the global financial system had, in reality, become far greater than was assumed. By November, there was a crisis. The government acted swiftly and announced a major stimulus package as early as December 6, 2008, followed by two supplementary packages. These worked more speedily than expected by most observers. Recovery began — from the low of around 5.5 per cent growth rate in the last two quarters of 2008-09— in the first quarter of 2009-10 itself. The financial year ended with gross domestic product (GDP) again growing at 8.6 per cent.

The revival package was put together with the correct assessment that the economy was in a free-fall due to external shock of the global financial crisis, and that it needed immediate and strong stimulus measures to arrest the downturn and revive growth. The components of the package were chosen after close consultations with representatives from the major sectors of the economy. It was a combination of monetary easing and fiscal measures. The Reserve Bank of India (RBI) worked in close coordination with the government. The International Monetary Fund (IMF), normally a preacher of lowering fiscal deficits, sent representatives across the world advocating the use of fiscal measures for generating demand to arrest the downturn.

Normally, the RBI changes interest rates by 25 basis points at a time. Recognising the need for a strong stimulus, it departed from standard practice and announced the lowering of the repo rate by 100 basis points at one go. From September 2008, it progressively lowered the repo rate from 9 per cent to 5.5 per cent and the cash reserve ratio from 9 per cent to 5 per cent. It made available about ₹4 trillion of additional liquidity through various measures. Liquidity ceased to be an issue in the financial system.

On the fiscal side, excise duty was lowered by 4 percentage points across the board. The intention was to increase demand with attendant multiplier benefits. The pay commission recommendations had been implemented and there was greater purchasing power with government servants who had also received arrears. This helped in increasing consumption. The inclination to increase investment in infrastructure was avoided. It was recognised that large projects have a long lead time from approval, to putting together land, inviting bids and then awarding contracts. Actual expenditure could occur only after a year. Given the scale of the crisis, additional expenditure needed to take place immediately to create more demand for domestic goods and services. An increase in plan expenditure of ₹20,000 crore for the year was provided. Ongoing programmes, which could absorb additional expenditure immediately were identified. Out-of-the-box thinking led to unorthodox measures. To illustrate, grants were given for the purchase of buses under the Jawaharlal Nehru National Urban Renewal Mission for augmenting city bus services. Interest subvention of 2 per cent was provided for exports. Small scale enterprises and the housing sector received some special dispensation. Since the code of conduct for general elections was going to come into effect by March 2009, measures were identified to ensure they did not violate the code of conduct. Additional expenditure was made on ongoing programmes without any publicity. This required working in close coordination with the Election Commission and taking approval where needed.

A higher fiscal deficit as a result of the stimulus was envisaged. But this was to be for the short-term. In 2007-08, the fiscal deficit was only 2.6 per cent of GDP. In 2008-09, it rose sharply to 6.1 per cent. By the end of 2009-10, with growth having returned to earlier levels, fiscal deficit reduction to the pre stimulus levels should have become a priority. This did not happen. In 2011-12, it needlessly rose to 5.9 per cent from 4.9 per cent in 2010-11. Political economy makes increasing the fiscal deficit easy but reducing it difficult.

The present situation is qualitatively different and far more challenging. The persisting downturn is resulting in lower revenues and rising deficit, reducing the space for a fiscal stimulus. The financial sector's return to health is still a work in progress. With hindsight, a rescue of the Infrastructure Leasing & Financial Services Limited, along with takeover of its management, may have been a better option as it would have avoided the crisis in the non-banking finance companies. There was the successful precedent of the bailout of UTI. A more vigorous resolution of coal and related problems of stalled private sector power projects would have eased the burden on the banks. The flow of additional financing for completing stalled housing projects could have been done earlier. The inability to get manufacturing going in electronics, IT hardware and solar power has led to booming demand being met by imports. Further, the 19 per cent real exchange rate appreciation by itself would have been enough to cause stagnation followed by a downturn.

However, the major learnings from the 2008-09 stimulus do have some relevance for the present. The foremost is taking a holistic view and implementing a set of measures having a critical mass so as to increase the likelihood of making an early impact. The efficacy of the means to achieve a desired outcome has to be carefully thought through. It is also important to assess the time needed for an intervention to deliver results. There are no standard fixes. There should be willingness to consider unprecedented steps and take risks.

The writer is a former secretary, DPIIT

The British extortionist who built Bombay

BOOK REVIEW

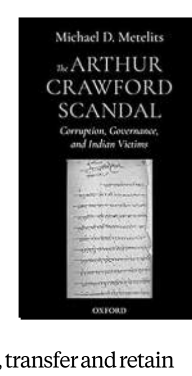
SAI MANISH

In July 2018, Parliament passed the Prevention of Corruption Act that, among other things punished the bribe giver with incarceration of up to seven years. This provision was hailed as a step towards curbing corruption in a country notorious for it. So what can possibly go wrong when you go after the bribe givers and treat them on a par with the bribe takers? A scandal in British India involving the first municipal commissioner of Bombay, Arthur Crawford, could well provide insights into that. Former US ambassador Michael D. Metelits' book *The Arthur Crawford Scandal: Corruption, Governance and Indian Victims* meticulously details what happens when those in power are entrusted to punish one of their own for corruption and how their biases leads to collateral damage to those who dared to stand up against the misdeeds of the powerful.

The book is about the infamous Arthur Crawford corruption scandal that resonated both in India and Britain in the late 19th century. Crawford was the man credited with changing the face of urban Bombay as its first municipal commissioner by improving the city's infrastructure. He had a market named after him in the city — officially the first building to be lit up with electricity in the country — till its moniker was changed post-independence to be named after Maharashtrian reformer Jyotiba Phule. Such is Crawford's legacy that some people in the city still seek directions for "Crawford market" instead of "Jyotiba Phule market".

Mr Metelits' book is a comprehensive account of all that was wrong with the executive and judiciary in the British era — which will remind readers of India as it stands in 2020. It is a punctilious examination of the trial against Crawford and his Indian acolyte Hanmantrao, how Hanmantrao was convicted even as Crawford escaped the noose and how those Indian officials who testified against Hanmantrao and Crawford became the biggest victims of the scandal perpetrated by none other than Crawford himself.

