Economy

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POVERTY ERADICATION

Abhijit Banerjee, Nobel laureate

Poverty alleviation has been happening mostly on the strength of the fact that urban sector creates low-skill jobs, and a lot of rural sector works in the urban sector and sends money back.

Quick View

Gold imports dip 6.77% in Apr-Dec

GOLD IMPORTS, WHICH have a bearing on the current account deficit, fell 6.77% to $23 billion during the April-December period of the current financial year, according data from the commerce ministry. Imports of the yellow metal stood at $24.73 billion in the year-ago period.

FPIs pour in ₹1,624 cr in Jan

FOREIGN PORTFOLIO INVESTORS (FPI) have infused a net sum of ₹1,624 crore into the Indian capital markets in January so far, buoyed by the signing of the first phase of the US-China trade deal.

Commercial coal mining meets

THE GOVERNMENT HAS called meetings on January 28 and 29 with stakeholders to discuss the draft methodology as well as key bidding terms and conditions for auction of coal mines for commercial mining.

Centre wants states to cap VAT on CNG at under 5%

ANUPAM CHATTERJEE
New Delhi, January 26

THE CENTRE WANTS the states to limit the value-added tax (VAT) rates on compressed natural gas and liquefied natural gas (CNG/LNG) at under 5%. The Centre has also pitched for lowering of road taxes for vehicles running on CNG/LNG by states to make these on par with the rates charged on electric vehicles (EVs).

These proposals are part of the draft policy for city gas distribution (CGD) prepared by the Ministry of Petroleum and Natural Gas (MoPNG) which, the government expects will become a template for every state to come up with their own CGD policies.

Different states charge different VAT on CNG. For example, while Delhi completely exempts VAT on CNG, the same in Uttar Pradesh, Maharashtra and Gujarat is as high as 12.5%, 13.5% and 15%, respectively. It remains to be seen if the states agree to reduce the VAT on CNG as suggested by the MoPNG, and forego the income they earn from this source.

According to experts, having a uniform tax rate for CNG will address the long-standing demand of including gas under the ambit of the GST. "Rationalising the VAT rates and bringing them to a uniform level will help take up this much delayed reform," Deepak Mahurkar, partner, PwC, told *FE*.

According to the draft policy reviewed by *FE*, states are expected to form a committee under the chairmanship of their respective chief secretaries which will meet at least once in three months to assess the development of the CGD network in the states. The committee is expected to coordinate with various local and civic bodies to streamline the process of procuring various clearances and standardise levies and charges. The Centre has suggested that state-level committees should also put a policy thrust to promote CNG and LNG as the preferred fuel in public transportation.

The main challenge the expansion of the CGD network faces is obtaining licences and work permits from a plethora of civic agencies including the land owning agency, the municipal corporation, district magistrate and the fire department.

The draft policy proposes states to create a single-window clearance mechanism for getting all the clearances.

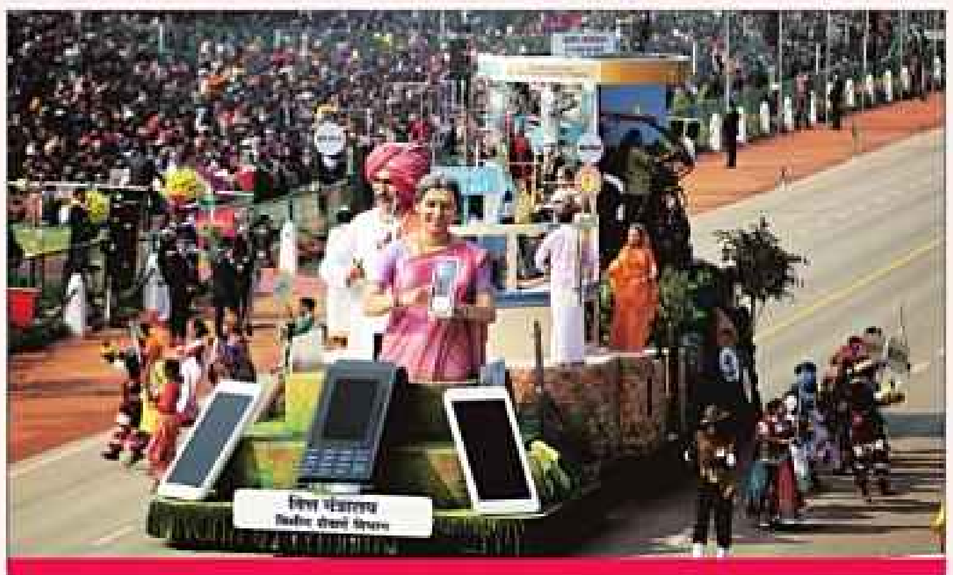
At present, the coverage of the CGD network spans across 232 geographical areas spread over 407 districts in 27 states. The present share of gas in the energy basket of the country is 6.2%, and the target is to take it to 15% by 2030. As on September 2019, there were 1,815 CNG stations and 54.2 lakh domestic connections across the country.

