IN BRIEF

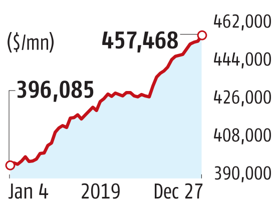
CBDT extends deadline for compounding of I-T offences

The Central Board of Direct Taxation (CBDT) has extended the last date for taxpayers to avail a "one-time" facility to apply for compounding of income tax offences to January 31, an order issued on Friday said. The earlier deadline was December 31, 2019. In I-T parlance, compounding means that the taxman does not file a prosecution case against the offender or tax evader in court ,in lieu of payment of due taxes and surcharges. The decision to extend the last date was taken "in view of references received from field formations, including requests made by the Institute of Chartered Accountants of India chapters ,wherein it has been brought to the notice of the CBDT that the taxpayers could not avail the benefit of the one-time relaxation window due to genuine hardships," the order issued by the CBDT said. PTI

ED questions Chidambaram over aviation scam case

Former finance minister P Chidambaram was on Friday questioned by the Enforcement Directorate in connection with its money laundering probe into alleged aviation-related financial irregularities said to have occurred during the UPA dispensation, officials said. Chidambaram's statement was recorded under the Prevention of Money Laundering Act, they said. The case pertains to alleged losses suffered by Air India because of the alleged multi-crore aviation scam, and irregularities in fixing air slots for international airlines. PTI

Forex reserves hit record high at $457.46 billion



The country's foreign exchange reserves swelled by $2.520 billion to touch a record high of $457.468 billion in the week to December 27, according to RBI data. In the previous week, the reserves rose to $454.948 billion after increasing by $456 million. In the reporting week, the increase in reserves was mainly on account of a gain in foreign currency assets, major component of the overall reserves, which surged by $2.203 billion to $424.936 billion, the data released by the Reserve Bank on Friday showed. PTI

BoB raises ₹920 cr by issuing Basel III compliant bonds

Bank of Baroda on Friday said it has raised ₹920 crore by issuing Basel III-compliant bonds on private placement basis. The issue, which opened on Thursday and closed the same day, saw a total of 11 allottees through private placement of bonds, the bank said in a BSE filing. PTI

HDFC cuts interest rate by 5 basis pts from this month

Mortgage lender Housing Development Finance Corporation has cut its retail prime lending rate by 5 basis points with effect from January. This will benefit all the existing HDFC customers, the company said in an exchange filing. For all salaried class borrowers with loan up to ₹30 lakh, the effective rate will be 8.10 per cent while for borrowers with loan amount greater than ₹30 lakh and up to ₹75 lakhs, the effective rate will be 8.35 per cent. BS REPORTER

Sebi asks CRAs to downgrade ratings on non-cooperation

The Securities and Exchange Board of India (Sebi) has issued guidelines to strengthen the ratings process of credit rating agencies (CRAs) with respect to ratings that fall under the 'issuer not cooperating' (INC) category. The regulator said that CRAs should downgrade the rating assigned to the instrument of an issuer, if it had outstanding ratings as non-cooperative for more than six months. BS REPORTER

Economy benefited from external environment: Report

The Indian economy benefited from "favourable external environment" in 2019, following which portfolio inflows into equity and debt touched a multi-year high, and if this momentum is sustained, it will bode well for the country's external balance, a report by Singapore's DBS Banking Group said on Friday. According to the report, conducive global drivers, such as flush of liquidity owing to low interest rates and stable oil prices, provided a favourable external environment for the Indian economy in 2019. PTI

Workers to get compensation if sacked due to illness

SOMESH JHA
New Delhi, 3 January

ILLUSTRATION: BINAY SINHA

Companies will soon have to pay compensation to workers retrenched because of prolonged illness.

In the current law, there is no retrenchment protection for workers. The proposal is a part of the Industrial Relations (IR) Code Bill, 2019, which was referred to the Standing Committee on Labour by the National Democratic Alliance (NDA) government in December.