As the Commissioner of the central division of Bombay Presidency, Crawford was notorious for extracting bribes from junior ranking officials (called *mamlatdars*) to fund his extravagant lifestyle and save for his post-retirement kitty. Crawford, as the commissioner, had the power to appoint, promote, transfer and retain these *mamlatdars*, who in turn had limited magisterial powers in their respective administrative divisions or *talukas* and were primarily tasked with administering land revenue. Crawford, in effect, had the power to make or break any of the 76 such officials who reported to him. Crawford is alleged to have used this extreme power over his subordinates to extract bribes by threatening them with transfers to inhospitable places, stopping their promotions and procrastinating on their appointment.



THE ARTHUR CRAWFORD SCANDAL: Corruption, Governance And Indian Victims
Author: Micheal D. Metelits
Publisher: Oxford University Press
Price: ₹1,295
Pages: 243

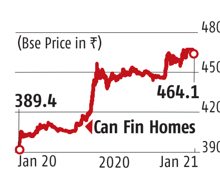
As a man in high public office, Crawford made sure that any money trail could not be traced to him. All bribes were collected by Hanmantrao, who would then discreetly hand them over to Crawford. As rumours of Crawford's corruption grew, it caught the attention of the Lord Reay, then governor of Bombay. He summoned his investigative officers to probe rumours of Crawford's extortion network. The challenge was to get people who had paid Crawford to speak up against him. Investigators also had to piece together documents, eyewitnesses and corroborating witnesses to testify against Crawford so that he could be prosecuted for bribery under the Indian Penal Code, 1860. The surest way to do that was to get the same Indian officials who had been forced to bribing to protect their jobs to testify against Crawford. As Mr Metelits notes this would be fraught with dangers for the Indian officials. In effect, the trial of Arthur Crawford became a test case of what in the modern world would become the whistle-blower's predicament. These days, many nations in the world have laws to protect whistle-blowers, which were non-existent in colonial times. The author notes, "It simply did not pay to be a whistleblower and there was no such thing as a sting operation."

Business Standard
MUMBAI | WEDNESDAY, 22 JANUARY 2020

The Smart Investor

WWW.SMARTINVESTOR.IN FOR INFORMED DECISION MAKING

QUICK TAKE: STRONG RESULTS PROPEL CAN FIN HOMES



Shares of Can Fin Homes jumped 19 per cent on Tuesday, on the back of robust results. Net interest income grew 23 per cent year-on-year to ₹168 crore in the December quarter, while profit before tax rose 20 per cent to ₹145 crore, beating the Street's estimate of ₹136 crore

"Just like the corporate tax cut, LTCG, DDT and personal income tax cuts will benefit only the large 50-60 dominant players. For the mid & small caps, mostly in the industrial space, we need 6% GDP and 8% industrial growth."

BASANT MAHESHWARI,
Portfolio manager

Volfefe effect: Global derivative volumes hit a record in 2019

SAMIE MODAK
Mumbai, 21 January

The combined futures and options (F&O) volume on all global exchanges hit a record high in 2019, a year punctuated by US President Donald Trump's Twitter tantrums. According to industry body Futures Industry Association (FIA), the global exchange-traded derivatives markets rose 13.7 per cent to an all-time high of 34.5 billion contracts last year.

The NSE was the top destination globally in terms of the number of derivatives contracts traded. It piped US-based CME Group, despite the latter operating several exchange subsidiaries, such as the Chicago Mercantile Exchange and the New York Mercantile Exchange.

India's largest bourse conducted trades of nearly 6 billion F&O contracts, 57 per cent more than the previous year, shows the data. Total contracts traded on CME stood at 4.8 billion. In addition, total global open interest (number of outstanding contracts) at the end of 2019 stood at 900 million, up 9 per cent from the previous year-end. Trading activity in India was also underpinned by a spike in volatility because of a host of global and domestic factors. The Nifty swung 17 per cent during the year.

Trading volumes are highly correlated with volatility — a consistent source for which were Trump's tweet, especially against China, which often rocked the financial markets.

The deceleration in economic and earnings growth, coupled with the NBFC crisis, kept investors on the tenterhooks last year. However, the markets managed to overcome most of the headwinds thanks to easy global liquidity. The corporation tax cut in September was a booster shot for the equities market.

Globally, the blow-hot, blow-cold comments by Trump on the trade war with China infused volatility. He rarely shied away from tweeting on sensitive topics, such as stock market levels, monetary policy, and trade deals. Analysts at JPMorgan even developed a "Volfefe" index (coined on "covfefe", a mysterious word in a Trump tweet in 2017).

Deven Choksey, managing director of KR Choksey Investment Managers, said while there were many reasons for the volatility, the uptick in volumes could be because of the increased use of algorithm- and machine-based trading.

Yogesh Radke, head of quantitative research at Edelweiss, said the launch of weekly options has resulted in the spurt in derivative volumes.

In a statement, the NSE attributed the jump in volumes to "deepening of the equity markets". "The NSE witnessed more than 12 million new registrations in the cash equities segment in the last five years, of which 8.7 million were in the last three years. It is also observed that a third of the new investors have come from tier-3 and tier-4 towns. Another heartening feature is the adoption of digital tools, with about 26 per cent of total trading activity in the cash equities segment coming through mobile and internet trading," said Vikram Limaye, MD and CEO, NSE.

NUMERO UNO
NSE's growth was by far the sharpest

By rank	Contracts traded* (in bn)	Change (%)
NSE	5.96	57.3
CME Group	4.83	-0.3
B3	3.88	50.8
Intercontinental Exchange	2.26	-8.8
Eurex	1.95	-0.2
CBOE Holdings	1.91	-6.8
Nasdaq	1.79	-5.8
Overall global	**34.47**	**13.7**

Note: *In the futures and options segment (includes subsidiary exchanges) in 2019; change is over 2018
Source: FIA

Regulator scraps upfront fee for portfolio management services

ASHLEY COUTINHO
Mumbai, 21 January

The Securities and Exchange Board of India (Sebi) notified its norms for portfolio managers on Tuesday, doubling the minimum investment amount to be taken from clients to ₹50 lakh and asking such managers to raise their net worth to ₹5 crore within three years of notification.

Under portfolio management services (PMS), portfolio managers offer customised investment advice to clients, typically high net worth individuals. The regulator has disallowed portfolio managers from charging upfront fees to clients, either directly or indirectly.

In 2018, Sebi had done something similar for mutual funds (MFs), banning upfront commission, and asking the industry to adopt a full-trail model of paying commission. This will impact distributors as a portion of the upfront fees was directly paid to them.

A PMS fee structure typically includes set-up or upfront fees of 2-2.5 per cent and is a one-time fee to be paid in the first year. Fees also include fixed fees charged annually or a combination of fixed and variable fees computed as a percentage of the profits generated.

