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BACK PAGE P14
CENTRE NOT IN A POSITION TO BAIL OUT BANKING SECTOR: BANERJEE

PERSONAL FINANCE P10
FINANCE MINISTER'S CHOICES ON LONG-TERM CAPITAL GAINS

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

How markets performed last week

	Index on Jan 24,'20	*One-week	% chg over Dec 31,'19 Local currency	in US $
Sensex	41,613	-0.8	0.9	0.9
Nifty	12,248	-0.8	0.7	0.7
Dow Jones	28,990	-1.2	1.6	1.6
Nasdaq	9,315	-0.8	3.8	3.8
Hang Seng	27,950	-3.8	-0.9	-0.6
Nikkei	23,827	-0.9	0.7	0.1
FTSE	7,586	-1.2	0.6	-0.8
DAX	13,577	0.4	2.5	0.8

*Change (%) over previous week Source: Bloomberg

CORONAVIRUS DEATH TOLL REACHES 56; 2K CASES CONFIRMED

The death toll in the coronavirus in China rose to 56 on Sunday with confirmed cases reaching 1,975 and 324 of them being critical, Chinese health authorities said. The new type of pneumonia, officially being described as 2019-nCoV, has resulted in 56 deaths. A total of 2,684 suspected cases have also been reported so far. 13

ECONOMY & PUBLIC AFFAIRS P4

Success fee gains currency with RPs, raises concerns

Success fee is becoming an increasingly popular way of payment model among corporate insolvency resolution professionals (RPs) for carrying out the transaction. No official data is available on the charges, but Insolvency and Bankruptcy Code experts say fee is being paid in more than half of the overall cases going for resolution. **RUCHIKA CHITRAVANSHI** writes

BS SPECIALS ON MONDAY

ISSUES AND INSIGHTS: 6
The next big development challenge
The latest economic forecasts from the IMF and the World Bank are sobering, pointing to protracted slowdowns across the board. **ARVIND SUBRAMANIAN & JOSH FELMAN** write

BANKER'S TRUST:
Is it time to revisit the Budget 2000 promise?
Since Yashwant Sinha emphasised on reducing the government's stake in public sector banks, things have only worsened. **TAMAL BANDYOPADHYAY** writes

BUSINESS LAW:
Regulating AI: Why one size won't fit all 12
Sectoral approach to AI rules allows greater flexibility to regulators, say experts. **KUMAR ABISHEK** writes

POLITICS & PUBLIC AFFAIRS: Opportunity on a platter, but... 8
UP's main Opposition parties SP, BSP are unable to take advantage of CAA turmoil. **RADHIKA RAMASESHAN** writes

STRATEGY:
IT firms' product play 9
TCS, Infosys, and HCL Technologies lead the race with huge investments to fuel next phase of growth. **DEBASIS MOHAPATRA** writes

STATSGURU: Challenges before FM: Boosting growth, reining in fiscal deficit 4

Bhatia to back Gangwal on exit norm relaxation

Thaw likely in IndiGo feud after EGM on January 29

ARINDAM MAJUMDER
New Delhi, 26 January

Rahul Bhatia-owned InterGlobe Enterprises (IGE) is likely to vote in favour of the resolutions proposed by co-promoter Rakesh Gangwal, at the extraordinary general meeting (EGM) on IndiGo on January 29. Support from Bhatia, who owns around 38 per cent in the company, is crucial for the resolutions to pass because they require 75 per cent of shareholder support.

The resolutions seek to relax rules on the sale and purchase of shares by its main shareholders, making it easier for the promoters to raise or cut stake in the company.

The Bhatia family and IGE together own 37.89 per cent, while Gangwal, his wife, and a trust hold 36.97 per cent.

Among the 16 clauses Gangwal intends to remove are restrictions that confer the right of first refusal on the partner that is prepared to stay on in the event of a stake sale by the other partner; a clause that prevents either of the co-founders from buying publicly listed shares of the company, potentially triggering an open offer for the rest of the shares; and one that prevents staggered sale by a partner.

A person aware of the matter said the IGE group had deliberations with lawyers on the proposed resolutions and felt that despite relaxing the rules on selling or acquiring shares, Bhatia would have controlling powers in the company and that would prevent any hostile takeover attempt.

Among the critical rights that IGE enjoys are the ones to appoint managing director, chief executive officer, and president of the company, and induct five of the 10 directors to the company's board.

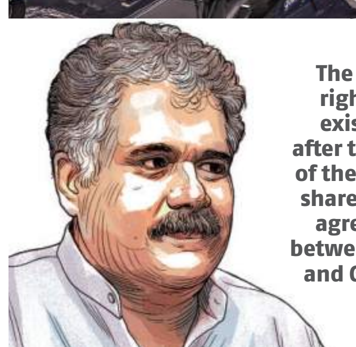
The rights will exist even after the expiry of the bilateral shareholders' agreement between Bhatia and Gangwal because these are embedded in the Articles of Association of the company.

The Gangwal family had pointed out in its notice that the EGM was necessary to remove the restrictive clauses of share transfer.

"Even in the event of Gangwal trying to increase or decrease his shareholding, there is little change to the control of the company, which will stay with Bhatia. No new shareholder will come in without Bhatia's approval because he enjoys critical powers in the management of the company. Any new shareholder will play second fiddle to him," the person mentioned above said. Experts tracking the company said the IGE group willing to support the resolutions was a positive sign because it signalled there it was a sign of a solution to the promoter feud, which has dragged down the company's stock.

"It is a good sign for investors. The resolution having the IGE group's support means that the promoters have mutually discussed the issue and Bhatia is willing to give an opportunity to Gangwal for cashing out. Considering that there is little chance of a hostile takeover, it is a positive move," said Sriram Subramaniam, head of InGovern, a shareholder advisory firm. Turn to Page 5

Source: Company



Rahul Bhatia

The critical rights will exist even after the expiry of the bilateral shareholders' agreement between Bhatia and Gangwal

Rakesh Gangwal

ILLUSTRATIONS: AJAY MOHANTY

PM ROADSHOW AFTER THE PARADE

Prime Minister Narendra Modi again broke the general security protocol as he walked around greeting the crowd gathered to witness the celebrations of India's 71st Republic Day at Rajpath on Sunday. From a contingent of women bikers of CRPF performing daredevil stunts to the PM paying homage to the fallen soldiers at National War Memorial, the day witnessed many firsts PHOTO: DALIP KUMAR

PAGE 14 R-DAY PARADE UNDERLINES SHIFT FROM RUSSIAN TO AMERICAN WEAPONRY

5,000 firms under I-T lens for income mismatch

SHRIMI CHOUDHARY
New Delhi, 26 January

About 5,000 mid- and small-sized companies have come under the gaze of tax authorities for alleged income discrepancies and mismatches between their goods and services tax (GST) returns and income-tax (I-T) declarations for 2018-19.

The Central Board of Direct Taxes (CBDT) has directed its tax sleuths to intensify enforcement action and launch search-and-survey operations against these firms, including owners of business houses, for supposedly overstating GST claims and understating income in tax filings.

This list has been prepared after scrutinising broad data mining by the GST Network (GSTN), which had detected discrepancies in summary sales returns after they did not match the final returns or system-generated purchase returns. Turn to Page 5

CRACKING THE WHIP

- **Survey and search operations** on tax offenders
- **Income-tax wing scrutinises** list of firms flagged by GST Network
- **Mumbai-based firms highest on list,** followed by Delhi, Kolkata, Hyderabad, and Bengaluru
- **Data shared with 18 regions/states** to intensify action
- **In some cases, scrutiny notices served,** seeking explanation
- **Offenders adopt methods to abuse** tax system, say officials

SLOWDOWN CATCHES UP WITH PVT BANKS; STREET WORRIED ABOUT ASSET QUALITY

The heat of weak consumer demand and a slowing economy, which has engulfed sectors like consumer goods, automobile, and real estate, has cast its shadow on private banks, too. In terms of deceleration in loan growth, as well as asset quality, the impact of the slowdown is clearly visible in the December 2019 quarter results of private banks, making investors cautious. In the last one month, the Nifty Private Bank index has shed 4 per cent, even as Nifty50 remained flat. Loan growth for most private lenders grew at a slower pace. The periodic data from the Reserve Bank of India also highlights how the slowdown is hurting the banking sector. **SHREEPAD S AUTE** writes 11

FORMER MYNTRA BOSS BETS ON TECH, PRIVATE LABEL TO SCORE IN HEALTH CARE

Ananth Narayanan, who spearheaded the Myntra-Jabong venture, is building another billion-dollar business, this time in e-health care, away from the glamour of fashion e-commerce. As CEO of Bengaluru-based Medlife, Narayanan believes technology is the core of a scalable business. But technology is not the only link between the business he's heading now and the one he led till recently. Private label is there as well. Medlife, a health start-up, is scaling up its private label, a term that regularly comes up in any consumer-facing or fashion business, to improve margins. **SAMREEN AHMAD** writes 3

Saraswat, Cosmos to seek universal banking licences

HAMSINI KARTHIK & RAGHU MOHAN
Mumbai/New Delhi, 26 January

Saraswat Co-operative Bank and Cosmos Co-operative Bank are set to seek the Reserve Bank of India's (RBI's) approval to convert into full-fledged commercial banks.

The two leading urban co-operative banks (UCBs) — with over 100 years of history each — will be the first to seek the central bank's nod after the revisit of regulations pertaining to the sector.

Saraswat Bank is expected to put forward its application to the central bank by the second half of 2020-21, while Cosmos Bank is currently in the process of tightening its information technology systems, particularly on the payments and remittances front.

Both banks declined comment on their universal banking ambitions. While Saraswat Bank and Cosmos Bank had approached the central bank with universal banking plans a few years ago, the trigger for them to look anew at the same are the huge changes on the regulatory side.

The RBI has said that UCBs with deposits of ₹100 crore are to set up a board for management with the board of directors carrying out due diligence for their appointment. These internal structures will add another layer of bureaucracy, even as it slows down decision-making.

The small finance bank route is also not an option, given the inherent curbs placed on this model — it would perforce mean they will have to wind down business on both the asset and liabilities side. Given this, it makes sense to directly apply for a universal banking licence.

The business size of Saraswat Bank in 2018-19 stood at ₹61,811 crore (advances of ₹25,797 crore and deposits of ₹36,014 crore), while that of Cosmos Bank was ₹26,952 crore (advances of ₹11,599 crore and deposits of ₹15,353 crore). Turn to Page 5

RINGING IN THE NEW

HISTORY: Saraswat Bank was set up in 1918; Cosmos Bank in 1905

BUSINESS SIZE: In 2018-19, Saraswat Bank had total business of ₹61,811 crore, while Cosmos Bank's was ₹26,952 crore

WHY BECOME UNIVERSAL BANKS NOW: Reserve Bank regulations for bigger UCBs almost on a par with regular banks. Conversion into small finance banks not an option, as they will have to wind down businesses

THRESHOLD BUSINESS SIZE: R Gandhi Committee was of the view that a threshold business size of ₹20,000 crore can be considered for voluntary conversion of multi-state urban co-operative banks into commercial banks

Smaller towns drive OTT viewership growth

Network-backed OTTs see fast growth alongside an increase in demand for regional content

SOHINI DAS
Mumbai, 26 January

The next wave of growth for over-the-top (OTT) platforms in India is coming from smaller towns and cities as adoption picks up, boosted by more people watching videos online.

The demographic shift is particularly true of the network-backed OTT platforms which show network content. However, this growth in Tier II and III cities is coming from the advertising-video-on-demand (AVoD) versions and not from the subscription-video-on-demand (SVoD) versions.

AVoD is the free-for-consumer platform, where revenue for the OTT comes from advertising and SVoD is the subscription-driven platform. Most network-backed OTTs follow a free-and-premium mix model, where some content is restricted for subscribers.

For example, Zee5 said that in the last month alone, the views contribution from Tier II and III cities for AVoD had increased from 44 per cent to 49 per cent. For SVoD, this has increased from 55 per cent to 61 per cent in Tier I cities.

A Zee5 spokesperson explained that AVoD grew in Tier II and III towns and that its growth was primarily on the back of Zee5 being present across the Reliance Jio feature phones that run on the KaiOS, while SVoD continued to grow in Tier I towns.

For Hotstar, non-metros roughly accounted for 63 per cent of its online entertainment consumption in 2019, compared to 54 per cent the previous year. According to the *India Watch Report 2019* released by Hotstar, cities like Lucknow, Pune, and Patna surpassed Hyderabad, Bengaluru, and Kolkata in video consumption.

Per capita data consumption in West Bengal and Bihar is higher than that of Maharashtra and Karnataka.

