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How markets performed last week

	Index on Feb 7, '20	*One-week	% chg over Dec 31, '19 Local currency	in US $
Sensex	41,142	3.5	-0.3	-0.3
Nifty	12,098	3.7	-0.6	-0.6
Dow Jones	29,103	3.0	2.0	2.0
Nasdaq	9,521	4.0	6.1	6.1
Hang Seng	27,404	4.1	-2.8	-2.5
Nikkei	23,828	2.7	0.7	-0.3
FTSE	7,467	2.5	-1.0	-3.8
DAX	13,514	4.1	2.0	-0.4

*Change (%) over previous week — Source: Bloomberg

COMPANIES P2
BUCKLE UP TO PAY MORE FOR BHARAT STAGE-VI VEHICLES

COMPANIES P3
HEALTHY PROGNOSIS FOR PATENT DRUGS, CLOCK ROBUST GROWTH

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

BUSINESS STANDARD ANNUAL AWARDS 2019


LIFETIME ACHIEVEMENT
AZIM PREMJI
Founder Chairman, Wipro


CEO OF THE YEAR
BHASKAR BHAT
Former MD, Titan Company


COMPANY OF THE YEAR
LARSEN & TOUBRO
S N Subrahmanyan, CEO & MD


STAR MNC
NESTLE INDIA
Suresh Narayanan, CMD


START-UP OF THE YEAR
BIGBASKET
Hari Menon, CEO


STAR PSU
INDRAPRASTHA GAS
E S Ranganathan, MD


STAR SME
VINATI ORGANICS
Vinod Saraf, Chairman

High-powered jury selects best seven

Leading decision-makers choose outstanding achievers of India Inc

PHOTOS: KAMLESH PEDNEKAR

The BS Jury

(*From left*) Bain Capital Private Equity Chairman Amit Chandra, EY India Chairman Rajiv Memani, KKR India CEO Sanjay Nayar, Omidyar Network India MD Roopa Kudva, Aditya Birla Group Chairman Kumar Mangalam Birla (Jury Chairman), Cyril Amarchand Mangaldas Managing Partner Cyril Shroff and JSW Group Chairman Sajjan Jindal. McKinsey & Co Senior Partner Noshir Kaka (*below*) joined through VC

BS REPORTER
Mumbai, 9 February

With a market value of ₹1.13 trillion, Titan Company has emerged the most valued firm in Tata Group after Tata Consultancy Services. Starting its journey as a retail watch chain, Titan Company is today India's biggest jewellery brand, with rising sales and profits. In the past three years, its net sales grew at a compound annual growth rate of 20.6 per cent, while its net profit rose at an annualised rate of 27.7 per cent during the period.

The credit for this transformation at Titan goes to its former managing director (MD) Bhaskar Bhat, who retired from the company in October 2019 after leading it for nearly 17 years. When he took over the reins in 2002, the company was struggling with unsustainably high levels of debt, sagging sales, and poor profitability. His strategy to reboot the business paid off; its cash flow from operations rose sharply. The stock market soon rewarded the company with sky-high valuations.

Despite a sluggish economy, in a span of less than three years, Larsen & Toubro's (L&T's) order book has crossed the ₹3-trillion mark. As India's biggest construction company, L&T has decimated all competition — it outperformed 2018-19 (FY19) revenue guidance with 18 per cent growth. Net profit grew nearly 21 per cent in a year of muted private investments. The cherry on the cake was the acquisition of Mindtree, as the company aims to increase its presence in the Indian software sector.

Outstanding achievements like those of Bhaskar Bhat and L&T can hardly go unnoticed when a distinguished jury comprising the heads of two leading conglomerates, leaders of two private equity funds, two global marquee management consultancy organisations, a leading social impact investor, and a top legal eagle meets in Mumbai on February 6 to decide the winners of the *Business Standard* awards for corporate excellence for 2019.