Portfolio managers can now invest in units of MFs only through direct plans, and distribution-related fees of any kind cannot be charged to the client for such plans. Investors stand to benefit as their expenses will reduce.

Additionally, details of commission paid to distributors have to be disclosed periodically to clients.

Sebi has asked portfolio managers not to leverage the portfolio of clients for investment in derivatives and not indulge in speculative transactions that are not accompanied by actual delivery, except for derivatives trades. This is done with the intention of reducing volatility in the market and curbing undue risks, said experts.

"The portfolio manager shall not deploy the clients' funds in bill discounting, badla financing or for the purpose of lending or placement with corporate or non-corporate bodies," the notification said.

Discretionary portfolio managers have been barred from investing in unlisted securities. Those offering non-discretionary or advisory services, on the other hand, can invest or provide advice for investment up to 25 per cent of the assets under management of such clients in unlisted securities.

Portfolio managers cannot invest client's fund based on the advice of any other entity.

"With PMS becoming the investment of choice for savvy investors, these norms will strive to strengthen the framework. This is a highly sophisticated client segment and enough operating freedom to allow fund managers to innovate and come up with cutting-edge investment solutions will be important," said Vikaas M Sachdeva, CEO of Emkay Investment Managers.

NEW NORMS
- Minimum investment amount to be taken from clients doubled to ₹50 lakh
- Managers told to raise net worth to ₹5 crore within three years of notification
- PMS fee structures typically include set-up or upfront fee of 2-2.5 per cent, to be paid in the first year
- Portfolio managers can now invest in units of MFs only through direct plans

Sensex slips on tepid earnings, growth concerns

PRESS TRUST OF INDIA
Mumbai, 21 January

The benchmark Sensex furthered losses for the second straight session on Tuesday, as investors fretted over subdued corporate results and the International Monetary Fund (IMF) revising India's growth forecast downwards.

The Sensex closed down 205.1 points or 0.49 per cent to 41,323.81. The Nifty settled 54.7 points or 0.45 per cent lower at 12,169.85 — the third loss for the gauge in a row.

The bourses also remained under pressure tracking weaker global indices, following the outbreak of a new deadly virus in China that spooked investors.

On the Sensex chart, Tata Steel was the top loser, shedding 3.01 per cent, followed by M&M, Maruti, Asian Paints, PowerGrid, ITC and Axis Bank. On the other hand, UltraTech Cement, Kotak Bank, Bharti Airtel, HDFC, IndusInd Bank and ONGC ended with gains.

Sectorally, the BSE power, realty, metal, auto, utilities, FMCG, bankex and finance indices ended up to 1.47 per cent, while telecom, teck and energy indices settled in the green.

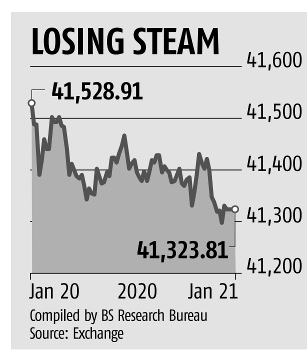
In the broader market, the BSE MidCap fell 0.21 per cent, while the BSE SmallCap closed flat.

Besides rising concerns over growth in India, global investors turned risk-averse after confirmation of a deadly SARS-like virus in China.

"The Indian markets continued to fall for third consecutive day on the back of weak Asian and European markets. Global agencies are slashing India's growth rates as domestic demand growth has slowed down more than anticipated earlier. Earnings season has started and the growth has not been very encouraging from the few Nifty companies that have declared their results so far," said Hemang Kapasi, portfolio manager (equity investment products), Sanctum Wealth Management. All eyes are now on the Budget and the government's initiatives to revive the lagging economy, he added.

The IMF on Monday lowered growth estimates citing stress in the NBFC sector and weak rural income growth.

LOSING STEAM



Compiled by BS Research Bureau
Source: Exchange

Sebi reaffirms earlier ruling in Sahara case

PRESS TRUST OF INDIA
New Delhi, 21 January

The Securities and Exchange Board of India (Sebi) on Tuesday reaffirmed its ruling in the Sahara India Commercial Corporation (SICCL) case, which had directed legal representatives of late Y N Saxena to refund investors.

Saxena was SICCL's director from December 1998 to November 2012. The order relates to SICCL collecting funds to the tune of ₹14,106 crore between 1998 and 2009 from nearly 20 million investors through bonds — optionally fully convertible debentures (OFCDs).

Sebi had, in October 2018, ordered the firm and its directors including Subrata Roy, O P Shrivastava, J B Roy, A S Rao, Ranoj Das Gupta, as well as legal representatives of late D S Thapa, late P S Mishra, and late Y N Saxena, to jointly and severally refund the money collected through the issuance of OFCD.

Following this, legal representatives of Saxena in January 2019 submitted a preliminary application and requested for all the relevant documents and information in the matter. Further, they had asked Sebi to grant them an opportunity of hearing after the inspection and detailed reply in the matter.

According to Sebi, its October 2018 order did not finally adjudicate the issues or finally determine the liability qua Saxena, but was effectively in the nature of a show cause notice to legal representative of Saxena.

"Thus, the present proceedings are not against a deceased person but against the legal heirs of late Y N Saxena in their capacity as his legal representatives," it added. The regulator noted that Saxena was director when the entity raised funds. Besides, he was a signatory or authorising person to the prospectus. Since he gave his consent, he is liable for violation under the Companies Act for the misstatement and untrue statements in the prospectus.

THE COMPASS

Ambuja, ACC may continue trailing larger peers

Shree Cement, UltraTech likely to benefit from any uptick in demand

UJJVAL JAUHARI

After witnessing demand pressure during the first three quarters of FY20, the Street now hopes for a recovery in cement volumes during the March quarter. Cement players, too, have hiked prices in January anticipating a pick-up in demand. Although the Street remains watchful of the sustenance of these price hikes, stocks of cement firms have already started gaining.

While UltraTech and Shree Cement have risen 13-16 per cent since their December lows, ACC and Ambuja Cements have lagged, with gains of 6-9 per cent. In fact, even on a longer time frame of six and 12 months, ACC and Ambuja have lagged their peers.

The underperformance of LafargeHolcim group stocks can be attributed to the slower pace of capacity additions by ACC and Ambuja. Though these two have announced capacity expansions as well, they have lagged in terms of pace. Peers such as UltraTech and Shree Cement have continued ramping up capacities on a regular basis and are seen to be major beneficiaries of any uptick in demand. This is the key factor behind the Street being more optimistic on them.