The share of regional content has predictably grown: 40 per cent of Hotstar's overall video content consumption comes from regional languages. Tamil, Telugu, and Bengali are the top regional languages. Interestingly, 35 per cent of Bengali consumption comes from outside the state.

Another network-backed OTT, Voot (from the Viacom18 stable), said that regional content was driving close to quadruple growth in contribution to views.

Akash Banerji, business head, Voot AVoD, recently told *Business Standard* that regional content was contributing close to 25 per cent of Voot's total consumption and that around 23 per cent of the platform's monetisation is coming from regional.

'Regional' denotes the non-Hindi-speaking markets.

More than 60 per cent of Voot's audience comes from Tier II and III cities.

This trend is obviously shaping the way the OTTs plan their content strategy. Voot, for example, launched Voot Telugu ahead of Viacom18 launching Colors Telugu.

Zee5, too, comes out with at least one original web series on average in five different languages every month: Marathi, Bengali, Telugu, Tamil, besides Hindi.

Demographically, India has thrown up some interesting trends. For example, 36 per cent of the views for Zee5 from Karnataka are from non-Kannada language users and 43 per cent of the views from West Bengal are for Hindi.

With an average monthly per capita consumption of 9.8 gigabyte per month, online video consumption is now a mass phenomenon. Turn to Page 5

THE BIG PICTURE

- **Platforms like Zee5 are witnessing growth** in view contribution from Tier II and III cities
- **Non-metros account for nearly 63% of Hotstar's** entertainment consumption online
- **40% of all video consumption of Hotstar** comes from regional languages
- **60% of Viacom18's Voot audiences** come from non-metros
- **More consumption from smaller towns** is influencing content strategy of OTTs

IN BRIEF

RIL partnership with Aramco signals expansion: Bernstein

Reliance Industries' partnership with Saudi Aramco for its $75-billion oil-to-chemicals business signals expansion rather than retreat, as growth opportunities are expected to boost the petrochemical and refining vertical, market analyst firm Bernstein said. Mukesh Ambani had in August last year announced initial agreements to sell a 20 per cent stake in the business to the Saudi Aramco. Also, a 49 per cent interest in fuel retailing business was sold to BP for ₹7,000 crore. "Reliance has pivoted away from energy to the new economy. But energy still accounts for 64 per cent of Ebitda. While RIL has divested stakes to BP and Aramco, we expect RIL to grow their petrochemical and refining business given the secular growth opportunities," it said. "Aramco's investment is to secure market access and growth. While refining is a cash cow for the business, we believe that there are significant opportunities for petrochemical expansion ahead given demand growth and synergies with refining." PTI

Eyeing leadership position in EV segment: TaMo

Tata Motors aims to establish itself as leader in the electric vehicle market in the country as it looks to roll out new products for both private and fleet segments, a senior company official said. The firm is now gearing up to cater to the personal segment with the introduction of the electric version of compact SUV Nexon which comes with a range of over 300 kms. PTI

Connected vehicles set to be common in India, says report

Connected cars are set to become a common phenomenon in the Indian market in the near future with rapid adoption of electric vehicles, according to a Deloitte report. According to the 2020 Global Automotive Consumer Study by Deloitte the Indian market is expected to witness enhanced interest and demand for battery electric and connected vehicles. PTI

Audi India head: High taxes hurting luxury car sales

High GST rates, import duties and registration taxes are limiting the growth of luxury car market in India and the government must consider reducing these in the upcoming Budget, according to German luxury car maker Audi. PTI

Force Motors plans ₹600-cr capex to develop 2 models

Force Motors has lined up ₹600 crore in fresh investment to develop two new models over the next two years. The proposed new models in the shared mobility space will come out from its soon-to-be-launched premium platform, code-named T1N. PTI

Small units to be bigger as TCS revisits 2011 strategy

Also plans to identify the next billion-dollar bets in the digital services space

DEBASIS MOHAPATRA
Bengaluru, 26 January

In a bid to boost its revenue growth, IT services major Tata Consultancy Services (TCS) is revisiting its strategy by raising the size of its business units, apart from identifying the next billion-dollar bets in the digital services space.

People aware of the development said the IT firm was planning to raise the size of the business units with own profit and loss (P&L) accounts to $400-$500 million from $100-$150 million at present.

These business units, which have end-to-end responsibilities with a lot of operational and financial autonomy, are being reorganised to weed out duplication. "With a $21-billion revenue base, the company needs to consolidate a lot of its business units to match its scale. This is also required to find the big bets for driving its next phase of growth," said a person familiar with the development.

An e-mail sent to TCS remained unanswered at the time of going to press.

Carving of business units with own P&L responsibilities has long been considered one of the factors behind TCS's successful emergence as the market leader in the Indian IT industry. The Tata group company first adopted the strategy under the leadership of the then chief executive officer (CEO) of the IT firm N Chandrasekaran in 2010-11 when the firm was divided into 60 small units, each of which had around 3,000-5,000 people and revenue of $100 million to $150 million each. The company had a revenue base of around $9 billion at that point of time.

"Many TCSs within TCS' as a strategy has for long been followed by the company. However, it required fine-tuning for attaining its next phase of growth," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting.

In an earlier interview, TCS's CEO Rajesh Gopinathan had said the IT firm is rightsizing its offering in digital services from current 800-900 to around 500 in order to avoid duplication.

"The company is also focusing on the next billion dollar opportunities in the digital services segment for faster growth," said another person familiar with the development. From third quarter onwards, the Mumbai-headquartered firm stopped giving separate revenues from digital services, saying that lines between traditional and digital revenues were blurred.

During the quarter ended December 2019, the company posted its slowest revenue growth in last eight quarters when its revenues in constant currency term grew 0.3 per cent sequentially to $5.586 billion. Weakness in key verticals such as banking, financial services and insurance (BFSI) and retail were the major reasons for the subdued growth.

The company, which grew its revenues by 11.4 per cent in constant currency term in FY19, is unlikely to end this fiscal with double-digit growth figures. "Given the headwinds, TCS is constantly looking at ways to come back to its earlier growth path. So, cost control through consolidation is being pursued very actively by the IT firm," said another person familiar with the development.

ON THE CARDS

- **Minimum threshold revenue for a business unit** with own P&L to be raised to $500 mn from $150 mn
- **The firm is rightsizing its offering in digital services** from 800 to 500
- **The company plans to weed out duplication** by merging many sub-segments within a unit
- **After seeing weak revenue growth over the last two quarters,** TCS is fine-tuning strategy for faster growth

Chronic illness drugs capture more mkt share

SOHINI DAS
Mumbai, 26 January

Demand for medicines used in chronic illnesses is growing at a faster clip, compared to acute therapy drugs that are used usually for a shorter duration. Data shows that the share of chronic illness medicines in the Indian pharma market has grown from 31 per cent in FY13 to 36 per cent in FY19.

During this period, the domestic pharma market, too, has grown from ₹75,071 crore to ₹1.3 trillion. The market is broadly split into acute and chronic segments, depending on the duration of patient's use of medicines.

Anti-infectivess, a category of medicines used to treat infections (primarily antibiotics), pain and acidity, are in the acute segment. Long-term treatments like diabetes, high blood pressure and lipid-lowering drugs are classified into the chronic category.

According to latest data from market research firm AIOCD AWACS, as on December 2019, drugs in the acute category are growing at 9.2 per cent, while the chronic segment is growing at 11.2 per cent. The anti-infectives category is the largest in the domestic drug market. It is growing at 9.2 per cent. In comparison, the anti-diabetes and cardiac categories are growing at 11.7 per cent and 12.6 per cent, respectively.

India Infoline (IIFL) analysts said that due to product introductions, improving diagnosis rates for lifestyle diseases and better compliance (where patients are continuing treatment), the chronic segment has been growing faster than acute since the early 2000s. "Chronic therapies have also been more profitable for established players, such as Sun Pharma and Torrent," it said. The firms in acute care have less room for indulge in aggressive promotion activity. "Most product launch activities in the past two decades have also focused on chronic care, as very few antibiotics or pain products have come to the fore," IIFL said.

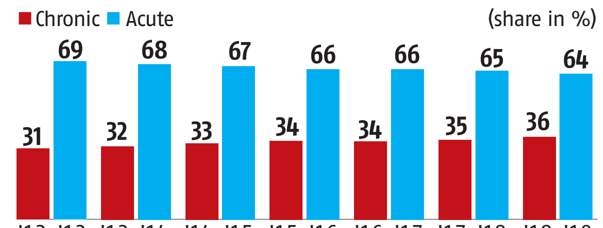
The share of chronic illness medicines in the Indian pharma market has grown from 31% in FY13 to 36% in FY19

R K Baheti, chief financial officer (CFO) and director (finance), Alembic Pharmaceuticals, told *Business Standard* the firm had not been launching many products in the anti-infectives space.

Alembic's major presence in the segment is in a category called macrolides (a first line treatment but with better efficacy and lower dosage frequency). The category as such is not growing very fast and new introductions have been low. Alembic said it has managed to grow better than the industry in this category. After the government's ban on certain fixed dose combination (FDC) drugs, growth in the acute category has slowed down.

"One has to channelise the marketing budget carefully. Following the footsteps of MNCs (multinational corporations), Indian firm, too, are rationalising their portfolio and not going for aggressive launches. New product launches eat up much of the marketing and promotional budget. Focus on chronic has thus increased. This means, once the physician starts writing prescriptions, there is a higher stickiness for the product," said the cardio-diabetic sales head of a mid-sized pharma firm in Mumbai.

SHIFTING TREND



Source: Industry data, IIFL Research

WORLD'S LARGEST TWIN-ENGINED JETLINER MAKES MAIDEN FLIGHT

Boeing successfully staged the first flight of the world's largest twin-engined jetliner on Saturday, in a respite from the crisis over its smallest model, the grounded 737 MAX. The 777X, a larger version of the 777 mini-jumbo, touched down at the Boeing Field outside Seattle at 2 pm (2200 GMT). The decision to take advantage of a gap in clouds to start the months of testing needed before the jet can carry passengers came after two attempts had to be postponed due to high winds. The aircraft is the larger of two versions planned by Boeing and will officially be called 777-9, but is better known under its development codename, 777X

PHOTO: AFP/PTI

Franklin Templeton MF side-pockets Voda debt

JASH KRIPLANI
Mumbai, 26 January

Franklin Templeton Mutual Fund (MF) has decided to create segregated portfolios (side pockets) to hold the debt paper of Vodafone Idea (VIL) separately, after the telecom company's debentures were marked down to below-investment grade.

"(Our) board of trustees has approved the creation of segregated portfolios in Franklin India Low Duration Fund, Franklin India Dynamic Accrual Fund, Franklin India Credit Risk Fund, Franklin India Short Term Income Plan, Franklin India Ultra Short Bond Fund and Franklin India Income Opportunities Fund," it said.

Effective from last Friday, when ratings agency CRISIL downgraded VIL's non-convertible debentures to BB, a rating below investment grade. The earlier rating was BBB-negative. CRISIL said it was maintaining a 'rating watch with negative implications'.

The agency said the revision reflected expectation of a significant deterioration in VIL's financial risk profile, due to the potential payout against the adjusted gross revenue (AGR) related liability, payable shortly.

However, it did also note that the actual liability could be lower than the ₹44,150 crore provided for by the company in its accounts. CRISIL has said VIL's liquidity of ₹15,390 crore as of end-September would not suffice if payout of licence fee liability continues to remain part of the overall dues.

Franklin Templeton MF had ₹2,073 crore of exposure to VIL at end-December in six of its schemes. On January 16, it had formally marked down its exposure to 'zero', as a 'prudent measure' to protect its unit holders. The markdown was the same day that the Supreme Court (SC) rejected VIL's review plea pertaining to the over ₹40,000 crore in AGR-related dues to the government.

'We've strong YouTube biz; not eyeing Netflix, Amazon universe'

Q&A The ₹635-crore Entertainment Network India (a part of the estimated ₹10,000-crore Times Group) owns Radio Mirchi, India's largest radio operator. In a month from now, it will drop the word 'radio' from its name. **Vanita Kohli-Khandekar** spoke to CEO **PRASHANT PANDAY** on the hows and whys. Edited excerpts:

What is new 'Mirchi' about?
Earlier, we were known as Radio Mirchi now we will be Mirchi. One of its products is radio, but one product is original video content, live events (like the Mirchi Music Awards, Mirchi Spell Bee and others) and solutions. We ask the marketer, tell us your problem and then create a solution that combines our properties, Radio Jockeys, on ground events in the best way possible. Today, 67 per cent of our revenue, over ₹425 crore, is from radio; 33 per cent (about ₹210 crore) is solutions, digital, events et al. We don't see ourselves as Radio Mirchi. Strategically, that means we are not limited to 5 per cent of the ad pie. We are already reaching 67-70 million people online and my radio reach is about 45 million. So, we are transforming from a radio-alone company to a video company as well. There is a whole new corporate identity exercise going on. It will be ready in a month. We are going for (a turnover of) ₹1,300 crore by 2024, of which radio will be about ₹700 crore. So, it will grow but will account for 55 per cent of top line. The compounded annual growth rate (CAGR) on solutions and digital is 26 per cent and is radio 11 per cent.