The IR Code Bill will consolidate three labour laws: The Trade Unions Act, 1926; the Industrial Employment (Standing Orders) Act, 1946; and the Industrial Disputes Act, 1947.

According to the Industrial Disputes Act, 1947, employers are required to pay compensation to workers for retrenchment, except in some conditions such as disciplinary action. "Termination of the service of a workman on the grounds of continued ill health" was one such criterion for companies to not pass on retrenchment compensation to workers. However, this clause does not find place in the IR Code Bill 2019 — introduced in the Lok Sabha in December.

"Illness is beyond the control of workers. There were many cases where employers had terminated workers because of prolonged illness. Sometimes it has also led to industrial dispute but many other times workers are not able to redress it at an appropriate forum. This is a welcome pro-labour step," said Virjesh Upadhyay, general secretary of Bharatiya Mazdoor Sangh, an RSS-affiliated trade union.

Employers are currently required to give a notice of one month before retrenching a worker and compensation includes payment to the tune of the worker's salary of 15 days per year. The formula for compensation would be the same under the new law.

Further, the government has proposed a safeguard clause for retrenching workers who are hired on a fixed-term contract i.e. a contract with a fixed tenure. Though fixed-term employment is proposed to be legitimised through the IR Code Bill, companies will still have to pay compensation to workers who are retrenched before the end of their fixed-term tenure.

According to the IR Code Bill, "termination of service of the worker as a result of completion of tenure of fixed-term employment" will not fall under the definition of retrenchment. This means that no compensation for retrenchment will have to be paid. "But fixed-term workers who are retrenched before the expiry of their tenure will be paid compensation according to the law," a senior labour and employment official said.

Contract workers serving a fixed tenure will get equal statutory social security benefits as regular workers in the same unit, under the fixed-term employment framework part of the IR Code Bill.

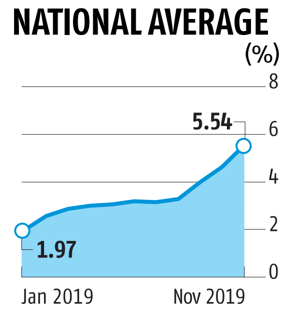
Under the current system, firms resort to hiring contract workers through contractors and they argue that it's a resource-intensive exercise. Through the fixed-term employment system, companies will be able to hire contract workers directly.

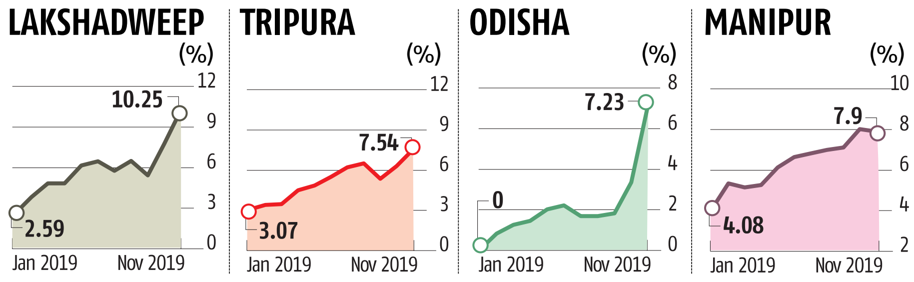
11 states see inflation rate of over 6% in November

Odisha sees highest increase on back of 10.65% rise in food prices

INDIVJAL DHASMANA
New Delhi, 3 January

CAUSE FOR CONCERN





Note: Base year is 2012

Source: Ministry of Statistics and Programme Implementation (MoSPI)

Eleven of the 36 states and union territories recorded a retail price inflation rate over 6 per cent in November, thanks largely to food price inflation, which touched the double digit mark nationally for the first time in the previous calendar year.