According to Kotak Institutional Equities' data, with 95 million tonnes (mt) in capacity as of FY19, UltraTech was leading the industry with the highest market share across all regions (all-India average market share of 20 per cent).

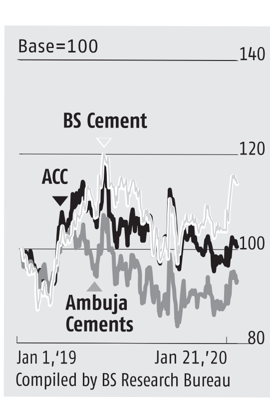
UltraTech has consistently added capacities and, after completion of its acquisition of Binani Cement, it is amalgamating and turning around capacities acquired from Century Textiles.

UltraTech's capacities have thus risen to 117.4 mt, including overseas assets. Shree Cement, with 38 mt capacity, remains the second-largest in terms of individual company-level capacity and average all-India market share of 8 per cent, shows the Kotak data. ACC and Ambuja, with 34 mt and 30 mt capacities, stood at third and fourth spot with 7 and 6 per cent market share, respectively.

Analysts such as Binod Modi at Reliance Securities, though, say that the Street is not factoring in the 5.1 mt capacities of ACC coming on stream by 2021. Hence, ACC could be considered on dips.

Even Ambuja Cements' 3.6 mt clinker capacities coming on stream by September will improve its clinker-to-cement capacity ratio, from 60 per cent at present. Nonetheless, this is still over 8 months away.

In terms of per-tonne profitability, too, UltraTech and Shree Cement have mostly been ahead. For the December quarter, too, analysts at Centrum Broking expect UltraTech and Shree Cement to report per-tonne profitability of ₹996 and ₹1,227, much higher than estimates of ₹489 and ₹800 for ACC and Ambuja, respectively.



Compiled by BS Research Bureau

Lower prices, production take sheen off HZL's Q3

Lower grades at Kayad, SK mines caused decline in output and sales

UJJVAL JAUHARI

Hindustan Zinc's (HZL's) lower-than-expected net profit for the December quarter (Q3) led to a 1.9 per cent fall in its share price on Tuesday.

While the overall metal production was lower, volatility in base metal prices continues to hurt the company's financial performance.

In Q3, the average zinc prices on the London Metal Exchange — $2,388 a tonne — was down 9 per cent year-on-year (YoY); it was up marginally by 2 per cent sequentially. Lead prices, however, have seen some recovery, and rose 4 per cent YoY and 1 per cent over the September quarter.

The price of silver — a byproduct of mining copper, lead, and zinc — rose 19 per cent YoY and provided some respite. Yet, given the high contribution of zinc, the company's total sales at ₹4,672 crore declined 16 per cent YoY in the quarter.

The fall in sales was also on account of a 5 per cent YoY fall in mined metal production to 235,000 tonnes, due to lower grades at HZL's Kayad and SK mines.

The company, which is switching to underground mining from opencast, also faced some geological issues. However, there is some improvement on a sequential basis, as mined metal production increased 7 per cent over the September quarter.

Against this backdrop, operating profit at ₹2,288 crore was down 20 per cent YoY, but 8 per cent higher over the September quarter.

Consequently, net profit at ₹1,620 crore was down 27 per cent YoY, and was also lower than the consensus estimate of ₹1,700 crore, according to *Bloomberg*.

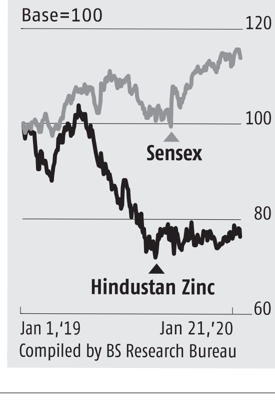
Moving forward, HZL expects to improve production and end FY20 at an exit rate of 1.2 million tonnes (mt) per annum. The first nine months have seen mined metal production of 0.668 mt.

The confidence stems from the commissioning of underground shaft at Rampura Agucha mines, while ore hauling from shaft will start in the present quarter.

At Zawar mines, too, two backfill plants are under commissioning and expected to commence operations from February, said the company.

While efforts on volume growth are in the right direction and will yield results, caution persists on volatility in base metal prices. Near-term challenges may also persist on cost of production, with rising coal prices and electricity duty by Rajasthan government on captive power generation.

Yet, given the over 20 per cent correction since its April 2019 highs and improving production, analysts believe India's largest integrated zinc producer — which is also available at a high dividend yield of over 9 per cent (based on 2018-19 payout) — can be accumulated on dips by long-term investors.



Compiled by BS Research Bureau

Buy FAANG stocks on your phone

Since the US and India have DTAA, you'll pay tax only once. Dividend income is taxed at 25% in the former

BINDISHA SARANG

Would you buy an iPhone for ₹1 lakh or invest in the stock of Apple? If you think the former is easily possible, but the latter isn't because you are in India, think again. You can now buy stocks like Facebook, Apple, Amazon, Netflix, and Alphabet (FAANG) right here in India, that too, using your mobile phone. There are a number of apps like CubeWealth and Vested, and global investing platforms like Stockal.

CubeWealth: Satyen Kothari, founder and chief executive officer (CEO) of Cube Wealth, says: "Investing in the US markets gives your portfolio geographical diversification. Another reason to invest is to protect your wealth from erosion vis-à-vis the rising value of the dollar. Each time the rupee falls against the dollar, your dollar-denominated assets gain. It also makes sense if you plan to live in the US or have children studying abroad."

The process: After creating an account, you can open a trading account with a brokerage house, as well as perform other regulatory formalities like filling the liberalised remittance scheme form. The minimum amount for investment is $750 or around ₹50,000 at current exchange rates. You can buy and sell stocks from the app itself. You get access to 3,400 securities listed on Nasdaq and the New York Stock Exchange (NYSE). Keep in mind your investing (brokerage) account is opened with their partner platform Stockal, and in the US, your account is held with clearing services for a firm called DriveWealth. It takes two-three weeks once you do get done with all formalities. To remit funds, it takes five-six days for funds to reach your bank account. Apart from being a transaction platform, it also provides investment advice on US equities and allows you to own fractional shares. This method of buying partial shares of stock is fractional share investing. This lets you buy stocks with a high single share price at a much lower entry point, making it an excellent option for new investors.