What has Mirchi done in online video so far?
We have a very strong YouTube business. We are among the top 10-20 independent channels on YouTube(over 8 million subscribers), along with TVF and Pocket Aces. We made and released six hours of original video content in Gujarati, Tamil, Marathi and other languages. This year, we have done 25 hours of content — 15 were sold to MX Player (a Times Group brand) and another 10 are under negotiation with Voot and Hotstar. Next year, we want to go to 100 hours.Our strategy is RRS — regional, reach and snacking. We will focus on regional content, use the radio reach to sell to clients and the content will be of the snacking variety. We make 10-minute episodes. We are not in the Netflix, Amazon universe and we have no illusions of being in that space. We believe this (snacking) is what drives the volumes in that space. And there are lots of clients who don't want to spend crores of rupees, they want to spend ₹10 lakh or ₹20 or ₹40 lakh.

"THERE'S FUNDAMENTAL THREAT TO THE MEDIUM AS DEFINED BY FM WAVES. BUT THERE IS NO THREAT TO THE PRODUCT THAT IS A MIX OF MUSIC, LOCAL CONTENT, FUNNIES AND EVEN PERSONALITIES. COMPANIES THAT ARE PURELY RADIO-DEPENDENT WILL SEE A SLOWDOWN"

The market is awash with content firms..
When we started in 2000, we had said ENIL would be India's largest city-centric media company. We had radio, out-of-home (OOH) and events — they were all city-centric. That is the pivot on which the business was made. ENIL is India's largest city-centric (instead of radio) music and entertainment company. That is what separates us from Star TV, Amazon or Netflix. My core strengths are these 63 offices and the 1,100 people in those offices, and I will leverage that.

All of this growth is coming from the same team. We have 350 creative people and 550 sales people, among others. The creative people already paid for by the radio business. So whatever content I make I have zero incremental cost. Our 550 sales people have access to 10,000 clients, others (such as Pocket Aces) won't have that.

Radio is under some threat because not all phones now offer an FM tuner..
Look at IRS (Indian Readership Study) data on radio over two years — radio listenership across devices has grown from 104 million (in 2017) to 105 million (in the latest 2019 IRS). Even (listenership on) number of mobile phones has grown 99 million to 113 million. The interesting thing is car listenership is rising. The number of male listeners and those who are above 35 years is increasing. Women have given way to men now, that is a big change in the past five to seven years.

Why is that?
Because devices have changed. Women would consume it largely on older phones. Now almost half the newer phones come without FM, so, where would they consume it. Also 10 years ago, afternoon programming wasn't there on television. So, for the women, television has become far more prominent over five to seven years. However, FM is available on the lower-end phones. So, you are not losing the high-end listeners but that listenership is shifting. At the lower end, the whole Jio phenomenon has given a new lease of life to radio because they hope to sell 500 million of their ₹1,500 phones, all of them FM enabled.

Is there a fundamental threat to the medium?
There is a fundamental threat to the medium as defined by FM waves. But there is no threat to the product that is a mix of music, local content, funnies and even personalities. Companies that are purely radio-dependent will see a slowdown.

AI doubles flights on Tel Aviv-New Delhi route

In view of the increase in passenger traffic on the Tel Aviv-New Delhi sector, India's official carrier Air India will double the number of flights on the route to six per week from April.

The national carrier created history by becoming the first commercial flight to fly to Israel over Saudi Arabia and Oman in March 2018, seen by many as a diplomatic breakthrough and often presented by Israeli Prime Minister Benjamin Netanyahu as a major achievement of his government, signalling improving ties with Gulf countries. The access to Saudi and Omani airspace shortens the flight path by almost two hours, which lowers the fuel cost, leading to reduction in fares.

The announcement was made by Indian Ambassador in Israel Sanjeev Singla during the Republic Day celebrations at the Indian Embassy on Sunday.

Air India started with 3 flights a week and within a span of two years has gradually increased it to six, starting from April 1 this year. PTI

Former Myntra boss sets sights on e-health biz

Narayanan wants to reach 15 mn customers in the next five years, possibly to turn Medlife into a $2-billion player

SAMREEN AHMAD
Bengaluru, 26 January

"UNLIKE E-COMMERCE, WHERE ALL THE GROWTH IS COMING FROM TIER-II AND TIER-III MARKETS; IN THE E-HEALTH SECTOR, ONLY 40 PER CENT TRACTION IS FROM SMALL TOWNS AND CITIES. REST OF THE GROWTH IS COMING FROM TIER-I CITIES"

ANANTH NARAYANAN
CEO, Medlife

Ananth Narayanan, who spearheaded the Myntra-Jabong venture, is building another billion-dollar business, this time in e-health care, away from the glamour of fashion e-commerce.

As CEO of Bengaluru-based Medlife, Narayanan believes technology is the core for a scalable business. But technology is not the only link between the business he's heading now and the one he led till recently. Private label is there as well.

Medlife, a health start-up, is scaling up its private label, a term that regularly comes up in any consumer-facing or fashion business, to improve margins. The private labels segment, with around 100 over-the-counter products such as vitamins, supplements, and hand sanitisers, is growing in double digits. In fact, the company is aiming to double the revenue contribution from this segment, at 5 per cent now, over the next two years.

Before joining Medlife six months ago, he had analysed several other sectors such as banking and agriculture. However, he chose health care as he felt there was lack of technology in the space.

Narayanan wants to reach 15 million customers in the next five years, possibly to turn Medlife into a $2-billion player. With over 72 million diabetics and 50 million heart patients in India, the company's planning to address the fragmented health care market through its proposed diagnostics, express delivery and consultation services, all on one platform.

"We are transacting with a lot of data to predict what customers want even before they order. We need to be inventory ready in our business," said Narayanan.

The company is also investing in data science to track the pattern of medicine orders and find out when a predictive preventive test might be useful. Technology is also driving the supply chain to make sure every order takes less than five minutes to leave the fulfilment centres. To make all this happen, the company is looking to expand its 100-odd tech team.

Three months away from breaking even, the company has aggressive expansion plans. "Unlike e-commerce, where all the growth is coming from tier-II and tier-III markets, in the e-health sector, only 40 per cent traction is from small towns and cities. Rest of the growth is coming from tier-I cities," said Narayanan.

Medlife had posted 165 per cent growth in revenue to touch ₹363 crore in FY19, while losses surged by 145 per cent to ₹404 crore. The losses have been halved this financial year owing to growth in the diagnostics and private label segments.

Making a strong push into the diagnostics segment post the acquisition of MedLabz, it is scaling the lab business from the current 20 to 50 and plans to double its fulfilment centres from the current 30 in the next three years.

Alembic sees India sales recovering from Q1FY21

VINAY UMARJI
Ahmedabad, 26 January

After nearly flat domestic sales growth in the December quarter, Alembic Pharmaceuticals says it expects 10-12 per cent growth from the April-June quarter.

"The first hint of it will be seen in the March (ongoing) quarter, though domestic sales (growth) would be roughly flat this (financial) year," R K Baheti CFO, said. Its financial results for Q3 showed the US business grew a little over 60 per cent. India sales growth was barely 1 per cent. It needs the latter to grow, at a time when it expects more competition for the US business.

Domestic sales were hit after the company stopped its discount scheme for institutional sales. "Instead of passing it on to institutions, stockists were found to be pocketing the discounts. We stopped the discounts and that impacted domestic sales. However, it is not the stockist that drives our sales. Hence, this was a one-time hit," said Baheti.

Analysts and broking firms tracking Alembic agree with him. Alembic Pharma's India business revenue grew only 0.8 per cent year-on-year in Q3; those from speciality therapies fell 3.9 per cent, on account of this restructuring of trade practices, said ICICI Securities in a note. "This is expected to normalise from Q1 of FY21 as the base effect kicks in," it added.

BALANCE SHEET

Formulation	Q3 FY19	Q3 FY20	% chg	9M FY19	9M FY20	% chg
US	319	515	61.0	975	1,399	43.0
Ex-US	129	149	15.0	413	364	-12.0
India	365	368	1.0	1,080	1,083	0
API	205	177	-14.0	540	553	2.0
Total revenue from operations	1,018	1,209	19.0	3,008	3,399	13.0
PBT before exceptional items	210	283	35.0	602	774	29.0
PBT	210.75	276.28	31.0	602.93	734.17	21.76

Figures in ₹ cr; PBT: Profit before tax
Source: Company

Anand Rathi Share and Stock Brokers speaks similarly, estimating 12-13 per cent growth in FY21 for the India business. "For the first nine months of FY20, domestic formulations (sales) have been flat at ₹10.8 billion, as the streamlined distribution network had yet to show results. Most of the restructuring is now complete and from FY21 the management expects growth in double-digits," it said.

Adding: "Alembic has invested ₹200 crore in new capacities (Aleor plus oncology and OSDs) aiming to diversify its product range in the US, and improve the quality of its filings. Further, a turnaround in its India base is likely to help maintain double-digit growth for the next few years." While the India formulations business in Q3 grew only 0.8 per cent from a year before to ₹368 crore, its global business grew 48 per cent to ₹664 crore. And, US generics revenue by 61 per cent to ₹515 crore. The company has posted a 31 per cent rise in pre-tax profit of ₹276.3 crore in Q3. Total revenue from operations in Q3 grew 19 per cent, to ₹1,209 crore.

"It was a good quarter for the company, led by strong growth in the international markets. We launched seven products in the US market," Pranav Amin, managing director, had said.

This financial year should see 15-20 product launches in the US. The firm looks to achieve a similar number next year. "Alembic expects its US base of $200-220 million to double to $400 million in the next couple of years. It expects to launch 17-20 products per annum and its product range is set to expand," Anand Rathi said.

Hector output may be hiked by up to 30%, says MG Motor

PRESS TRUST OF INDIA
New Delhi, 26 January

MG Motor India plans to increase production of its SUV Hector by around 30 per cent after BS-VI emission norms come into effect from April 1, according to a senior company official.

The firm, which launched the ZS EV last week , is also set to review plans for a sub-₹10 lakh electric vehicle (EV) considering the robust response to its pure e-SUV.

"In case of Hector we are planning for another ramp up and hopefully that should happen in two-three months' time," MG Motor India President and MD Rajeev Chaba said. The firm has received good response to Hector, its first model in India, and retailed 3,021 units in December 2019. Since its launch in July 2019, the carmaker recorded total sales of 15,930 units of the Hector.

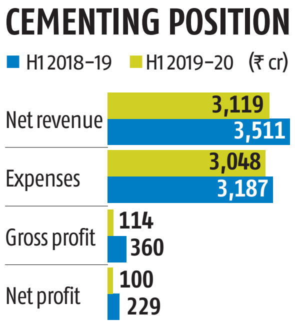
"Right now we are focussing on smooth transition to BS-VI from BS-IV in terms of dealer stock. Based on next two months we will decide but we are thinking that 3,500 to 4,000 (units) per month of Hector we can do," he said.

The first quarter will take some beating because of the stock adjustment, Chaba said, adding "but from April-May onwards it can be increased to 3,500 to 4,000 per month".

Right now the company is producing around 3,000 units of the Hector from its Halol plant. With over 2,800 orders received for the ZS EV, way above its expectations, MG Motor India is considering to ramp up production of the vehicle to 300 or 400 units a month after three or four months, up from 200 units a month. When asked about the company's plans for the sub-₹10 lakh electric vehicle in the wake of the robust response to ZS EV, Chaba said it "is also an interesting development now".

Birla Corp aims at 20-mt cement capacity in three years

CEMENTING POSITION



Source: Company

AVISHEK RAKSHIT
Kolkata, 26 January

Birla Corporation is increasing its total cement manufacturing capacity in the next three years to around 20 million tonne per annum (mtpa), spread across western, northern and central India.

It is constructing a 3.9 mtpa factory, along with a 40 Mw power plant and a 10.6 Mw waste-heat recovery one, at Mukutban in Maharashtra. The investment is ₹2,450 crore and this should be commissioned by the second quarter of 2021-22. Once done, it will take the company's installed capacity from the existing 15.58 to 19.48 mtpa, at parity with that of Ramco Cement (whose current installed capacity is 16.69 mtpa).