The states that witnessed high consumer price index (CPI)-based inflation rates were Lakshadweep, Tripura, Odisha, Uttar Pradesh, Kerala, Madhya Pradesh, Puducherry, Tamil Nadu, Rajasthan, Manipur and Mizoram.

Odisha recorded the highest increase in inflation in November as the rate rose to 7.23 per cent in November against 3.35 per cent in the previous month, a rise of about four percentage points.

This happened because rural areas in the state saw substantial rise in inflation rate to 7.37 per cent in November, up from 2.61 per cent the previous month, or an increase of 4.76 percentage points. Urban areas, too, witnessed a surge, albeit at a lower rate of 1.54 percentage points, as inflation rose to 6.86 per cent from 5.32 per cent, the previous month.

This was mainly because of the food inflation rate, which, along with beverages, saw a double digit rate of rise in November from 4.23 per cent in October to 10.65 per cent in November. In fact, food and beverages inflation rose close to double digits in the rural areas of Odisha. It rose from 2.89 per cent in October to 9.97 per cent in November, an increase of more than seven percentage points in a span of one month. Meanwhile, the inflation rate in urban areas stood at double digits of 13.09 per cent in November from 9.69 per cent in the previous month. This also was a rise of more than three percentage points.

A surge in the inflation rate in Odisha can also be gauged from the fact that the state saw no inflation in the month of January this calendar year (see table). In fact, it was quite moderate till September, hovering between zero and 2.21 per cent.

The inflation rate in Odisha was, however, lower than Lakshadweep, Tripura and Manipur. Lakshadweep recorded the highest inflation rate among all the states – the only one that saw double-digit inflation – recording a rate of 10.25 per cent in November, up from 7.76 per cent the previous month. To be sure, inflation had been on the rise in the union territory since May, when it had crossed the 6 per cent mark.

Tripura saw an inflation rate of 7.54 in November, up over a percentage from October. Here, too, the inflation rate has hovered close to or above the 6 per cent mark from July.

Among the 11 states under consideration, only Manipur saw a marginal dip in the inflation rate. It recorded a rate of 7.9 per cent in November, down from 8.01 per cent the previous month.

The inflation rate in most states was driven by food items, even though the decline in food inflation in Manipur led to a fall in the overall rate of price rise in Manipur. Even then, food inflation in the state stood at 10.96 per cent in November, against 12.27 per cent in October.

At the national level, food inflation touched 10.01 per cent in November, up from 7.89 per cent in October, driven by vegetables prices, and onions in particular. However, food inflation in urban areas had already breached the double-digit mark in October, when it was 10.47 per cent. This rate rose to 12.26 per cent in November. In rural areas, however, food inflation was still in single digits at 8.83 per cent in November, though it rose from 6.42 per cent recorded in October.

"Food inflation will remain relatively elevated in December. As vegetable prices normalise, food inflation should decline substantially in January 2020, but remain between 4-5 per cent in the first half of the calendar year 2020," said Aditi Nayar, principal economist at ICRA.

Credit quality dips to 7-yr low for large, medium enterprises

ABHIJIT LELE
Mumbai, 3 January

Credit quality of the large and medium enterprises (LMEs) segment weakened to a seven-year low in the current fiscal year (April-December 2019).

The asset quality deteriorated for small enterprises (SMEs) as well but with lesser intensity, according to CARE Ratings.

The modified credit ratio (MCR) for the LME segment declined to 0.92 in the nine months of 2019-20. LMEs accounted for 70 per cent of the entities whose financials were reviewed during the period.

The modified credit ratio (MCR) for the LME segment declined to 0.92 in the nine months of 2019-20

Thus, they have a larger share in the deterioration of overall credit quality.

MCR is defined as the ratio of upgrades and reaffirmations to downgrades and reaffirmations.

While the SME segment, too, saw a decline in its financial position, the overall credit quality of the segment was seen as stable with the MCR ruling over one in the April-December 2019 period.