YOUR MONEY

Stockal: Stockal is a global investment platform, which enables investments in a diverse set of global assets from a single account. Vinay Bharathwaj, founder and managing director, says: "We power wealth managers, financial advisors, Robo-advisory, and large broking companies like HDFC securities to enable their customers to invest in the US markets."

The good part: There's no minimum investment; fractional stock is available, too. As far as taxation goes, there is no tax deductible at source in the US. However, you will have to pay short- or long-term capital gains tax, as applicable.

Vested: Vested is a US SEC-registered investment advisor. You can invest in US stocks and ETFs via their app. Once you download the app and submit all the paperwork, you can set the account. There is no account-opening fee, besides unlimited zero-commission trades; it allows you to access over 120 stocks and ETFs. There is no requirement for minimum balance. And you can buy fractional shares, too. However, you will have to pay $3 upfront and 0.0417 per cent monthly fee for the amount invested in the customised portfolio. For instance, a portfolio called digital cash curates a list of companies that provide products and services in the digital payment ecosystem. According to their website, the shares are held by a third-party custodian in the "street name" of the broker rather than the underlying investor. However, if you want to confirm the share ownership for your Vested account, you can contact its broker partner.

While going through these routes and investing in the US, remember that there is a 25 per cent tax deductible at source applies just on your dividend earnings. However, since the US and India have a double taxation avoidance agreement (DTAA), so you pay tax only once.

TECH-SAVVY

Name	Brokerage Fee
CubeWealth App*	0
Vested App	0
Stockal #	1 cent/share to 6.99/trade

*For first year #Depending on your plan
Source: Websites

Piramal rights issue fully subscribed

Piramal Enterprises' rights issue to raise over ₹3,600 crore was fully subscribed, the company said in an exchange disclosure on Tuesday.

"The rights issue closed for subscription on Tuesday... Based on preliminary information, the total applications from ASBA and non-ASBA have exceeded the issue amount to eligible equity shareholders, and therefore, oversubscribed. The data pertaining to the applications is preliminary and subject to verification, technical rejection, and clearing of payments as applicable and finalisation of the basis of allotment," the firm said after market hours. SAMIE MODAK

HDFC AMC profit rises 27% in Q3

JASH KRIPLANI
Mumbai, 21 January

HDFC Asset Management Company (AMC) — which is the country's largest asset manager — reported profit before tax (PBT) of ₹466 crore in the December quarter, clocking growth of 27 per cent on a year on year basis.

For the nine-month period ended December 31, 2019, the PBT was up 38 per cent to ₹1,323 crore, compared to corresponding period in the previous year.

At ₹3.68 trillion, the company's market share at the end of the quarter under review stood at 14.4 per cent.

The company continued to see lower fees and commission expenses. In the December quarter, the expenses had fallen 87 per cent to ₹71 crore, compared to the same period in the preceding year.

The ratio of equity oriented assets under management (AUM) and non-equity oriented AUM was 46:54, compared to the industry ratio of 41:59.

Improving mix of equity products is a positive for an AMC as equity products offer higher management fees than fixed income products. In beyond the top-30 (B-30) cities, the company held the market share of 12.6 per cent.

Q3 a mixed bag for ICICI Bank arms

ICICI Securities' revenue grows 4%, ICICI Lombard meets expectations, more desired from I-Pru Life

HAMSINI KARTHIK
Mumbai, 21 January

When subsidiaries contribute close to a fourth of the overall valuation, their performance assumes as much importance as that of the parent company. In that sense, the December quarter (Q3) was a mixed bag for ICICI Bank's subsidiaries — namely ICICI Lombard, ICICI Securities (I-Sec), and ICICI Prudential Life Insurance (I-Pru Life).

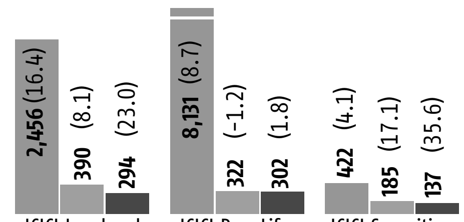
ICICI Lombard

Tepid participation from crop insurance resulted in gross written premium (GWP) staying flat year-on-year (YoY) at ₹3,770 crore in Q3.

Even excluding crop insurance, GWP growth at 8 per cent lags industry growth of 13 per cent for the quarter. Much of the underperformance may be attributed to ICICI Lombard's 50 per cent dependence on motor insurance — own damage (OD) and third-party (TP) policies, with a larger share of 27 per cent taken by motor OD plans. However, offsetting weakness in crop insurance, the general insurer saw better contribution, especially from health and motor TP products. However, it wasn't enough to arrest the shrinkage of 100 basis points (bps) in the overall market share to 8 per cent in Q3.

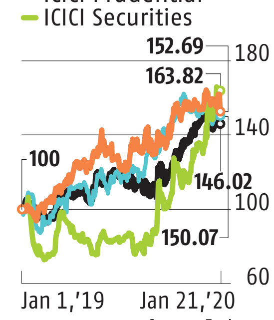
The positive factor was the increased share of retail products in motor and health insurance to 72 per cent vis-à-vis 65 per cent seen last year. New tie-ups with Standard Chartered Bank and Karur Vysya Bank seem to be working well. However, the increasing share of retail products is taking the lid off operating expenses ratio, which rose to 24 per cent in Q3, from 20 per cent in the previous year. Analysts at JM Financial believe that focus on profitable segments, such as health, and defocus from the crop insurance business, along with favourable regulation on motor insurance, will remain the earnings driver for ICICI Lombard in the medium term.

EARNINGS SCORECARD



For the quarter ended December 2019
*year-on-year change; financial figures rounded off
Source: Capitaline; Compiled by *BS* Research Bureau

STOCK MOVEMENT



Source: Exchange

ICICI Prudential Life

I-Pru Life is the meatiest among ICICI Bank's subsidiaries, accounting for 11 per cent of the bank's valuation. Some of the changes undertaken in September 2018 are giving positive results, though they remain a work-in-progress. The share of protection policies at 14 per cent and that of unit-linked insurance policies (ULIPs) for the first time falling below the 80-per cent mark to 68.5 per cent in Q3 indicate the company's intent to remain focused on higher-margin protection products. Overall, I-Pru Life grew its value of new business (VNB) 25 per cent YoY in Q3 to ₹910 crore. What's good is that the VNB margin (a profitability indicator) reached 21 per cent in Q3, from 17 per cent in the year-ago quarter, though there is room to catch up with 22-24 per cent margin of peers.