According to brokerage Anand Rathi, another 1.2 mtpa expansion of its cement grinding plant at Kundanganj in Uttar Pradesh is also on track, for probable commissioning by March 2021. Clinker expansion of 480,000 tonnes at the NCCW plant at Chanderia has begun to fulfil the additional needs of the Kundangunj grinding unit.

Birla Corporation declined to comment on the development. According to sources, it is also considering another production line at its existing unit at Maihar in Madhya Pradesh. The Mukutban project has been financed by a ₹1,625 crore term loan stretching for 12 years from a consortium of four banks led by Bank of Baroda, at a little less than nine per cent annual interest. Another ₹2,500 crore will be invested over other projects.

According to Yes Securities, the capacity addition plan of 5.2 mtpa in UP and Maharashtra will translate to growth of 33 per cent in capacity to 20.5 mtpa, making it the fifth largest cement group in India.

Currently, the MP Birla Group company is ranked seventh in terms of installed capacity.

Sandip Ghose, chief operating officer at Birla Corporation, says once the company is able to scale up capacity, with market share gain and more visibility, it could enter new categories within cement, besides emerging a serious player in building and construction solutions.

Success fee gains currency among RPs

Concerns remain that the practice may pose a hindrance to carrying out transactions in a fair manner

RUCHIKA CHITRAVANSHI
New Delhi, 26 January

Success fee is becoming an increasingly popular way of payment among corporate insolvency resolution professionals (RPs) for carrying out transactions.

No official data is available on the charges but Insolvency and Bankruptcy Code (IBC) experts say the fee is being paid in more than half of the overall cases going for resolution. It usually is in the range of 0.1 to 2 per cent of the winning bid amount after approved by the National Company Law Tribunal, experts said.

A circular by the Insolvency and Bankruptcy Board of India on fee and other expenses incurred for the Corporate Insolvency Resolution Process (CIRP) provides that one of the ways of charging fees can be success or contingency fee "only to the extent that it is consistent with the requirements of integrity and independence of insolvency professionals."

"The structure of fee during CIRP is not provided in the regulations. The fee shall be fixed by the applicant and the same shall be paid as CIRP cost to the extent ratified by the Committee of Creditors (CoC). But for liquidation, if the CoC does not fix the fee then it is paid according to the percentage of recovery proved in the regulations," said Manoj Kumar, partner, Corporate Professionals.

ILLUSTRATION: AJAYA MOHANTY

The conduct of RPs has come under scanner of late, with the IBBI initiating action in several cases

Concerns are being raised in the rapidly growing, lucrative segment that the practice could pose a hindrance to carrying out the process in a fair and ethical manner.

"It can take away the focus of the RP from the majority of his work, which is running the stressed company. More importantly, they can find the motivation to leak information and try to get someone to take it," a senior IBC expert said. "There is concern that by charging such fees, the RP might forego the concerns of creditors. But RP is only a conduit between the committee of creditors and an acquirer, and cannot make any decision," a senior analyst said.

There are more than 2,700 registered insolvency professionals in the country. The ways in which they are remunerated includes a time-based charging, prospective fee — up to a cap — fixed fee or percentage-based charging.

"It is difficult to get confirmation of CoC for success fee always. Also most of the RPs don't want to take a risk and wants fixed regular income," Kumar said.

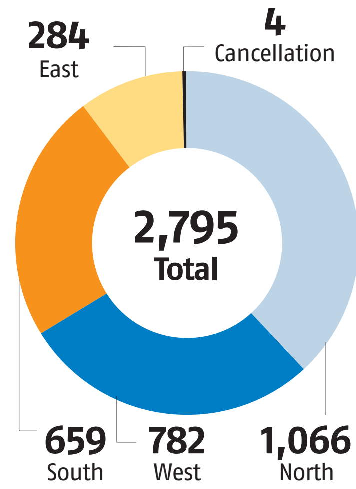
The conduct of resolution professionals has come under scanner of late with IBBI initiating action in many cases. A disciplinary committee order recently found the professional and the CoC had reached an arrangement in contravention of IBC guidelines.

The order currently being challenged in the High Court said: "There is understanding between CoC and RP to contravene a law and willingness to remedy the situation only if they are caught. Thus, the professional has deliberately compromised his independence."

The IBBI is taking a long-term view to remedy the situation by training fresh batches of professionals through its graduate insolvency programme. While this course requires a person to be a graduate to qualify for entrance, the IBBI is soon going to launch a five-year national insolvency programme for students who pass out Class 12.

"We are grooming the younger lot. Ethically also, we feel they will be of higher standard and increase competition in this profession," said M S Sahoo, chairman of IBBI.

IN NUMBERS
Insolvency professionals in India as of September 2019



Source: IBBI newsletter

Gifts from abroad facing Centre's ire

EXIM MATTERS

T N C RAJAGOPALAN

In a baffling move, the central government has, in a clumsy and strange manner, removed the duty exemption up to ₹5,000 given hitherto on import by individuals of bona fide gifts (except for life-saving drugs and rakhis.

The Foreign Trade Policy (FTP) has, for decades, allowed import of gifts of freely importable items without any value limit. Para 2.25 of the current FTP 2015-20 has a specific provision that 'import of gifts shall be 'free' where such goods are otherwise freely importable under ITC (HS). In other cases, such import 'shall be permitted against an authorisation issued by DGFT.'

The government can argue the change targets only those residing abroad but the fact remains that it does affect the kin and friends in India of non-residents

The commerce ministry amended this provision through notification 35/2019 dated December 12, 2019. This states: "Import of goods, including those purchased from e-commerce portals, through post or courier, where Customs clearance is sought as gifts, is prohibited except for life-saving drugs/medicines and rakhi (but not gifts related to rakhi)".

One of the two explanations to the notification says "import of goods as gifts with payment of full applicable duties is allowed".

This nullifies Section 608A of the Customs exemption notification 50/2017-Cus, dated June 30, 2007, which had granted full exemption to import of gifts through courier or post (be it e-commerce import or otherwise) up to a CIF value of ₹5,000. However, the prohibition will not operate if full duty is paid.

The Central Board of Indirect Taxes and Customs, through Circular 4/2020-Cus dated January 21, 2020, clarifies that since the goods imported as gifts will be personal import, they will attract basic customs duty (BCD) of 35 per cent and Integrated Goods and Services Tax of 28 per cent under Classification 9804.

This circular makes no mention of the social welfare surcharge (SWS) leviable at 10 per cent of the BCD but it is not exempted. Thus, taking SWS also into consideration, the aggregate duty is 77.28 per cent. However, in line with Section 25(6) of the Customs Act, if the duty on any goods is less than ₹100, this will not be collected by the Customs.

Most non-resident Indians order gifts through e-commerce portals in India and ask the latter to deliver goods sourced from local vendors. But, there are some who, for emotional reasons, prefer to purchase gifts and send to their relatives or friends in India through post or courier. It is not easy to understand why the government wants to make receipt of such gifts more difficult and expensive.

It is also difficult to fathom why the commerce ministry preferred to intervene through the said notification 35/2019, when the main purpose is to deny the exemption.

That objective could have been achieved through amendment in the said notification 50/2017 by the finance ministry.

An explanation in notification 35/2019 says rakhi (but not gifts related to rakhi) will be covered under Section 25(6) of the Customs Act, that reads 'no duty shall be collected if the amount of duty leviable is equal to or less than ₹100. What is the point of such an explanation when Section 25(6) applies to all goods?

The government can argue the change targets only those residing abroad but the fact remains that it does affect the kin and friends in India of non-residents.

Email: ncrajagopalan@gmail.com

Shriram Capital's net profit doubled in 5 yrs

T E NARASIMHAN & GIREESH BABU
Chennai, 26 January

Shriram Capital (SCL), the core investment company of the financial services and insurance business of Shriram Group, has seen its consolidated profit after tax more than double in five years.

Its total income grew to ₹5,407 crore in 2018-19 (FY19), around 65 per cent in five years. Profit after tax grew from ₹842.7 crore in FY15 to ₹1,737 crore in FY19 (though there was a drop in FY16 (₹759.8 crore), according to company filings.

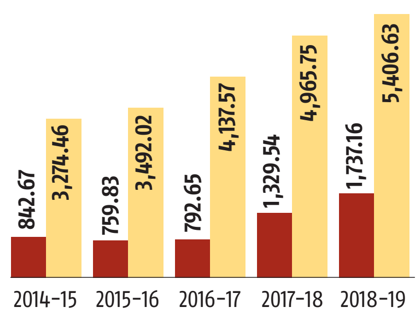
The amount grew 30.6 per cent in FY19 from the previous financial year's ₹1,330 crore. This took place despite the non-bank finance companies sector seeing a crisis after IL&FS started defaulting on its loans in August 2018.

The holding company counts Shriram Life Insurance (74.56 per cent stake) and Shriram General Insurance (76.66 per cent stake) as subsidiary companies. It has listed entities Shriram Transport Finance Company (STFC) and Shriram City Union Finance (SCUF) as associate companies, with 26.08 per cent and 33.74 per cent shareholding, respectively.

It also has 26.06 per cent stake in SCUF's subsidiary, Shriram Housing Finance, and 11.62 per cent in STFC's subsidiary, Shriram Automall India.

One of the main operating subsidiaries, Shriram Life Insurance Company (SLIC), showed growth in turnover to ₹1,644 crore in 2018-19, from ₹1,080 crore in FY15. Compared to the previous year, FY19 showed 9 per cent growth in individual new business, as compared to 16 per cent growth in the segment's private sector and a one per cent fall for state behemoth Life Insurance Corporation, it said. Profit after tax was ₹74.1 crore, compared to ₹79.7 crore in FY15, after seeing a substantial decline in FY16 to ₹18.4 crore and ₹15.7 crore in FY17.

FINANCIAL STATUS
Five-year financial performance of Shriram Capital (₹ cr)



Source: Company filings with RoC

R THYAGARAJAN, founder, Shriram Group

"Merger proposal is under serious consideration. There has been no change in the situation over the past few weeks"

Shriram General Insurance Company showed growth in turnover from ₹250 crore in FY15 to ₹2,221 crore in FY19. Profit after tax also grew, from ₹210 crore in FY15 to ₹663 crore in FY19, according to company filings with the government.

SCL, which had 77.68 per cent stake in Shriram Value Services (SVSL), recently acquired the remaining shares in SVSL from the existing shareholders, including Nivedana Power and Syandana Energy.

An information technology and IT-enabled services entity, with domain expertise in financial and insurance services, SVSL is third largest among the 15 subsidiaries of SCL in terms of annual turnover. However, it registered a loss of ₹2,155 crore during the year ended March, 2019.

Shriram Group has been considering merger of the unlisted holding company with STFC and SCUF. This would make it a larger entity listed on the stock exchanges and allow the investors of SCL an option to exit.

At end-March 2019, the major shareholders in SCL were Shriram Financial Ventures and Shrilekha Business Consultancy, which together hold the majority of shares in SCL. TPG holds 9.43 per cent stake and Piramal Enterprises around 1,000 shares.

There were reports that the merger move was stuck, with the Reserve Bank of India asking SCL to cut its stake in the insurance business. However, Shriram Group founder R Thyagarajan denied any such instruction and had told this publication: "The merger proposal continues to be under serious consideration. There has been no change in the situation over the past few weeks."

The merger is expected to pave the way for listing of SCL, he said earlier.

The proposed merger between the two listed entities came into the limelight mainly after talks between Shriram and IDFC Group for one were called off in October 2017. The two sides failed to agree on a swap ratio, according to reports.

SCL saw its non-executive chairman, Ajay Piramal, resigning with immediate effect in November 2019, after expressing a plan to exit from the Group. He had exited from STFC earlier in 2019. Rajesh Laddha, a nominee of Piramal Enterprises, also resigned as managing director of SCL.

Piramal Enterprises has said he will continue on the board of directors at SCL, which has since appointed R Duruvasan, former managing director of SCUF, as a wholetime director till end-November 2024.

In June 2019, Shriram Ownership Trust, which manages the business of Shriram Group companies, said SCL and its operating entities had an overall customer base of around 19 million, and about 75,000 employees across 3,800 branches. With assets under management in excess of ₹1.5 trillion.

FPIs pour in ₹1,624 crore on US-China trade deal

PRESS TRUST OF INDIA
New Delhi, 26 January

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.

According to the latest depositories data, FPIs invested a net ₹13,304 crore in equities and withdrew a net ₹11,680 crore from the debt segment between January 1 and 24. This translates to a net inflow of ₹1,624 crore.