Currently, about 76% of the CNG stations and 80-90% of the PNG connections are concentrated in Delhi, Gujarat and Maharashtra.

Under the ninth and 10th rounds of bidding for CGD networks, the number of CNG stations and domestic piped natural gas (PNG) connections are expected to increase by 8,181 and 4.2 crore in next 8-10 years.

The draft policy comes at a time when CGD network operators are seen to benefit from a sustained weakness in global spot LNG prices and an expected decline in domestic gas price. According to Kotak Institutional Equities, CGD companies source around 15% of their domestic gas requirement from the Panna-Mukta-Tapti (PMT) fields. After the expiry of PMT's production sharing contract in December 2019, gas from this field is seen to the levels of $3.6 per million british thermal units (mbtu), against its earlier contracted price of $5.7/mbtu.

Kotak expects domestic gas price to decline by around $1/mbtu in the upcoming revision for the first half of FY21. Apart from state-run GAIL Gas, Gujarat Gas, Indraprastha Gas, Mahanagar Gas, Indian Oil, Hindustan Petroleum and private entities such as Adani Gas and Torrent Gas have significant presence in the sector.



Finmin at R-Day

The tableaux of the finance ministry passes through Rajpath

Praveen Khanna

Govt likely to allow firms to list overseas

PRESS TRUST OF INDIA
New Delhi, January 26

THE GOVERNMENT IS likely to soon decide on permitting Indian companies to list their equity shares overseas, according to an official.

Apart from providing an additional fund-raising avenue for the corporates looking to expand and boost their business activities, overseas listing of shares would also help in bringing more capital into the country. The official said many companies are interested in listing their equity shares in foreign countries.

Currently, quite a few Indian companies have American Depository Receipts (ADRs) that are traded in the US. Some other corporates have their Global Depository Receipts (GDRs).

The official said the corporate affairs ministry and markets regulator Sebi are in favour of allowing Indian companies to list their equity shares in foreign countries. Other departments and regulators are also expected to be on board.

Banking sector stressed, govt in no position to bail it out: Abhijit Banerjee

PRESS TRUST OF INDIA
Jaipur, January 26

NOBEL LAUREATE AND economist Abhijit Banerjee on Sunday said the banking sector in the country is "stressed" and the government is in no position to bail it out.

Speaking to the media on the sidelines of the 13th Jaipur Literature Festival, Banerjee said the demand slowdown in the automobile sector also shows that people are lacking confidence in the economy.

"Financial sector is the biggest stress point currently. There is no question that the finance sector is something we should worry about, the banking sector is stressed. The government really is not in a position to bail it out, so we are talking about a long process of attrition, that's going to be costly.

"We also know that due to a demand deficit in the economy, cars and two-wheelers are not selling, and those things are signs of a general fact that people lack confidence that the economy is going to grow fast so they are holding back, they are not spending," he said.

Banerjee said the slowdown in the economy will also adversely impact poverty alleviation in the country as urban and rural sectors are interdependent.

"Poverty alleviation has been happening mostly on the strength of the fact that urban sector creates low skill jobs, and a lot of rural sector works in the urban sector and sends money back.