Since I-Pru Life is still in the investment phase, as far as protection business is concerned, it can keep operating costs elevated for a few more quarters and hence the net profit growth may be quite lacklustre. In Q3, net profit grew by a measly 1.7 per cent despite the corporation tax cuts. The silver lining is the fall in net profit, seen for most of FY19, appears to have arrested. As N S Kannan, chief executive officer, I-Pru Life, puts it the focus now is on stabilising the financials.

"Degrowth seen in savings products has been arrested in Q3," he says. Given that I-Pru Life stock is the most preferred subsidiary for investors, fast improvement in financials is key to sustain interest in the stock.

ICICI Securities

With 4 per cent revenue growth in Q3, I-Sec's results were a surprise as it arrested the trend of revenue decline seen for four quarters in a row. Net profit growth of 36 per cent is also the best since listing.

Many factors, including the October to December period, being favourable for the equity markets helped the broker. Efforts to lean on ICICI Bank's customer pool, especially its affluent clients, has also helped I-Sec increase its market share (based on active customer base) to 10 per cent in Q3, from 8.1 per cent a year ago. The introduction of products, such as Prime and employee stock ownership plan) financing, is also helping expand the customer base.

"Some of the recent regulatory changes are also favourable, though we still need a conducive (equities) market," says Vijay Chandok, managing director, I-Sec. Even if not many analysts have coverage, CLSA and Antique Stock Broking have retained their "buy" recommendation on I-Sec.

SAT maintains status quo in Axis-Karvy case

JASH KRIPLANI
Mumbai, 21 January

The Securities Appellate Tribunal (SAT) has extended its status quo order in case of Axis Bank and Karvy Stock Broking till January 31.

On January 15, Axis Bank had moved SAT seeking relief against an order passed by the Securities and Exchange Board of India (Sebi), which stated pledging of shares by Karvy— where the clients had "fully-paid" — was legally invalid.

Following this, SAT had granted interim relief to Axis Bank, as in the past National Securities Depository had reversed securities to clients on the basis of Sebi's November 2019 order pertaining to the Karvy case.

The Sebi in its order had identified ₹171.74 crore worth of shares where clients had fully-paid the dues. Axis Bank had submitted that even in these shares there was indebtedness and the data needed to be re-examined.

In its order, Sebi said the transfer of unpaid client shares worth ₹13.69 crore, which were pledged in favour of Axis Bank by Karvy, can be allowed if the bank is able to furnish proof of authorisation by each client.

Sebi's whole-time member also observed that pledging of securities of unpaid clients required "explicit authorisation" from each client, and power of attorney (PoA) given by the clients was not sufficient authorisation to create such a pledge.

Axis Bank in its arguments had said that the PoA was sufficient authorisation, the order pointed out.

Axis Bank had extended an overdraft facility to Karvy Stock Broking, against which the share pledges were created. Karvy owed ₹80.47 crore to Axis Bank.

COMMODITIES

PRICE CARD

As on Jan 21	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,807.0	4.1	2,064.3	8.0
Copper	6,245.0	7.3	6,544.0	8.8
Zinc	2,461.0	-1.6	2,626.0	-0.1
Gold ($/ounce)	1,557.2*	4.9	1,740.8	4.3
Silver ($/ounce)	18.0*	2.5	20.3	2.7
ENERGY				
Crude Oil ($/bbl)	63.6*	8.7	65.1	9.3
Natural Gas ($/mmBtu)	1.9*	-13.8	1.9	-13.3
AGRI COMMODITIES ($/tonne)				
Wheat	200.1	14.3	299.8	3.1
Maize	192.1*	4.2	278.3	-11.9
Sugar	399.4*	18.4	489.2	-0.1
Palm oil	765.0	43.0	1,223.5	41.5
Cotton	1,556.2	9.3	1,619.9	0.6

* As on Jan 21, 20 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.2 & 1 Ounce = 31.1032316 grams.

Notes:
1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no. 2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.

Source: Bloomberg Compiled by BS Research Bureau

Govt looking at proposal to cap edible oil imports

Experts suggest cap of 15 mt, creating oilseed development fund

RAJESH BHAYANI
Mumbai, 21 January

As reliance on imported edible oil is growing, India needs to relook at ways to address it to improve domestic availability. Two thirds of the domestic demand is met by imported oil and this is considered very high.

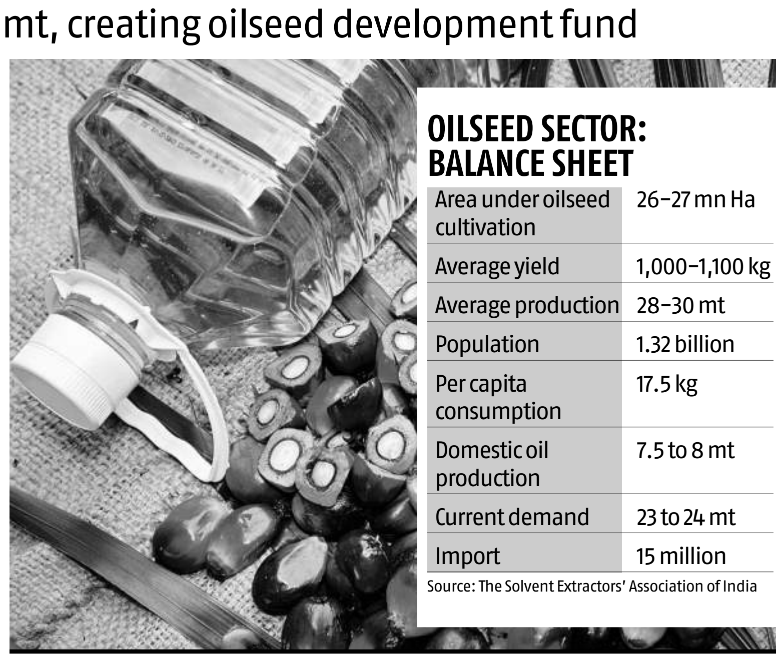
Experts have suggested creating an oilseed development fund while looking at the possibility of permitting genetically modified (GM) oilseeds to raise domestic availability. So far, government policies have focused on restricting imports and some tariff measures.

"The government is seriously concerned about stagnant oilseeds production and the rising import of edible oils to the tune of 15 million tonnes (mt) per annum, costing the exchequer over ₹75,000 crore. To increase production of oilseeds from the current 30 mt to over 47 mt by 2024-25, the government plans to launch the national mission on edible oil programme in the next three months," said Atul Chaturvedi, president of the Solvent Extractors Association (SEA) of India.

Sources in the industry, however, said that the Budget for 2020-21 may allocate funds for this mission.