The high-profile eight-member jury was chaired by Aditya Birla Group Chairman Kumar Mangalam Birla, JSW Group Chairman Sajjan Jindal, KKR India Chief Executive Officer Sanjay Nayar, EY India Chairman Rajiv Memani, Omidyar Network India MD Roopa Kudva, McKinsey & Company Senior Partner Noshir Kaka, Cyril Amarchand Mangaldas Managing Partner Cyril Shroff, and Bain Capital Private Equity India Chairman Amit Chandra.

As jury chairman, Birla started the deliberations by asking the jury members to disclose conflicts, if any, with the shortlisted candidates, and two of them recused themselves from deliberations in relevant categories. The jury was earlier provided with a long list of names based on the financial data for year ended March 2019, compiled by the *Business Standard* Research Bureau, to name CEO of the Year as well as achievers in other categories — public sector undertakings (PSUs), multinational firms, and small and medium enterprises (SMEs) from the listed space.

Corporate governance, contribution to society, scale, sustainability, leadership, and innovation were the buzz-words that figured prominently during the jury deliberations. Apart from the financial data, high standards of corporate governance followed by companies should be kept in mind while selecting the winners, said Birla.

Jindal, who won the *Business Standard* award in 2017, was of the opinion that a company's all-round growth should be kept in mind to select the winner and not just growth in market capitalisation. Turn to Page 13

INDIA'S FISCAL GAP ONE OF THE HIGHEST IN EMERGING MARKETS

At about 7.5 per cent of gross domestic product (GDP), the revenue-to-expenditure gap in India is one of the highest among major emerging markets. According to International Monetary Fund estimates, total government expenditure was equivalent to around 27.1 per cent of GDP while total government revenue was around 19.6 per cent of GDP in the last calendar year. **KRISHNA KANT** & **SACHIN MAMPATTA** write 4

BS SPECIALS ON MONDAY

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Not allowing portfolio management services providers to charge an upfront fee will bring them on a par with mutual funds. **SANJAY KUMAR SINGH** writes

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Experts fear the govt's desire to appease its core voter base could be detrimental to businesses. **NEHA ALAWADHI** writes

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SoftBank among suitors for stake in Mahindra Electric

SURAJEET DAS GUPTA
New Delhi, 9 February

Mahindra Electric Mobility, one of the country's largest electric vehicle (EV) manufacturers, is in preliminary talks with Japanese giant SoftBank for an alliance which could include taking minority stake in the company.

The company, in which Mahindra & Mahindra (M&M) is the key investor, publicly announced a few weeks ago that it would look for a private equity investor or a strategic investor to scale up its operations, though M&M will continue to stay as a big investor.

Mahindra Electric Mobility sold over 10,400 EVs in 2018-19 — that's growth of over two and a half times the previous financial year. It expects to see another huge jump in sales in 2019-20.

An M&M spokesperson declined to comment on the reported talks with SoftBank; the latter's spokesperson also said it did not comment on speculation.

However, sources say that since Mahindra Electric Mobility is talking to a diversified range of potential investors, which also include those with whom it can develop EVs, powertrains, and chargers, among others, it is uncertain if the discussions with SoftBank will lead to a tie-up.

For SoftBank, EVs are a key area of focus. It has already invested over $250 million in Ola Electric Mobility, where it is a key investor, valuing the company at $1 billion.

Ola has spun off its electric mobility business into a separate entity and has an ambitious target to put over 1 million EVs on Indian roads by 2022. It has been running numerous pilots on EVs. It is building charging stations and has set up a research and development centre.

The parent company has also raised $300 million from Hyundai and Kia and has been focusing on India-specific EVs.