"After starting the year on a muted note, investments from FPIs has picked up pace and most of that came after the US and China signed a deal putting the trade war between them on pause," said Himanshu Srivastava, senior analyst manager research at Morningstar Investment Adviser India.

The investments came despite challenges such as enhanced geopolitical tension between the US and Iran and dwindling domestic economic growth, Srivastava noted.

On the domestic front, "There are some signs of India shaking away the slowdown with business activity picking up and this is reflecting in the investments coming into equities. Besides, after the limit to which FPIs can invest in debt instruments has been increased, more inflows into the debt category can be expected," said Harsh Jain, co-founder and COO, Groww.

STATSGURU

Challenges before FM: Boosting growth, reining in fiscal deficit

ILLUSTRATION: BINAY SINHA

As the Modi government prepares to present its annual Budget on February 1, economic growth is on a downward trajectory and poised to be the lowest in over a decade.

This leaves Finance Minister Nirmala Sitharaman with a difficult choice in her second Budget — whether to rein in the Centre's fiscal deficit at the targeted level or widen it to stimulate the economy. The fiscal deficit target of 3.3 per cent of GDP for the current financial year seems challenging and the one for next year at 3 per cent of gross domestic product (GDP), given in the papers laid under the Fiscal Responsibility and Budget Management (FRBM) Act, almost impossible.

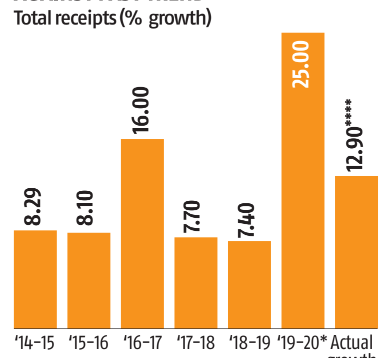
Tax revenue have come under severe stress due to overestimation of numbers and cuts in corporation tax and goods and services tax (GST) rates. The collections had seen a temporary spike in FY17 and FY18 on account of demonetisation of high-value currency in November 2016, which led people to declare higher incomes than usual.

Among other revenue heads, meeting non-debt capital receipts is also an uphill task. One of the main items, disinvestment, saw only ₹18,000 crore collection so far, against the target of ₹1.05 trillion for FY20.

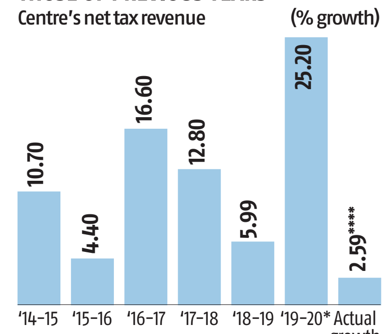
Non-tax revenues hold some hope due to fund transfer by the Reserve Bank of India to the government to the tune of ₹1.76 trillion and the Supreme Court's ruling on telecom companies' payments to the exchequer. As the government struggles for revenues, the axe could fall on capital expenditure and on subsidies part of the revenue expenditure, which might be cut or rolled over to next year. Besides, borrowing by the Food Corporation of India from the National Small Savings Fund is an option.

BY DILASHA SETH

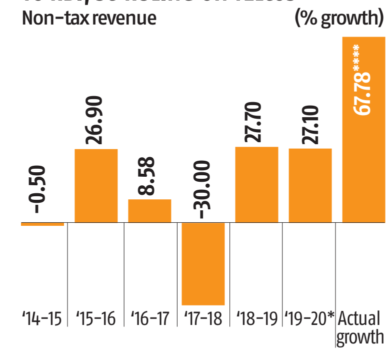
1: FY20 TARGET AMBITIOUS AGAINST PAST TREND
Total receipts (% growth)



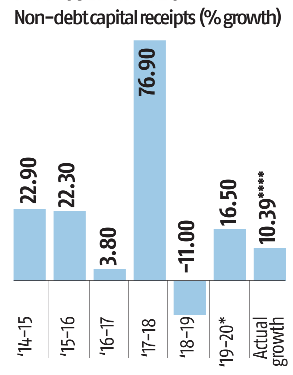
2: PROJECTIONS FOR FY20 HIGHER AND PROGRESS LOWER THAN THOSE OF PREVIOUS YEARS
Centre's net tax revenue (% growth)



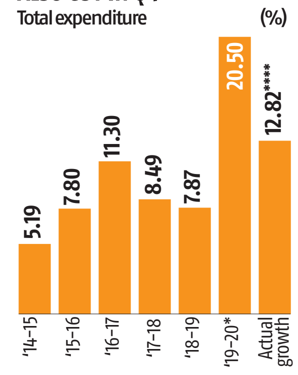
3: PROGRESS TILL NOV: FY20 SHOWS TARGETS TO BE BREACHED, THANKS TO RBI, SC RULING ON TELCOS
Non-tax revenue (% growth)



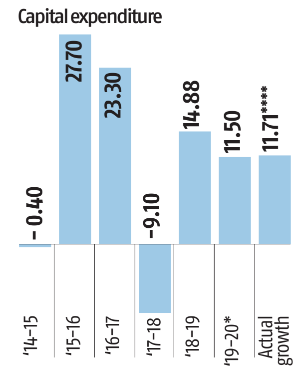
4: FLUCTUATING PROGRESS IN PREVIOUS FIVE BUDGETS, TARGETS SEEM DIFFICULT IN FY20
Non-debt capital receipts (% growth)



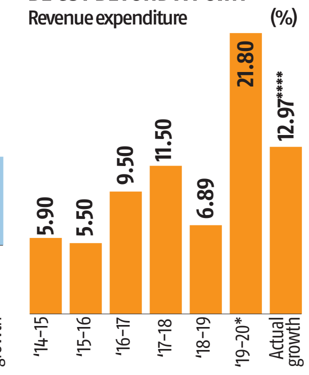
5: PROJECTION FOR FY20 WAS HIGHER THAN TRACK RECORD, MAY ALSO CUT IN Q4
Total expenditure (%)



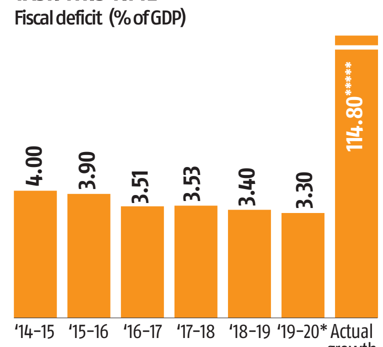
6: AXE TO FALL ON THIS HEAD FIRST IN Q4, TWO OF THE PREVIOUS FIVE YEARS SAW CONTRACTION
Capital expenditure



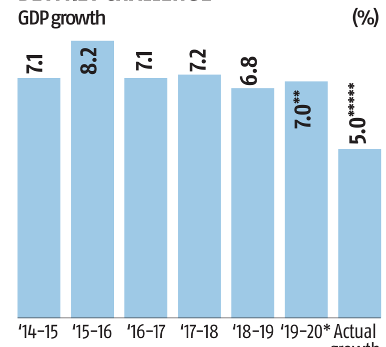
7: PROJECTIONS FOR FY20 WERE HIGHER THAN PREVIOUS YEARS, BUT CAN'T BE CUT BEYOND A POINT
Revenue expenditure (%)



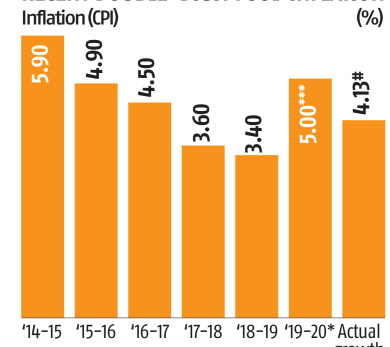
8: SEEMS A CHALLENGING TASK THIS TIME
Fiscal deficit (% of GDP)



9: REVVING UP GROWTH WILL BE A KEY CHALLENGE
GDP growth (%)



10: OVERALL FIGURE THIS TIME HIDES RECENT DOUBLE-DIGIT FOOD INFLATION
Inflation (CPI) (%)



Note: * Budget Estimates (BE), ** Economic Survey FY19, *** Derived from Budget assumption, **** April–November YoY, *****Till November as % of BE for FY20, ****** Advance Estimates, # April–December YoY

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau

FROM PAGE 1

5,000 cos under I-T lens for income mismatch

Action against these entities has been finalised in the recent video conference of the CBDT with tax officials held last week, said an I-T officer privy to the development.

According to him, the data has been used extensively and flagged by the GSTN, enabling the authorities to check revenue leakages.

The information has been sent to all states for immediate action. Sources said Mumbai itself showed about 2,000 cases of irregularities in filings.

Sources said the tax department had issued scrutiny notices to some for utilising input tax credit for paying most of the GST liabilities.

Mismatch has been detected after comparing important bits of information such as gross total income, the turnover ratio, and sales returns provided by the GSTN and other sources.

Explaining the modus operandi of evading tax, a tax source said companies used a lot of dummy firms to claim input tax credit. Filing GST returns showed transactions between companies that were not related or had no business history. Even then, the companies claimed input tax credit based on transactions that were not reflected in their return filings.

A tax expert said claiming input tax credit could be genuine where businesses had low margins and a large transitional credit pool. However, such exercises help the tax department detect fake claims.

The GSTN started sharing data with tax authorities in 2018 on mismatches in summaries and final returns filed by assessees. It has also decided to share information about those persons or entities that generate e-way bills but have not filed tax returns.

About 40 per cent tax returns include business income giving both sets of information (personal and business taxes) and any differences between them caught the attention of the authorities, said one of the officials cited above.

The GSTN is equipped with vast technology infrastructure, comprising business intelligence and analytics, which include a 360-degree profiling of taxpayers.

The Centre has been trying to check leakages in revenues and make sharing information between the direct and indirect tax regimes more effective.

The CBDT during the video conference also explored strategies to boost collection in all the regions, especially Mumbai, which had witnessed a dip of about 13 per cent in direct tax by the middle of January year-on-year.

Up to mid-January, direct tax collection in the country stood at a little over ₹8.5 trillion. In the remaining period of the fiscal year, the department has to collect ₹5 trillion to meet the Budget target for 2019-20, which is looking far-fetched.

Bhatia to back Gangwal on...

Though Gangwal in the past had said he did not want to dilute his stake in the company, over the past one year, since the feud between the promoters broke out, he, once integral to IndiGo's operations, has not been involved in the company's affairs.

There have been changes in key management positions with some expats leaving the company and old IndiGo hands close to Bhatia being reappointed. For instance, Rohit Philip, former chief financial officer brought in by Gangwal, quit.

Last week, Sanjay Kumar, former chief commercial officer of IndiGo who left to join AirAsia India, was reappointed chief strategy and revenue officer. Kumar has been given key portfolios like domestic network planning, sales, and revenue management. Queries to Gangwal didn't elicit any response. After falling close to 30 per cent since the feud broke out, IndiGo's stock has rebounded after the announcement of the EGM and has gained close to 10 per cent in the year-to-date period.

Saraswat, Cosmos...

It may be recalled that the R Gandhi Committee on UCBs was of the view that a threshold business size of ₹20,000 crore can be considered for voluntary conversion of multi-state UCBs into scheduled commercial banks to ensure uniform regulation. "This business size is appropriate as the biggest UCB should not end up being the smallest commercial bank. Further, a proper transition period should be provided to UCBs for conversion into commercial banks," it had observed.

Of late, the central bank has tightened the regulatory framework for UCB — be it their exposure limits and priority sector lending — and brought in those with assets of ₹500 crore and above under the Central Repository of Information on Large Credits.

Smaller towns drive...

Star and Disney India Chairman Uday Shankar had noted at the time of the India Watch Report 2019 release that online video consumption was no longer an upscale phenomenon. He noted that the content, technology, and product had to be designed for India. Mainstream drama, sports and news, he felt, will drive content consumption.

However, multinational OTT platforms such as Netflix and Amazon Prime Video, which are both SVoD platforms, see most of their demand coming from the metros and big cities.

Amazon Prime Video did not respond to emails.

According to Counterpoint Research's India OTT Video Content Market Consumer Survey last year, both these platforms were popular in the metros; the top five metros accounted for more than 65 per cent of the users on these platforms.

Resolve issues through peaceful dialogue: Modi

PRESS TRUST OF INDIA
New Delhi, 26 January

Violence never resolves any issue and no problem can be worked out by creating another, Prime Minister Narendra Modi said on Sunday in his monthly *Mann ki Baat* radio address — the first of the year.

He appealed to those seeking to settle issues through violence to return to the mainstream, saying they should have faith in the capabilities of India to resolve matters peacefully.