The MCR in April-December 2019 declined to 1.07 from 1.12 in April-December 2018.

Downgrades in manufacturing or services and infrastructure entities are mainly due to deterioration in capital structure, weakening profit margins, decline in scale of operations, delays in debt servicing and weakening debt coverage indicators, CARE said.

Credit rating downgrades in financial sector entities in 2019-20 have been largely on account of continued liquidity pressure, leading to delays in deleveraging efforts of these entities.

The reaffirmation and upgrade of ratings have been influenced by the favourable financial position of entities.

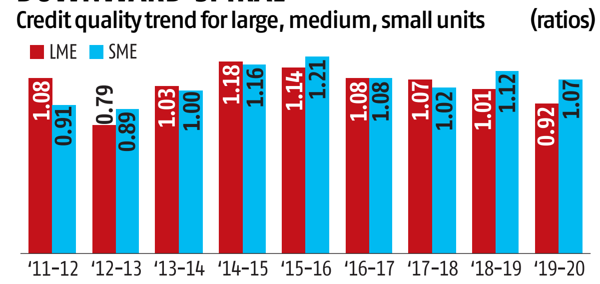
These are with respect to profitability, increase in scale of operations, comfortable debt servicing parameters, liquidity position and capital structure.

Of the 29 key sectors, the credit quality measured by the MCR in the nine months of 2019-20 was above one for entities belonging to 17 sectors, indicating improvement in or higher stability rating.

The credit quality of 12 key sectors was stressed with their MCR being below one.

DOWNWARD SPIRAL

Credit quality trend for large, medium, small units (ratios)



Note: As of April to December period

Irdai plans hospital ratings to standardise services

NAMRATA ACHARYA & SUBRATA PANDA
Kolkata/Mumbai, 3 January

Insurance Regulatory Development Authority of India (Irdai) is planning to introduce ratings for hospitals for insurance claims in a bid to standardise health services. This comes a day after it issued guidelines on standard individual health insurance.

According to a senior official at Irdai, the regulator is consulting NABH (National Accreditation Board for Hospitals & Healthcare Providers) for the rating.

Under the rating mechanism, insurers can charge on the basis of grades depending on facilities like number of doctors or equipment in the hospital. For example, charges applicable in a three-star hospital would be different from a five-star one.

The regulator is already in discussion with insurance firms for the rating mechanism.

"At present, an insurer doesn't have any control over the hospital ecosystem. To a large extent, rating will be an indication of the quality of services. The idea is still at the discussions stage, and details on what parameters the rating will be based upon need to be seen," said Mayank Bathwal, CEO, Aditya Birla Health Insurance.

"We had some discussions with the regulator on hospital ratings. It will be quite beneficial for the sector" said Sanjay Datta, chief of Underwriting, Claims, Reinsurance & Actuary, at ICICI Lombard.

Irdai already has a registry of 33,000 hospitals and medical day care centres in the health insurers and Third Party Administrators (TPAs) network, called ROHINI (Registry of Hospitals in Network of Insurers).

Irdai has been moving towards standardising health insurance products for some time to make them accessible to common people. In September, it came out with guidelines on standardisation of exclusions in health insurance contracts.

On Thursday, it issued guidelines on standard individual health insurance, asking general and health insurers to offer products that can take care of basic health needs of customers with a maximum sum insured of ₹5 lakh and a minimum of ₹1 lakh.

It said, the standard product should have basic mandatory covers. No add-ons or optional covers can be offered along with the standard product, and the insurer may determine the price, keeping in mind the covers proposed, subject to compliance with its guidelines.

"The health insurance market will open up a lot after this. There is going to be a lot of awareness that will be created around health insurance with this product," said Amit Chhabria, Business Head, Health Insurance, Policybazaar.com.

During financial year 2019-20, general and health insurance companies collected ₹44,873 crore as premium, registering a growth of about 21 per cent over the previous year.