"That's the peak source of transmission of growth from urban sector to rural sector. And as soon as the urban sector slows down the rural sector, the people in construction work don't have as many jobs. All of that will feed back on the rural sector," the 58-year-old Indian-American economist said.

On how will economic policies work if people have a lack of trust in the data, he said the government "should worry about this issue" as foreign investors are getting "nervous".

Budget: Import duty on raw materials for fertiliser may be cut

PRESS TRUST OF INDIA
New Delhi, January 26

THE GOVERNMENT MAY consider reduction in the import duty on raw material used in the fertiliser industry in the Budget with a view to boost domestic manufacturing, sources said.

Lower import duty on raw material like rock phosphate and sulphur used for manufacturing of DAP (Di ammonium phosphate) would help boost domestic production and cut in import bill, according to sources.

During April-December, crude and manufactured fertiliser imports grew 8.47% to $6.2 billion

Currently, there is an import duty of 5% on such imports and the country imports about 95% of its DAP requirement from global markets. The country also imports about 30% of its urea requirements.

During April-December, the country's crude and manufactured fertiliser imports grew 8.47% to $6.2 billion.

The commerce ministry has suggested its finance counterpart to rationalise the basic customs duty on over 300 items to boost domestic manufacturing and cut in the rising import bill. It has proposed removal of the import duty on products like waste paper and wood pulp which is currently 10% and 5%, respectively.

In 2018-19, the country's imports rose by about 9% to $507.44 billion.

From the Front Page

Budget may unveil income tax amnesty

DIRECT TAX collections fell by over 5% till January 15 this fiscal largely due to the lower collections in corporation tax, which is partly attributable to the slashing of rates in September. With less than a quarter to go, the government is all but sure to miss the budget estimate target for direct tax mop-up. The collections till January 15 were only ₹7.3 lakh crore versus ₹7.7 lakh crore in the year-ago period.

Delivering a lecture on Sunday, finance minister Nirmala Sitharaman said the government was keen on quick resolution of pending tax-related disputes so that firms, especially MSMEs, could start a new life in technology-driven regime largely devoid of face-to-face interactions with the tax administration. She said the dispute resolution scheme launched last year for indirect taxes had been a success, and the ministry would replicate the same for income tax cases.

"Nearly 95% cases are closed. About ₹35,000 crore has been settled (for cases related to excise and service tax regime). The total value of cases was over ₹2 lakh crore. There are another 5% cases which didn't opt for the scheme, and they will be fought in the courts," she had said, adding that most MSME disputes have been sorted out.

Meanwhile, there is a demand for an amnesty for customs tax as well.

"A dispute resolution scheme under Customs, similar to the recently introduced Sabka Vishwas Scheme which got an overwhelming response from businesses, should garner appreciation especially from global businesses who have set up operations in India with outsourcing manufacturing processes to India for promoting the Make in India campaign," Abhishek Jain, tax partner at EY India, said.

The two main components of Sabka Vishwas scheme were dispute resolution and amnesty. The first component was aimed at liquidating the legacy cases pending in litigation at various forums. The amnesty component of the scheme offered an opportunity to the taxpayers to pay the outstanding tax and be free of any other consequence under the law.

Further, the scheme offered relief to the tune of 70% if the tax demand involved ₹50 lakh or less and 50% if it was more than ₹50 lakh. The relief was 60% of the outstanding amount if it was ₹50 lakh or less and 40% if it was more than ₹50 lakh. Barring some exceptions, there was full waiver of interest and penalty along with exemption from prosecution in all these cases. Naveen Wadhwa, DGM, Taxmann, said: "A scheme in direct tax cases on the lines of Sabka Vishwas will surely help the government unlock massive amounts of revenue stuck in pending litigation. Due to pendency of tax appeals before various courts and tribunals, the realisation of tax revenue takes a longer time."

The government had implemented two income disclosure schemes in FY17, one before demonetisation was announced and another after it ended. These schemes had yielded a total of ₹21,000 crore to the government.