Noting that insurgency in the northeast has reduced "considerably", the Prime Minister said, "Violence never resolves any issue." "On the solemn occasion of Republic Day, I would appeal to anyone in any part of the country, who's still seeking solutions to problems through violence and weapons, to return to the mainstream. They should have faith in their own capabilities and the capabilities of this country to resolve issues peacefully," Modi said.

He urged people to together "forge a new India, where every issue is resolved on a platform of peace". The Prime Minister pointed out that a few days ago, 644 militants from eight different groups surrendered with their weapons.

"Those who had strayed towards the path of violence have expressed their faith in peace and decided to become a partner in the country's progress and return to the mainstream," he said.

BS SUDOKU # 2957

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Solution tomorrow

HOW TO PLAY

Fill in the grid so that every row, every column and every 3x3 box contains the digits 1 to 9

The next big development challenge

The latest economic forecasts from the IMF and the World Bank are sobering, pointing to protracted slowdowns across the board

ARVIND SUBRAMANIAN & JOSH FELMAN

We have suddenly arrived at a tricky stage in global economic development. Emerging markets are losing their dynamism, after a remarkable three-decade-long run during which they caught up rapidly with advanced economies. Moreover, rekindling this vigour requires a new economic strategy. But where will such a model come from, and who will provide the intellectual leadership?

The latest economic forecasts from the International Monetary Fund and the World Bank are sobering, pointing to protracted slowdowns across the board in China, India, Sub-Saharan Africa, and Latin America. Of course, alarmism about the "end of growth" might be as overblown as past hype about emerging markets' unstoppable rise. But policymakers in developing countries are genuinely concerned and are grappling with how to revive flagging dynamism.

In the past, governments had a ready intellectual solution: the so-called Washington Consensus, a term coined by John Williamson of the Peterson Institute for International Economics, which advocated a broad strategy of macroeconomic stabilisation, privatisation, deregulation, and globalisation.

Some questioned whether and to what extent the strategy worked. But the fact is, there was a template — created by leading Western academic and policy institutions — that was seen as useful by developing-country policymakers. And the high noon of the Washington Consensus coincided with developing countries' strong performance.

Two of the current strands of thought that might replace the Washington Consensus also originated in the West. The first represents a reaction against the neoliberal approach and is motivated by several disturbing long-run trends: weak growth, rising inequality, an increasingly beleaguered middle class, and collapsing social mobility.

This emerging post-neoliberal consensus questions the primacy accorded to markets. It advocates a larger role for the state, both to generate better market outcomes (for example, via minimum-wage increases and stricter enforcement of antitrust policies) and to correct inequitable outcomes via aggressive redistributive policies. This approach also calls for more proactive fiscal and monetary policy in the short run.

The second strand of thought is associated with Abhijit Banerjee and Esther Duflo, both winners of the 2019 Nobel Prize in Economics. Banerjee and Duflo argue that economic growth is not really influenced by policy changes, or at least not in ways for which we have strong evidence. They therefore advocate a strategy of "going small": focusing on measures, such as distributing free malaria bed nets and deworming children, that clearly seem to be effective and will produce localised benefits.

But it is not obvious that either approach is of much help to developing countries. The post-neoliberal consensus almost entirely reflects concerns in advanced economies: secular stagnation and unconventional monetary policies are not high-priority problems for governments in poorer countries. Moreover, emerging markets are still growing, not stagnating. And even inequality, which is a common concern, takes a very different form, and requires very different solutions, in developing economies.

Perhaps the biggest drawback of the post-neoliberal approach is the dichotomy that it poses — or, perhaps, presupposes — between states and markets. The reality in developing countries is that both states and markets are weak — the very definition of underdevelopment. So, a policy agenda that focuses on increasing the role of the state may well be unrealistic.

In addition, climate change is a new and critical aspect of the post-neoliberal consensus that is likely to prove increasingly problematic. On the one hand, the overwhelming scientific evidence of global warming is a clarion call to action. On the other hand, policies aimed at promoting rapid decarbonisation raise deep concerns in developing countries, because such measures could easily clash with the needs of their energy-deprived citizens.

Similarly, many developing-country policymakers simply cannot afford the luxury of a narrow agenda, making them unlikely to take seriously any advice to focus on the "small and certain." They have no choice but to strive to achieve rapid growth, which has been a prerequisite for all successful development transitions. Moreover, the experience of the 1980s and 1990s shows that this objective is not a chimera, and that growth can indeed be increased by appropriate policy reforms.

Mahatma Gandhi famously said: "I do not want my house to be walled in on all sides and my windows to be stuffed. I want the culture of all lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any." Do developing countries today have the capacity not to be blown off course? Do policymakers have the intellectual and cognitive wherewithal to absorb and assess the new thinking on economic development, adopting what is appropriate to their situation and rejecting what is not? And do they have their own new ways of thinking about the development challenge?

Consider the situation in the two largest developing countries, China and India. China has the intellectual capacity, but is facing the breakdown of its economic model. Chinese policymakers now need to find another approach that both encourages growth and ensures that the Communist Party of China remains in control — all the while preventing the extraordinary build-up of debt from triggering a crisis. It's not obvious to anyone how they can do this.

Meanwhile, India's current inward economic turn appears to reflect a broader inclination to be walled in and prevent foreign winds from blowing freely. And this intellectual nativism seems to be more about harnessing technical expertise for political objectives than about valuing it for its own sake.

What is clear is that solutions to the new growth and development challenges in emerging markets will have to be indigenous, rather than coming from Western institutions. Building and maintaining among national policymakers the sort of open, self-confident intellectual capacity that Gandhi espoused could well be the next development challenge.

Subramanian, a former chief economic adviser to the government of India, is a non-resident senior fellow at the Peterson Institute for International Economics and a visiting lecturer at Harvard's John F. Kennedy School of Government. Felman is Director of JH Consulting

CHINESE WHISPERS

From NPR to NUR

With the issue of the Citizenship Amendment Act (CAA) and the National Population Register (NPR) dominating media headlines, the Congress has launched a campaign titled National Unemployment Register (NUR). Under this campaign, the grand old party cadres will collect details of unemployed youth in each district of Uttar Pradesh. Later, this data will be collated state- and nation-wise and will be used to attack the ruling Bharatiya Janata Party (BJP). The Uttar Pradesh unit of youth Congress has already launched a campaign to this effect. The party has released a mobile number to help unemployed youth to give a missed call and register under the NUR.

Recipe for confusion

The lack of coordination between the media team of a first-time cabinet minister and the Press Information Bureau (PIB) team attached to his ministry has turned out to be a recipe for confusion and delays for scribes covering the beat. This is a clear departure from the trend set by his predecessor, whose personal media team called the shots. This team became a key source of information on the ministry's future moves and actions. The new media team of the incumbent is learnt to be "figuring its way" even months after taking over and doesn't enjoy the same level of confidence as the PIB team. At the receiving end of all this are news-hungry journalists who have to encounter a more guarded media relations team. Will this ministry also follow the finance ministry, which restricted access to journalists since July last year?

Art Aadmi Party

No matter how advanced and accessible camera phones have become in recent years, good-quality photography and videography, by and large, remain an art for a few. This maxim has been captured (pun intended) well in the Aam Aadmi Party's (AAP's) campaign for the February 8 Assembly polls in Delhi. To document its key moments in megapixels, it has hired a professional team. Members of this team are seen at all the important events — from press conferences to nomination filings — armed with state-of-the-art equipment and skills to match. The result: Better pictures and videos, which are uploaded after being carefully processed and edited by the members of this team. The party is surely hoping this would help it deliver its message more succinctly.

Is it time to revisit the Budget 2000 promise?

Since Yashwant Sinha emphasised on reducing the government's stake in public sector banks, things have only worsened

BANKER'S TRUST

TAMAL BANDYOPADHYAY

No prizes for guessing what everyone and her aunt expect from Finance Minister Nirmala Sitharaman's Budget: She should restore the sanctity of the annual estimation of revenue and expenses by presenting credible fiscal numbers.

In the last Budget, her first, she had not only stuck to the path of fiscal consolidation but also improved the fiscal deficit target — from 3.4 per cent of the GDP in the Interim Budget to 3.3 per cent. The figure was based on an assumption that the nominal GDP will grow at 11 per cent, higher than 10.5 per cent projected in the Interim Budget. The finance minister also expected higher dividend from the Reserve Bank of India (RBI) and more money from selling government stake in companies. The tax collection target, too, was ambitious — estimating a 18.3 per cent growth in fiscal year 2020, more than double of what was achieved in 2019.

All assumptions have gone wrong. The GDP growth slowed to a 26-quarter low of 4.5 per cent in the September 2019 quarter. It may have bottomed out but even higher inflation will not help achieve a 11 per cent nominal growth in GDP for the year. Indeed, the RBI has transferred a record ₹123,414 crore of its surplus to the central government for the fiscal year 2018-19 and an additional ₹52,637 crore of excess provisions as recommended by a committee that looked into the so-called economic capital framework but the expectations were even higher. The tax collection target has been off the mark and the government stake sale in companies is unlikely to fetch the sum expected.

No one would be upset if the fiscal deficit target is missed, provided there is transparency on how data is crunched, and if this is treated as an exception with no plan to junk the path of fiscal consolidation outlined by the Fiscal Responsibility and Budget Management Act. After the targets were put off several times, a committee that reviewed the targets set out by the Act has recommended that the government should target a fiscal deficit of 3 per cent of the GDP in the years up to March 2020; 2.8 per cent in 2020-21 and 2.5 per cent by 2023. This is difficult to achieve but international rating agencies will not be kind to any deviation from a credible medium-term fiscal consolidation plan.

Her last Budget stripped the National Housing Bank off its regulatory responsibility and passed this on to the RBI and empowered the Indian central bank to change the management of non-banking finance companies (NBFCs) and supersede their boards if they were not doing their jobs. The RBI could also check the books of the non-finance subsidiaries of the NBFCs and remove their auditors even if incentives were offered to the banks for buying high-rated pooled assets of financially sound NBFCs of up to ₹1 trillion, backed by the government's partial credit guarantee. However, these steps have not been enough to address the crisis of confidence that the NBFC sector has been suffering from.

There have been media reports on the government plan to purchase assets from the stressed NBFCs to help them tide over the crisis and ensure credit flow. Such reports say the RBI may set up a special purpose vehicle to run the programme. It will be a surprise if India decides to mimic the Troubled Asset Relief Programme run by the US Treasury to stabilise the country's financial system in the aftermath of the financial crisis triggered by the collapse of investment bank Lehman Brothers Holding Inc, but some initiatives to put the NBFC sector back on the rails will help the economy.

It's nice to see that the government junked its plan to raise part of its annual gross borrowing overseas in foreign currencies but the ₹70,000 crore recapitalisation package of public sector banks has not achieved the purpose. They are not lending. Till January 3, credit growth in the current financial year has been a measly 2.8 per cent (against 8.3 per cent last year) and a rating agency has predicted a 58-year low credit growth for the current financial year.

The last Budget document spoke about "reforms... to ensure governance in public sector banks". One would wonder what reforms have been undertaken since then. Of course, if consolidation is reform, then we have seen it. After a three-bank consolidation, led by Bank of Baroda, 10 public sector banks are being merged to form four banks. Why? I am sure it's not a rescue plan for the sick banks; the government has a grand scheme behind it unlike its experiment with "privatisation" in the banking space. It is no longer the majority owner of IDBI Bank Ltd. It has passed the parcel to Life Insurance Corporation of India.

Since 1986, the government has pumped in close to ₹4.17 trillion capital in public sector banks (PSBs) in different forms; the bulk of the amount — ₹3.85 trillion — has flowed in the past decade since 2009. How much has the government earned from this in the form of dividend? Should it continue to do so?

In 2000, the then finance minister of the National Democratic Alliance-I government Yashwant Sinha had announced: "To meet the minimum capital adequacy norms set by RBI and to enable the banks to expand their operations, public sector banks will need more capital. With the government budget under severe strain, such capital has to be raised from the public which will result in reduction in government shareholding. To facilitate this process, government has decided to accept the recommendations of the Narasimham Committee on Banking Sector Reforms for reducing the requirement of minimum shareholding by the government in nationalised banks to 33 per cent. This will be done without changing the public sector character of banks and while ensuring that fresh issue of shares is widely held by the public."

Since then, the government finances have not improved and the state of affairs in PSBs has worsened. Is it time to take a relook at the promise made two decades back?