According to data from SEA, India's average oilseeds production in the last few years has been 28-30 mt and production of edible oil is 7.5 to 8 mt. Production and refining in India was also lower because of high imports.

In the current year, crude palm oil prices have increased almost 50 per cent in last six months in the international market. This has helped in the curtailment of imports.



OILSEED SECTOR: BALANCE SHEET

Area under oilseed cultivation	26-27 mn Ha
Average yield	1,000-1,100 kg
Average production	28-30 mt
Population	1.32 billion
Per capita consumption	17.5 kg
Domestic oil production	7.5 to 8 mt
Current demand	23 to 24 mt
Import	15 million

Source: The Solvent Extractors' Association of India

However, till India improves productivity and production of seeds, reduction in import will be difficult. SEA's proposal for capping imports at 15 mt now and gradually reducing it over the years will be possible only if "GM seeds are permitted in India", said the association.

Globally, many countries have allowed use of GM oilseeds and oil made from them are finding their way into India.

Soybean oil imported from Argentina and rapeseed oil from Canada also include oil made from GM seeds.

Even without the government permission, Indians consume edible oil made from GM seeds.

Tax concessions for companies supporting oilseeds farming and promoting oil palm cultivation are other major recommendations.

Palm oil is a major edible oil now and total potential area for oil palm cultivation in India is 1.9 million hectares. Area under oil palm is about 300,000 hectares. Andhra Pradesh accounts for more than 55 per cent of the total coverage.

If the government exempts land identified as suitable for oil palm from the land ceiling Act, it will speed up expansion.

If the total potential area is brought under oil palm, domestic production of crude palm oil may touch around 6.7-7 mt from 285,000 tonnes now, according to SEA.

Textile exports fall 8% during Apr-Nov

DILIP KUMAR JHA
Mumbai, 21 January

Despite recovery in shipments to the US, the country's textile and apparel exports fell by 8 per cent in the first eight months (April-November) of the current fiscal year, with contractions in those to the European Union (EU) and West Asia.

On the other hand, textile and apparel imports in the period jumped 15 per cent, compared to the previous year.

The data compiled by the Directorate General of Commercial Intelligence and Statistics under the Union Ministry of Commerce and Industry showed India's exports at $21.7 billion (₹1.54 trillion) for the period, down over 8 per cent from $23.6 billion in the corresponding period last year. The imports stood at $5.5 billion this year versus $4.6 billion last year.

"India's export of textiles and clothing were severely affected by global situations like the trade conflict of the US with China, the EU's struggle with Brexit, growing geopolitical tensions in Middle East (West Asia) and removal of the Generalized System of Preferences (GSP) benefits to India by the US," said K V Srinivasan, chairman, Cotton Textile Export Promotion Council (Texprocil).

Under the GSP, developed countries grant import duty concessions, in addition to prioritising purchase of textile and apparel products from some countries.

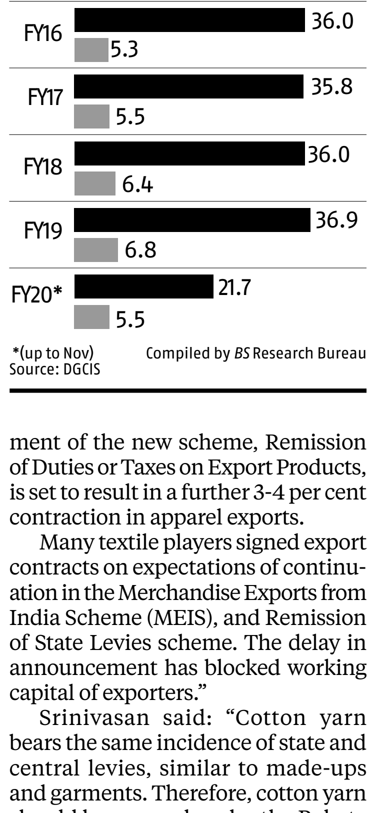
India's apparel export to the US rose 6 per cent to $2.7 billion in April-November, compared to $2.6 billion in the same period last year.

Rahul Mehta, chief mentor of the Clothing Manufacturers Association of India, said: "The delay in announcement of the new scheme, Remission of Duties or Taxes on Export Products, is set to result in a further 3-4 per cent contraction in apparel exports.

Many textile players signed export contracts on expectations of continuation in the Merchandise Exports from India Scheme (MEIS), and Remission of State Levies scheme. The delay in announcement has blocked working capital of exporters."

Srinivasan said: "Cotton yarn bears the same incidence of state and central levies, similar to made-ups and garments. Therefore, cotton yarn should be covered under the Rebate of State and Central Taxes and Levies Scheme and MEIS schemes, and also under the 3 per cent interest equalisation scheme."

IMPORT MOVE
Textile & allied products



*(up to Nov)
Source: DGCIS
Compiled by *BS* Research Bureau

DAVOS 2020

Need to have fairer, more equitable terms in trade relations, says Goyal

Union minister says RCEP, in its present form, is clearly an unworkable agreement

PRESS TRUST OF INDIA
Davos, 21 January

Union Minister Piyush Goyal on Tuesday said India is working on ways to have fairer and more equitable terms in its trade relationships with various countries. Speaking at the World Economic Forum Annual Meeting 2020, the commerce and industry minister also called for greater cooperation among various nations to realise the huge growth prospects in the Indian Ocean region and also for tackling the important issue of climate change. Goyal said the Regional Comprehensive Economic Partnership (RCEP) in its present form was clearly an unworkable agreement.

"Any pact needs to take into account several factors. India is grappling with a huge trade deficit, particularly with China and many other nations in the region," he said.

For the first time, India demonstrated that trade cannot be dictated by diplomacy, Goyal said, referring to India's decision to pull out of the RCEP.

Piyush Goyal, Union minister

The RCEP has had to factor in several diversities among partners, but India has serious concerns about climate change and is seeking greater cooperation on fair terms, he asserted. Goyal was speaking at a Strategic Outlook session on *The Indian Ocean Rim*.

"We are like a pivot for the Indian Ocean and we believe this region has huge potential. At the same time, India is very much concerned about the issue of climate change."

Goyal further said, "We, in India, are also working on how to put in place more equitable terms in our trade relations with various countries." The Indian Ocean Rim sees two-thirds of the world's oil shipments pass through its waters and is home to half of the world's container ships that support 2.7 billion people.