India Inc profits, revenues under pressure in Q3FY20

THE TAX outgo for the 170 companies was down 15% y-o-y. If one excludes the profits of TCS and RIL, the profit growth is just 5.2% y-o-y since large commodity players such as JSW Steel posted a sharp drop in profits of 88% y-o-y.

The struggle to grow the topline can be seen across businesses. At Asian Paints, for instance, the growth in domestic decorative was a dull 3% y-o-y since volumes grew in low double digits that implied realisations must have weakened. At the other end of the spectrum, L&T reported a 3% y-o-y fall in core E&C revenues and this coupled with other factors resulted in a poor consolidated profit. At UltraTech revenue growth was virtually flat, although realisations shot up because volume growth was weak. JSW Steel also posted poor revenue numbers with sales falling 12% y-o-y. At PVR, the growth in footfalls was only 1% y-o-y while same-store footfalls actually contracted 6% y-o-y. At Avenue Supermarts, same-store sales rose by 6-7% y-o-y.

Managements remain circumspect and some like the one at Asian Paints pointed out the demand environment was challenging. The TCS top team was also conservative while speaking out the outlook, noting that it would not be easy to replicate the growth rates of the past. Large companies such as Reliance Industries reported very ordinary numbers across businesses — except for retail. The accelerated fall in capex, however, enabled the company to turn free-cash-flow positive.

Two-wheeler inventory touches a high, again

HERO MOTOCORP, HMSI and TVS Motor did not reply to emails sent till the time of going to press.

Prices are expected to increase as the manufacturers start rolling out models with a BS-VI engine, when the industry switches to the new emission standards from April 1, 2020.

Fada president Ashish Kale said, "Two-wheeler inventory still remains a concern, especially looking at the transition and the current weakness in demand".

Sources said manufacturers produced more stocks in December but did not dispatch all of them. The remaining units manufactured in December were despatched in January along with fresh units produced during the month. In December, while Hero MotoCorp produced 4.72 lakh units, it despatched just 4.12 lakh units. Similarly, Honda Motorcycle & Scooter India (HMSI) manufactured 3 lakh units but despatched 2.3 lakh units. TVS Motor, too, despatched 77% of the stock manufactured in December.

Analysts said initial pricing trends suggest that the two-wheeler industry is seeing the sharpest price increases by anywhere between 6-15% of the vehicle costs. "Thus, volumes for the sector are likely to stay under pressure," analysts at Nomura said.

Two-wheeler demand has remained subdued since the second half of 2018 due to increase in insurance premium and costlier finance options. Thereafter, price hikes implemented by companies on April 1, 2019, on account of features provided to comply with the new safety norms further impacted demand.

PMFBY back in slow lane after poll season spurt

OF COURSE, these are still early days — most insurance claims for kharif season are usually made by March, although the filings could continue for a few more weeks – but analysts observe a delay in endorsement of claims applications by the government and insurers.

In September 2018, the government tweaked the PMFBY guidelines to address the issue of delays in claims settlement by making insurers liable to pay 12% interest for payments made after the deadlines set for different crop cycles. Since insurance companies were complaining that the delays in claims settlement were due to non-payment of premium by the state governments, it was also mandated states too pay 12% interest for the delay in release of their share of premium beyond three months from the cut-off dates. As a result of these steps, a significant improvement was noticed in claims settlements in 2018-19 crop year, that coincided with Parliamentary elections. Previously, farmers had to wait for months – sometimes even a year – to receive the insurance payments.

As reported by FE earlier, four private insurance companies — ICICI Lombard, Tata AIG, Cholamandalam MS, and Shriram General Insurance — have opted out of the government's flagship corp insurance scheme for both the kharif and rabi seasons of the 2019-20 crop year. Claims ratios in the states where they were operators in the previous year were quite high, leading to losses from the business. Crop damages in Maharashtra, Andhra Pradesh, Haryana and Chhattisgarh in crop year 2018-19 pushed the claims by farmers up against the premium collected by the insures, to over 100%, even as the ratio on a pan-India basis was only 75.4%.

Indications were that the claim-to-premium ratio could be very high in many states, including Maharashtra and Karnataka, for kharif 2019, consequent to the prolonged monsoon rains that damaged key crops like pulses, cotton and soyabean.