The columnist, a consulting editor of Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. Twitter: @TamalBandyo

INSIGHT

On improved opinion polls for Delhi

Often, opinion polls fail to predict the number of seats of different parties but they usually don't make too many mistakes predicting their vote shares

ATANU BISWAS

Another Assembly election in Delhi is around the corner. People might be struggling to understand to what extent opinion polls can be relied on, at least so far as the Delhi Assembly election is concerned. The last time, in 2015, it was a disaster for the pollsters — almost all the opinion polls failed to predict the ultimate result (Aam Aadmi Party or AAP: 67, Bharatiya Janata Party or BJP: Three, out of 70 seats).

Of the 27 opinion polls related to the 2015 Delhi Assembly elections available on Wikipedia, the one that went the closest had predicted 51±6 seats for AAP, while the most bizarre one had predicted only 17 seats for the winning party. The average seats (votes) of these 27 opinion poll results was: AAP 32 (40.22 per cent), BJP 33 (39.7 per cent), INC 4 (14.1 per cent). Samples from 51 constituencies were taken for these studies, on an average, and the average total sample size was 7,034.

Quite often, opinion polls fail to predict the number of seats of different parties due to the complex relationship between the percentage of votes and seats, while they usually don't make many mistakes predicting the vote shares of different parties. Delhi in 2015 was an exceptional story though. In the actual poll, the vote shares obtained by different parties were: 54.3 per cent for AAP, BJP 32.3 per cent, INC: 9.7 per cent; the opinion poll predictions were nowhere close to the actual result.

Opinion polls exhibited disastrous predictions in many other recent polls, even pan-India. Let's first try to understand how these polls are supposed to be carried out. It's customary to estimate the sample size to keep the margin of error within, say, ±3 per cent. It is, however, unclear how many Indian opinion polls estimate the sample size a priori, and what their estimated margin of error is.

Even ignoring the sample size estimation part, to draw 7,000 samples across 50 (out of 70) constituencies one needs to select 50 constituencies randomly, and draw roughly 7,000/50=140 samples from each. Now, samples from each constituency should be taken by maintaining proportions of several key parameters — gender ratio, several economic and educational groups, age groups, religions and castes — of the actual population. It's unknown whether and how these are maintained in different opinion polls.

In contrast, a new style of opinion polls has become popular elsewhere, specially in the UK, in the recent past. YouGov's Multilevel Regression and Post-Stratification (MRP)-based election model had nicely predicted a hung Parliament in the UK in 2017 (seats predicted: Conservatives: 302, Labour: 269; actual: Conservatives: 318, Labour: 261), and also the victory of the Boris Johnson-led Conservatives in 2019, where the predicted seats (votes) were: Conservatives: 339 (43 per cent), Labour: 231 (34 per cent); while the actual numbers were: Conservatives: 365 (43.6 per cent), Labour: 203 (32.2 per cent). Langer Research Associates, a US polling company, also tested an MRP model during the 2016 US presidential election, and correctly predicted the outcome.

It's inevitable that such a model will soon be attempted in opinion polls in India as well. The idea of an MRP model was suggested in a 1997 research article by Professor Andrew Gelman of Columbia University, and Thomas C. Little of Morgan Stanley Dean Witter. Let's see how it can be implemented in the Delhi Assembly election, for example.

First, 7,000 samples may be taken from the whole state, at random. In contrast to the traditional opinion polls, there is no need to maintain the population proportions of different socio-economic-religious parameters in the sample. Also, there is no need to pay attention to how many individuals are from which constituency. However, several important socio-economic-educational-religious parameters are also recorded for the individuals in the sample, in addition to their voting intentions. This data is then used to frame a statistical relationship which will represent the "probabilities of voting for different parties" as functions of some important socio-economic-educational-religious parameters. The model will be such that, when the gender, age group, educational status, economic status, religion and caste of an individual is provided in the model, it will offer the chances (probabilities) of voting for AAP, BJP, INC or Others, for that person. These voting probabilities will change with the change in these socio-economic statuses. The choice of an appropriate relationship model is important and that should be done with utmost care and with top-level expertise.

Now consider any constituency — say, Laxmi Nagar in East Delhi. From different registers, it is easy to find the socio-economic statuses of the voters of this constituency. For example, in the case of the UK election, data from the UK Office of National Statistics, the British Election Study, and past election results were used. Similarly, from past data it's not difficult to estimate that about 165,000-170,000 voters are expected to cast their votes in this constituency in 2020. From the data of the last three Assembly elections, one can easily estimate the percentages of votes cast by different social, religious and economic groups. Then, the MRP model for Delhi might come into play. One can obtain the probabilities of each of the 170,000 expected voters voting in favour of AAP, BJP, INC and Others in the coming election. By adding these 170,000 probability-values for each party in that constituency, the expected total number of votes favouring that party can be obtained. Consequently, a prediction for the winner for this constituency can be made. The same MRP model can be used for other constituencies as well, using previous election data and data from different registers for those constituencies.

Is any polling organisation using such a model for the upcoming Delhi election? Careful implementation of such sophisticated statistical models will enhance the credibility of opinion polls, for sure.

The author is professor of Statistics, Indian Statistical Institute, Kolkata

LETTERS

Stop arguing

The argument of political parties about the real inheritors of Subhas Chandra Bose's legacy are laughable. There is a tendency among political leaders nowadays to indulge in a war of words over the heirs of legacies of freedom fighters just around the time of their anniversaries. When the nation was paying tribute to Bose on his 123rd birth anniversary, politicians began making sundry claims about the legacy of Netaji. They must first realise his greatness. He fought for a secular and united India. The nation's interests mattered to Netaji above everything else. He stood for communal harmony which he demonstrated through the Indian National Army (INA) that had people from all religions in its ranks. Women, too, enjoyed equal status in the INA, and he never used religion for political ends.

India today faces the greatest crisis since Independence. Communal, regional and sectarian sentiments have been encouraged by parties for political gains. The appropriation of Netaji by the current lot of political leaders is absurd. The 2019 Democracy Index report released on January 22 placed India at the 51st spot. The protests across India over the Citizenship (Amendment) Act and the National Register of Citizens, and the manner in which the government responded reinforce this image of a "flawed democracy". Instead of making facile arguments and contesting the legacy of freedom fighters, political parties must follow in their footsteps. They must try to put into practice what these icons preached and work towards a society that they had envisaged.

Venu G S Kollam

Strange move

This refers to "Andhra's capital errors" (January 24). The idea of having three different capitals for a state defies all logic -- and that too when the executive capital Visakhapatnam is 700 kilometre away from the judicial capital Kurnool and 400 kilometre from Amravati, the legislative capital. Saying it would be a logistical nightmare is an understatement. When the British had two capitals, it was mainly due to weather conditions. The whole idea of decentralisation will fall flat on its face simply because officials will have to travel from Visakhapatnam to Amravati and police officials from Mangalgiri to Visakhapatnam, incurring huge expenses and sacrificing their other commitments in the process.

Bal Govind Noida

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
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HAMBONE

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CPI needs rejig

But MPC has reasons to not ignore headline inflation

After the presentation of the Union Budget later this week, focus will soon shift to the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI). While the course of the monetary policy will be influenced by the Budget, market participants would be keen to see how the rate-setting committee deals with the inflation surprise. Inflation, based on the consumer price index (CPI), rose sharply to 7.35 per cent in December, exceeding the central bank's upper end of the target band. Analysts expect retail inflation to remain elevated for some time, partly because of the telecom tariff hike.

However, retail inflation is being driven largely by food prices, particularly those of vegetables, and core inflation is within the comfort zone. Thus, it is being argued by economists and industry representatives that the MPC should ignore headline inflation, driven largely by vegetable prices, which is seasonal, and focus on core inflation. It is also being reasoned that the CPI, which gives over a 45 per cent weighting to food and beverages, is itself outdated and does not reflect the actual consumption basket of Indian households. A lower weighting to food items in the index will make it representative of the new realities, less volatile, and more useful for monetary policy.

While some of the arguments are well-founded, it is worth examining what the central bank can do. For instance, the MPC has noted that higher inflation is not limited to vegetable prices and is spread across food items, such as milk, pulses, and cereals. Households' inflation expectations, according to the RBI's November survey, went up by 120 and 180 basis points for a three-month and one-year horizon, respectively. Since expectations, which are currently being driven by food prices, significantly affect outcomes, it will be difficult for the MPC to ignore food inflation. Further, the Indian central bank is mandated by law to target headline inflation, not core inflation. The expert committee constituted to revise and strengthen the monetary policy framework under Urjit Patel deliberated carefully and recommended in favour of targeting the headline CPI. It noted that the "… exclusion of food and energy may not yield 'true' measure of inflation for conducting monetary policy". It also said that an improvement in the CPI will help make it a more robust measure of inflation conditions.

It is possible that the consumption pattern of households has changed since the consumer expenditure survey of 2011-12 and Indian households are now spending more on health and education. But the government has decided to junk the last consumer expenditure survey, so the revision would have to wait till the next survey. The committee set up by the government under former chief statistician Pronab Sen to review economic statistics could also be asked to suggest ways to improve the CPI. But theoretically, even if the MPC were to target core inflation, it would not open up much space for monetary easing. Core inflation was above 4 per cent till September 2019. Besides, the bigger issue at the moment is the transmission of policy rates to bank lending rates, which depends on a variety of factors, including the fiscal situation. While there is a case for updating the CPI, it is also important to recognise the limitations of monetary policy to support growth in the given macroeconomic environment.

Isro's new orbit

Vyommitra shows huge development in tech capabilities

The Indian Space Research Organisation's (Isro's) "half humanoid" robot Vyommitra caused a stir at its unveiling in Bengaluru last week. The robot is driven by artificial intelligence. "She" speaks two languages and uses her hands to control and monitor functions on the spacecraft. Isro will send her on at least two unmanned missions before it goes ahead with the manned Gaganyaan orbital mission, which is planned for 2022. Isro also displayed prototype spacesuits, crew modules, and escape modules. Vyommitra will mimic the crew's actions and operations in her two missions. She may accompany the three-person crew on the manned mission. This development is an interesting demonstration of technical capability. The robot provides an easier interface for a crew than screens. Since she uses hands and possesses upper body mobility (the humanoid is legless), her operations will help Isro understand if the controls are convenient for humans.

It is unknown what her tolerances to factors such as high gravity and zero gravity are. Also, Vyommitra's sensitivity to hard radiation and temperature changes is unknown. These are all important variables, especially for manned missions. The crew module must be telemetered for all data that affects biological functions. The Gaganyaan orbiter will endure huge swings in gravitational forces. As a rocket accelerates, gravitational force increases. Once it's in orbit, it will be in low gravity, or zero gravity. The mission will encounter hard radiation once it moves out of the shield of the atmosphere, which blocks most radiation. There will be massive temperature fluctuations to manage. The module will need a heat shield to prevent it burning up due to friction as it re-enters the atmosphere. Instruments can work in a vacuum, across large gravitational variations, and they can tolerate far larger variations in temperature and radiation than humans. In addition, humans have to be returned safely. Apart from the physical dimensions of keeping humans safe and retrieving them, there are also the psychological dimensions of keeping them mentally stable.

Isro has sent medical missions to France and Russia, and put prospective astronauts through stringent physical screening. On the engineering side, it must design crew modules with adequate heat shields; couches to cushion the crushing effects of high gravity, and recycling systems for water and oxygen. It has to provide a low-weight diet with high calories. Astronauts have to learn to live in space, which means learning exercise regimes which maintain muscle mass, quite apart from performing scheduled tasks. Finally, there has to be a seamless retrieval process, picking up the three-person crew at the end of the five-day mission. Manned space exploration is dangerous. If anything goes wrong, people can die. Many US and Soviet missions have ended tragically with the deaths of astronauts and cosmonauts. The payoff comes in multiple ways. Human beings can cope with "unprogrammed" situations that Vyommitra would not be able to handle. The other thing is the enormous contribution space research has made to medicine in terms of extending the understanding of how bodies work in extreme conditions, and via advances in telemedicine. Gaganyaan will force Isro into a new higher orbit in terms of its capabilities. Vyommitra is only the beginning.

ILLUSTRATION: AJAY MOHANTY

What can macro policy do?

Long-term structural reforms are required, such as a uniform GST and direct tax rates

We are in a business cycle downturn and in a decline of trend growth. The tools of macro policy can address the business cycle, but their ability to address the overall problem is limited. We have to be cautious about fiscal expansion, given that the initial condition is one of chronic fiscal weakness. The useful path lies in harnessing the situation to push for the required long-term structural reforms in tax policy and tax administration, instead of thinking in terms of discretionary fiscal policy.

SNAKES & LADDERS

AJAY SHAH

There was a great phase of high trend growth in India from about 1991 to 2011. After that, trend growth has declined. Layered on top of the long-term trend is a business cycle phenomenon, of fluctuations in profitability, inventory, and investment that move around the long-term trend. Right now, we also have a business cycle slowdown.