"At present, there are too many products in the market, which is confusing for the customer. Now, with a base product, the penetration of health insurance will increase," said, Anand Roy, Managing Director, Star Health and Allied Insurance, adding, "We had discussions on the issue of ratings of hospitals with the insurer."

The health insurance sector has been growing annually at a rate of over 20 per cent. Last year, more than 20 million health policies were issued, covering about 472 million people.

"This will lead to deeper penetration of health insurance, and will also lead to more automation. The rating of hospitals will be a huge positive for the industry," said Priya Gilbile, chief operating officer, ManipalCigna Health Insurance.

"Ultimately, we want the awareness of health insurance to grow. And, the standardised approach helps a lot of people to get convinced about the product. This is a kind of financial inclusion," said Rakesh Jain, executive director and CEO, Reliance General Insurance.

Dividend payout ratio 75% for foreign-owned insurance intermediaries

For insurance intermediaries with majority foreign shareholding, the insurance regulator has capped the dividend payout ratio at 75 per cent of their net profits. In case the profit for the relevant period includes any extra-ordinary profits or income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with prudential payout ratio, Irdai said. BS REPORTER

Banking system liquidity surplus crosses ₹4 trillion

ANUP ROY
Mumbai, 3 January

The surplus liquidity in the banking system crossed ₹4 trillion on Thursday, data released on Friday showed, as the government redeemed ₹61,000 crore of its bonds issued in 2003, and possibly because of some expenditure done.

The government will be borrowing 70 days' money worth ₹30,000 crore through the Cash Management Bill on Monday, and the Reserve Bank of India (RBI) did a 63-day reverse repo auction of ₹25,000 crore on Friday to absorb a part of the ₹4.15 trillion of excess liquidity.

Otherwise, the system liquidity was hovering at around ₹2-₹2.5 trillion in December, and at ₹3 trillion on January 1. The last such liquidity scene was witnessed just after demonetisation in the end of 2016 and early 2017 when banks were parking their deposit-linked money with the central bank.

However, unlike the demonetisation era, this time the central bank is much more prepared to absorb the excess liquidity, should there be a need. During demonetisation, the central bank had only about ₹7 trillion of bond holding. In the recent past, the central bank has stepped up its bond purchases to jack up its bond holdings to more than ₹9 trillion. The RBI has to give bonds in return for money it takes from banks.

But bond dealers don't see the high liquidity surplus disturbing the system as such, except for some minor hiccups. While the monetarist school of economists believe that surplus liquidity leads to inflation, it is not always so. There are other factors that can counteract the liquidity impact on inflation.

"In the current case, it looks unlikely that inflation will pick up due to the surplus liquidity. Demand in the economy is still quite weak. The surplus liquidity will keep the overnight rates at or slightly below the repo rates," said Badrish Kullhalli, head of fixed income at HDFC Life Insurance. So what possibly might happen if there is abundant liquidity in the system for a long time? "Abundant liquidity has been key instrument for absorbing a portion of systematic risk in the last one year. However, in the absence of any pickup in activity in the credit market, this will continue to dampen money multiplier," said Soumyajit Niyogi, associate director at India Ratings and Research.

"The concern is in spite of soft demand for credit, system is incrementally becoming more dependent on central bank in the G-Sec market," Niyogi said. The central bank is also trying to influence the yield curve, instead of leaving it to the market forces. The reason could be to correct the spread between the shorter-term bonds and the longer-term yields through open market operations (OMO), but the market expects the RBI preparing grounds for the government to borrow extra at a lower rate.

This is because the rate cut support coming from the RBI would be very limited, after it paused in December.

NET LIQUIDITY INJECTED

	₹ trillion
Dec 26,'19	2.34
Dec 27,'19	2.41
Dec 29,'19	2.42
Dec 30,'19	2.43
Dec 31,'19	3.05
Jan 1,'20	3.0
Jan 2,'20	4.15

Source: RBI