For the last summer crop, gross premium collected was ₹25,853 crore. "The data on estimated claims are yet to be finalised and at very preliminary stage," a source said. The government's estimates show nearly 64 lakh hectare of kharif areas were inundated by heavy rains during monsoon season last year, while private weather forecaster Skymet had put it at 32 lakh hectares of crops areas in 137 districts of 12 states. The total crop area insured by farmers was 303 lakh hectare during kharif 2019.

Last year, the withdrawal of monsoon commenced from west Rajasthan on October 9 against the normal date of September 1, making it the most delayed withdrawal since 1961. The country had received 110% of the long period average (LPA) rains during June-September monsoon season.

Since farmers pay a fixed premium under PMFBY, the subsidy burden on the government increases when premium rates go up. Insurance is taken by farmers before sowing and the premium quoted by the insurance companies is mainly based on monsoon forecast. Under PMFBY, launched in 2016, farmers pay 1.5% of sum insured for rabi crops and 2% for kharif while it is 5% for cash crops. The balance premium is split equally between the Centre and states.

The Centre is under pressure to make necessary changes, including making crop insurance optional for loanee farmers, after Andhra Pradesh, West Bengal and Bihar decided to exit the scheme. Punjab has never rolled out the scheme, saying that the premium should be customised for states on the basis of irrigation infrastructure.

PMO: Link funding of state discoms to performance

OTHER ACTIONS directed by the PMO to reform discoms include the inclusion of private players in the discoms business "with appropriate options ie complete privatisation, concession based public private partnership, franchisee models, etc". It has also suggested amending the Electricity Act, 2003 to introduce 'carriage and content' — a project which has been in the back burner for quite some time — in order to segregate the business of operating local power transmission systems from distribution of electricity. It would effectively allow end-consumers to choose who they want to buy electricity from, similar to the way telecom and direct to home (DTH) television operators work.

India's power distribution sector, largely a state preserve, has not been very amenable to reforms. The government has already drawn up plans to address the issue of lack of competition in the electricity distribution segment by allowing multiple private franchisees in each area, while state-run utilities will continue to own the network. Though the franchisee model has been tried in states such as Maharashtra, Odisha and Rajasthan, it hasn't made much headway; the new model, the government thinks, is more workable, given the pricing freedom and various incentives being offered for the operators to meet operational parameters like elimination of pilferage and theft.

The power ministry was also asked to examine the possibility of introducing new regional electricity regulators and strengthen existing state regulators.

No child's play! Govt to harden crackdown on toy imports

TYPICALLY, THE difference between the actual imported price of toys and the stated price are settled through hawala transactions, he adds. Smuggling from China, too, is rampant.

The QCI report has suggested that all importers, "before placing a toy in the market, shall ensure that the appropriate conformity assessment procedure has been carried out by the manufacturer and that the requirements as per Indian standards have been complied with".

The importers have to indicate their name, registered trade name and their address on the toy itself and where that's not possible, these must be mentioned on its "packaging or in a document accompanying the toy".

"Importers who consider or have reasons to believe that a toy which they have placed on the market is not in conformity with the relevant requirements shall immediately take the corrective measures necessary to bring that toy into conformity, to withdraw it or recall it, if appropriate," says the report.

Moreover, where the toy presents a risk, importers will "immediately inform the BIS (Bureau of Indian Standard), giving details, in particular, of the non-compliance and of any corrective measures taken", it adds.

Importantly, the report suggests that an importer or distributor be considered a manufacturer and be subjected to obligations of manufacturers.

Already, imports of certain varieties of toys are allowed only if they are accompanies by a test report from the state-run National Accreditation Board for Testing and Calibration Laboratories. Still, there are rampant violations of this requirement. This means mere stipulation of standards won't help; it has to be backed by enforcement.

The QCI's quality test found that 80% of the platic toy samples failed on mechanical and physical safety properties. As many as 75% of electronic toys fail on mechanical properties and 45% of soft toys failed on admissible levels of phthalates.