PHOTO: REUTERS

Trump urges countries to 'put own citizens first'

"ONLY WHEN GOVTS PUT THEIR OWN CITIZENS FIRST WILL PEOPLE BE FULLY INVESTED IN THEIR NATIONAL FUTURES"

US President Donald Trump on Tuesday said the US is in the midst of an economic boom that has never been seen before anywhere in the world.

The American dream is back and it's better than ever and there is no one better than the American middle class today, Trump said. In a special address at the World Economic Forum (WEF) annual summit, he said since he last addressed Davos two years ago, the US has enjoyed the "great American comeback" that he had predicted.

"Today I am proud to declare that the United States is in the midst of an economic boom the like of which has never been seen before," he said. According to him, 11 million jobs have been gained by America since his election and average unemployment rate is the lowest for the tenure of any US President in history.

"Every decision we make on taxes, trade, regulation, energy, immigration, education and more is focused on improving the lives of everyday Americans," he added. "Only when governments put their own citizens first will people be fully invested in their national futures." He also noted that the new trade deal initiated with China is very important. "Today I urge other nations to follow our example and liberate your citizens from the crushing weight of bureaucracy," Trump said. "With that, you have to run your own countries the way you want." AGENCIES

VOICES

PHOTO: REUTERS

"ATOM BOMBS WERE THE BIGGEST FEAR ONCE, BUT NOW THERE IS FEAR OF ARTIFICIAL INTELLIGENCE. PEOPLE MUST REALISE THAT THE DEVELOPMENT OF TECHNOLOGY IS FOR GOOD"

REN ZHENGFEI, FOUNDER & CEO, HUAWEI

PHOTO: BLOOMBERG/FILE

"WE ARE JUST AGAIN IN THIS CRAZIEST MONETARY AND FISCAL MIX IN HISTORY. IT'S SO EXPLOSIVE. IT DEFIES IMAGINATION"

PAUL TUDOR JONES, BILLIONAIRE INVESTOR (TO *CNBC* AT THE WEF)

Poor social mobility, inequality recognised as a crisis at summit

PRANJAL SHARMA
Davos, 21 January

Globalisation's fundamental pillar is mobility — a world where ideas, people, goods, and services can cross borders with ease and efficiency. Even as the world struggles to push globalisation without its negatives, a key agendum for the Davos summit is social mobility.

The World Economic Forum (WEF) has created a Social Mobility Index, which "is designed to provide policymakers with means to identify areas for improving social mobility and promoting equally shared opportunities in their economies, regardless of their development".

A key finding from the index is that irrespective of the size and maturity of the economy, most countries have a poor record of social mobility. Despite the focus on meritocracy, an average individual doesn't have the freedom to make livelihood choices. "An individual's opportunities in life remain tethered to their socio-economic status at birth, entrenching historical inequalities," says the WEF report on social mobility.

The WEF Social Mobility Index benchmarks 82 countries to help policymakers assess whether their citizens have equal economic opportunities. Can a child have a better life than his/her parents? Can the impact of socio-economic background on equal opportunity be measured effectively? These questions are posed to policymakers.

SOCIAL MOBILITY INDEX

Rank	Country	Value(0–100)
1	Denmark	85.2
2	Norway	83.6
3	Finland	83.6
4	Sweden	83.5
5	Iceland	82.7
6	Netherlands	82.4
7	Switzerland	82.1
8	Austria	80.1
9	Belgium	80.1
10	Luxembourg	79.8
76	**India**	42.7

Sources: World Economic Forum, Social Mobility Report 2020

The index shows that only a handful of countries have the right conditions for social mobility. The top five, unsurprisingly, are Nordic countries — Denmark, Norway, Finland, Sweden, and Iceland.

Among the G7 economies, Germany is the most socially mobile, ranking 11th with 78 points, followed by France at 12th position. Canada ranks 14th, followed by Japan (15th), the United Kingdom (21st), the United States (27th), and Italy (34th).

Among the large emerging economies, the Russian Federation is the most socially mobile of the BRICS grouping, ranking 39th with a score of 64 points. The next is China, which ranks 45th, followed by Brazil (60th), India (76th), and South Africa (77th).

The poor ranking of India should trigger a deeper response from policymakers. This is yet another ranking where India needs a strong policy intervention.

"Globalisation and the Fourth Industrial Revolution have generated significant benefits, but have also exacerbated inequalities. The Fourth Industrial Revolution, and with it, continuing and future disruption to labour markets, will likely compound differences in social mobility for those countries unprepared to take advantage of new opportunities," says the report with reference to emerging economies.

Add to this the inequality report by Oxfam and the global situation appears dire. The world's richest 1 per cent have more than twice the wealth of 6.9 billion people. Women's unpaid care work has a monetary value of $10.8 trillion per year. This is three times the size of the world's tech industry. Davos is the mecca of capitalism, but it is now genuflecting to social issues. Perhaps a realisation is dawning that an unequal society also means reduced consumers and global demand.

A lot has happened, but nothing has been done as yet: Thunberg

PHOTO: REUTERS

Young climate campaigner Greta Thunberg on Tuesday said a lot has happened since her campaign caught eyes of the world but "nothing has been done" actually to save the planet.

"In one aspect, lots has happened since last year. The mass mobilisation of young people around the world has put climate at the top of the agenda," the 17-year-old campaigner from Sweden said here at the WEF Annual Meeting.

"People are more generally aware now. The climate and the environment is a hot topic. But — and it's a big but: From another perspective, pretty much nothing has been done," she said.

It is just the "very beginning" and a lot needs to be done given the ever increasing greenhouse gas emissions, she said.

Thunberg also said she can't complain about not being heard as she is a person who is being heard all the time, drawing applause from the audience. PTI

Auction house to sell Nirav Modi's assets again

Mumbai-based Saffronart will auction Nirav Modi's assets next month, which the Enforcement Directorate had seized. More than 100 lots, including paintings, watches, handbags, and cars belonging to the fugitive diamantaire, will go under the hammer in a live auction on February 27, and online sales on March 3 and 4 this year.

Among the items to be sold is a figurative painting by Amrita Sher-Gil, dated 1935, which has never been bid and is expected to fetch ₹12-18 crore. An oil-on-canvas from M F Husain's series on the epic *Mahabharata* is also estimated to bring in ₹12-18 crore.

The selection features 25 Swiss timepieces by the likes of Jaeger-LeCoultre and Girard-Perregaux, and some 80 handbags, including from the Birkin and Kelly lines of Hermès. The items are in the process of being catalogued. The total sale estimate will be announced in late January, says Saffronart. RANJITA GANESAN