At first blush, it appears that the tools of macro policy, fiscal policy, and monetary policy must ride to the rescue. Monetary policy is already doing this, owing to inflation targeting. The 91-day T-bill rate, which is the best measure of the de facto stance of monetary policy, was at 11 per cent in 2013, when the Reserve Bank of India (RBI) was pursuing an exchange rate objective. Now that the RBI pursues an inflation objective, it stands at 5 per cent. This is a decline of the de facto policy rate by 6 percentage points. As long as the monetary policy committee carefully peers one year out, and tries to figure out the interest rate that will deliver on the 4 per cent CPI (consumer price index) inflation target, monetary policy will be about right.

What about fiscal policy? Can we cut tax rates sharply and thus improve purchasing power? Or raise spending sharply, to the same effect? There are a few concerns about going down this path. We must keep in mind that the decline in private corporate investment, which has taken place from the peak of 2007-08 till today, is a large one. Fiscal policy in India can shift its stance by one or two percentage points of Gross Domestic Product (GDP), but the problem is about five times larger than that.

The way in which the government borrows is faulty. Most of the borrowing takes place from captive lenders through financial repression. When the conscription runs out of steam, financial regulators may be asked to push up the forced investments in government bonds, e.g. by raising the statutory liquidity ratio. This would be a reversal of economic reforms, and raise the effective taxation upon formal financial intermediation.

Uncertainty is caused when the economy thinks that tax rates can go up or down, depending on the situation. Private persons require stability of tax policy on multi-decade horizons in order to feel confident about investment plans.

In an ideal world, we would have had a 4 per cent primary surplus in the boom year, 2007-08, which would have created space for a swing of 8 percentage points to a primary deficit of 4 per cent in 2020-21. Unfortunately, fiscal policy in India does not do large surpluses in good times. Consequently, we do not come into this downturn from a position of strength. Nominal GDP growth and the average cost of borrowing of the government are rather close to each other, and there is the possibility of getting into a zone of an increasing debt/GDP ratio.

"Above all, do no harm" is an important adage in macro policy, as it is in most walks of life. Policymakers in India were in a terrible bind in 2001 owing to fiscal stress and in 2010 owing to inflation. These experiences should not be forgotten. We should not add a fiscal crisis or an inflation crisis by 2022 to our list of problems.

How can fiscal policy navigate this situation? A pre-requisite lies in undertaking the public debt management agency and bond market reform, so as to set the stage for a healthy relationship between the government and its lenders, and create the ability to borrow from voluntary lenders on a larger scale. This requires resurrecting the work programme that was initiated in 2015.

We should use this moment to push the required long-term structural changes of tax policy, all of which happen to coincide with lower tax rates. We need to go to a clean and simple Direct Tax Code, with a flat low rate of about 20 per cent for corporations and individuals. We need to go to a universal base, single-rate goods and services tax of 8-10 per cent. Alongside this, we need a new tax administration law, which brings the rule of law into tax administration.

These are the required long-run structural reforms. They should be positioned as permanent structural reforms, and not as fleeting responses to the present stress. This will elicit the desired response of optimism and respect of the private sector. If such changes are positioned as short-term responses to economic stress, the private sector will see them as impermanent, and the full gains to the economy will not be obtained.

There is a role for such sophisticated discussions about how macro policy can help address the slowdown. However, we should not exaggerate what macro policy can do. Monetary policy in India is limited because of the lack of financial reforms which would have given an effective monetary policy transmission. Fiscal policy in India is limited owing to chronic deficits and faulty procedures for borrowing. The standard tools of macro policy, in the Indian setting, have low potency. And, in any case, they can only address business cycle fluctuations; they cannot impact trend growth.

A root-cause analysis of the decline in trend growth from 2011 onwards will take us to the decline in private investment. The root-cause solutions will lie in going to the foundations of private unease, and addressing them. This will take us to the problems of rule of law: In the criminal justice system, the judiciary, tax administration, and economic regulation. It will also take us to the larger problem of economic freedom, of emphasising personal agency and scaling back state activism.

The writer is a professor at National Institute of Public Finance and Policy, New Delhi

Locust attacks have links with climate change

It is now pretty clear that the intensity and scale of the Australian bush fires — which have scorched its land, killed people and wildlife, and burnt down homes — have links with climate change. Bush fires are common in that part of the world, but these infernos were caused by increasing levels of heat, which have dried the ground and turned it into a tinderbox. This, combined with prolonged drought, made it an ideal ground for the blaze. But even as international attention focused on the fires, there was a much worse human tragedy playing out in our part of the world, which also has links with climate change.

DOWN TO EARTH

SUNITA NARAIN

In December, vast hordes of locusts invaded the fields of Rajasthan and Gujarat, devouring crops and destroying farmers' livelihoods. There is little estimate on the scale of the devastation, but governments have sprayed pesticides over an area thrice the size of Delhi. But again, like the Australian fires, it can be argued that locust attacks are common in the region, so why the fuss?

My colleagues at Down To Earth have found in their investigations that there is a change in the way locust invasions are happening, and this has to do with unseasonal rainfall, not just in India, but in the other breeding grounds of this insect — from the Red Sea coast to the Arabian Peninsula, Iran, and Rajasthan. This insect grows exponentially and an average locust swarm, believe it or not, can have 8 million critters, which can devour as much food in one day as 2,500 people or 10 elephants. In the first breeding period, locusts increase by 20 times; in the second, by 400 times; and, in the third breeding period, by 16,000 times. This simply means that if there is an extended period of breeding, they will grow in extremely large numbers. It is no surprise then that locust swarms remind us of famine.

This year, the swarms were much bigger and led to greater devastation. Why? There are many linkages that need scrutiny. First, it was the unseasonal rain in Pakistan's Sindh province and western Rajasthan. This desert region of India is not the ideal breeding ground for locusts. The insect needs wet and green lands to proliferate. But last year, the region received rain ahead of schedule, which is why there was news about locust attacks as early as in May 2019. These were ignored. Then the monsoon got extended — it did not retreat till October. The rains continued and the insect, which would have migrated back towards West Asia and Africa, stayed and bred.

Second, Cyclone Mekunu in May 2018 and then Cyclone Luban in October 2018 brought extreme rain to the Arabian Peninsula, creating lakes in the desert, which are the ideal conditions for breeding. That year — unknown and untold to the outside world — these already poor and war-stricken regions were devastated and devoured. Then there was heavy rain in the Red Sea coast — also unseasonal — in January last year. An extended rain period of nine months enabled the creature to multiply profusely.

In fact, scientists working on locust infestations say their number rose so high that this region could not produce enough food. Simultaneously, with cyclones, wind patterns changed; locusts move with the winds. Normally, locusts come to India with the monsoon winds. In 2019, scientists say, locusts crossed the Red Sea towards Africa and the Persian Gulf to reach Iran, which is, in any case, its winter resting place. From here, they made their way, in deadly swarms, to Pakistan and India.

When the locusts returned from Gujarat and Rajasthan to Pakistan-Iran in January-February 2020, there were already third-generation insects that had bred due to the extended monsoon in Rajasthan. That's why, this year, the damage is much more. Farmers are crippled. There is enough evidence now that unseasonal rain or the increasing frequency of cyclones in the region is linked to climate change. So, it does not take rocket science to understand what we are beginning to see in our inter-dependent and globalised world. It is not just about the flight of people or capital. It is not just about the greenhouse gases that know no boundaries. It is about the globalisation of insect infestations and pest attacks because of changing weather.

But what makes all this deadly in our intensely unequal and information-divided world is that we know about Australia's fires, but not about the locust attacks happening in our backyard. We are not making this connection. We can't understand the pain of our people — from Africa to Asia — who are already living in a climate-risked future. So, let's forget about telling them, or preaching them, about climate change. Let's get our own act together. We are the problem. They are our victims. This is not right.

The writer is at the Centre for Science and Environment
sunita@cseindia.org
Twitter: @sunitanar

Hero worship

BOOK REVIEW

SHYAMAL MAJUMDAR

The tone is adulatory and each page seeks to portray the Munjal brothers as messiahs to millions over the past seven decades. And then you have a separate chapter titled "Spiritual roots and societal impact" of the Munjals. *The Making of Hero…* is essentially a son's glowing tribute to his larger than life father and could have been a much nicer read had the author exercised a little more restraint in expressing his admiration for the subject.

The 264-page book is still worth a read because it gives a ringside view of the extraordinary lives and times of one of India's foremost business families who lived together and scripted a dramatic revolution on two wheels at a time when the business environment was downright hostile. The author, Sunil Munjal, has set the story against the backdrop of what was happening in India and the world at the time, giving readers a perspective on how difficult the situation was for business.

Though the author has taken care to ensure that the role of his uncles gets due prominence, the real hero obviously is Brijmohan Lall Munjal, who never attended college, but thought ahead, anticipated demand, created markets, and set the template for generations of businessmen to follow.

The best part of the book is the fascinating anecdotes, which only a family insider could have provided. For example, consider Brijmohan's first job in 1938, at the age of 15. It involved parking himself at the sugarcane fields while the harvest was underway and counting the number of bundles being loaded.

He did the job for five long years; the next one was that of a clerk at an ordnance factory in Quetta. But the most important thing Brijmohan and his siblings learnt was maintenance of bicycles. The factory imparted training in two kinds of machinery, which prima facie appeared to have nothing to do with each other: Guns and bicycles. The skills the brothers picked up altered the course of their lives.

There is also this amusing story of how Brijmohan and his uncle had arrived at Tokyo airport to meet the Honda brass to finalise the joint venture (Hero Honda). They were obviously expecting a grand welcome. But nobody turned up. Worried, they called the point person, only to be told that they should come to the hotel by bus! At a reception function later, they landed 10 minutes late and were offered no place to sit as the function had started on the dot. The hosts later told them turning up late for any meeting was seen by the Japanese as lack of interest.

THE MAKING OF HERO
Four Brothers, Two Wheels and a Revolution that Shaped India
Author: Sunil Kant Munjal
Publisher: HarperCollins India
Price: ₹699

There's more. Did you know how the Munjals got the Hero brand name? While Brijmohan's uncles Dayanand and Om Prakash were packing up to move to Ludhiana during Partition time, one of their suppliers, Kareem Deen, was preparing to shift to Pakistan. Deen manufactured bicycle saddles under a brand name he had created himself. Before he left, the Munjals asked him whether they could use that brand name for their business. He agreed. The gesture was typical of the way businesses were run at the time — on reputation, relationships, and goodwill. The worth and value of brands and patents were not appreciated or understood. And so, with nothing more than a casual nod, Deen's brand passed to the Munjals. The brand name was "Hero".

The chapter on the making of the brand gives rare insights of a man who knew the pulse of ordinary Indians. Just before Hero Honda motorcycles were launched in 1984, the company came up with one of the most iconic advertising campaigns of all time — The "Fill it, Shut it, Forget it" tagline. According to the mandatory pre-launch tests conducted by the Automobile Research Association of India (ARAI), the CD 100 was providing 94 km to the litre, and the brand consultants were eager to publicise that. Brijmohan, however, insisted that the campaign set a lower mileage promise of 80 km, in order to create customer delight and surpass expectations. Under-promise and over-deliver to the *aam aadmi* was Brijmohan's mantra. It worked, and how.

There is no doubt that the Munjal brothers built a manufacturing enterprise at a time when money, machines, and technology simply weren't available. They innovated and developed an indigenous manufacturing system and a foolproof way to manage current assets and liquidity (Just-in-Time). The brothers, who had no formal higher education, devised a zero-inventory management system where the supply chain delivered exactly as much was required on a particular day and not one component more. They never offered advance but made sure vendors received payments without delay. There was no warehouse for incoming or outgoing goods as capital was never enough.

The Munjals can easily claim that they were the earliest proponents of Make in India! The book has delightful stories about how Brijmohan had to spend hours to convince his brothers why setting up a manufacturing base was important. The brothers' reluctance was understandable as technology and capital were scarce in the 1950s. Plus, there were no manufacturing manuals laying out engineering designs and production processes. The Munjals had to wing it and create their own. The brothers would squat in the backyard with the artisans, drawing designs of cycle parts on sheets of paper, and discussing ways of implementing them. The end product was assembled by hand and then put through multiple functionality tests.

According to Brijmohan, the milkman should be able to attach his cans to the carrier, and the farmer his basket of vegetables. Durability was another priority and the cycles should be built in a way that they can be handed over from one generation to the other. Given the realities of the time when he said this, there could perhaps be no better business brief.

Despite its shortcomings, *The Making of Hero…* is a remarkable slice of India's business history.