SoftBank's other advantage is that it is one of the key shareholders in Ola and Uber's transportation services business; it is this business that is expected to be one of the main buyers of bulk EVs — cars, three-wheelers, two-wheelers, and buses. Turn to Page 13

PLUGGING INTO SALES

Mahindra Funster EV concept which was launched in Auto Expo 2020

759,000
EV sales in FY19; up from 576,000 the previous year — bulk being three-wheelers (630,000) and two-wheelers (126,000). Only 3,600 four-wheelers were sold

90%
EVs on Indian roads are low-speed e-scooters (less than 25 km per hour); they don't need licences or registration

1%
EV sales percentage of total vehicles sold; have potential to go up to 5% in some years

RBI 'reminds' banks on provisioning for telco loans

Follow spirit of April 2017 communiqué

RAGHU MOHAN
New Delhi, 9 February

The Reserve Bank of India (RBI) has informally reminded banks of the need to make additional provisioning for 'standard' telecom loans and specific exposures in the sector with a high probability of being declared non-performing assets (NPAs) in their books down the line.

The RBI's move is the first on the treatment to be accorded to the sector's exposures by banks following the Supreme Court's (SC's) order of October 24, 2019. The SC order had said telephony players were to pay past airwave charges and licence fee dues, according to the adjusted gross revenue (AGR). This has been calculated by the government to be at ₹1.33 trillion.

It also marks a significant follow-up to the banking regulator's April 17, 2017, communiqué — when it had singled out the telecom sector for additional provisions for standard advances at higher than the prescribed rates. "The said notification was more in the form of moral suasion, very important nonetheless. But now that the stress is in front of us, it means we have to get cracking on these accounts," said a senior banker.

It has been learnt that while a clutch of banks did provide in excess of the 40-basis points (bips) mandated for 'standard' loan exposures (defined as those which are perfectly in order) — by as much as 100 bips — this was later reversed. Turn to Page 13

NO MORE MISSED CALLS

- Additional provisioning on 'standard' advances will apply to Jio, Airtel, and Vodafone Idea as matter of hygiene
- A clutch of banks did provide in excess of 40 bips mandated for 'standard' loan exposure — by as much as 100 bips — but reversed it later
- Banks are to be proactive on provisioning, even if account is not NPA after banking regulator's 'reminder'
- IDFC Bank made 50% provisioning on a legacy telecom loan of ₹1,622 crore for Q3FY19
- Total debt to telecom is estimated to be at ₹4 trillion, but entire amount not at risk; at worst, it will be ₹1 trillion
- Average risk weight for telecom rose to 34.2%, from 27.4%, between March 2019 and September 2019 — highest deterioration for any sector

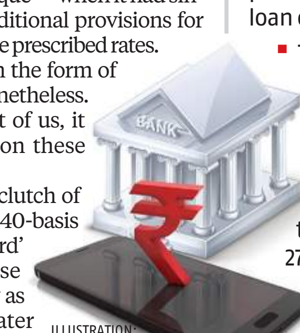


ILLUSTRATION: AJAY MOHANTY

Indian MNCs to pay tax on pre-negotiated income

SHRIMI CHOUDHARY
New Delhi, 9 February

Multinational companies (MNCs) having a permanent establishment (PE) in India could soon get clarity on taxes they are supposed to pay.

In the Union Budget 2020, the government allowed these firms to enter into advance pricing agreements (APAs) with the income-tax authorities. In those they can negotiate how much of the margins on profits accrued in India would be taxed for having a PE in India.

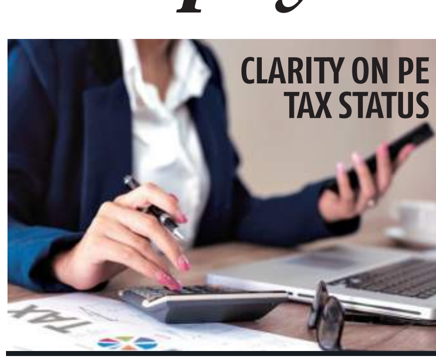
Until now, such an arrangement was possible only in transfer-pricing matters. Tax experts say the move will improve MNCs' compliance with Indian laws on PEs. In the absence of tax clarity, foreign firms avoided being qualified as such.

The new provision will allow about 3,500 foreign firms and 1,400 PEs to access APAs, or a safe harbour regime in which they can pre-decide the income for at least nine years (including the roll-back of four years) and accordingly pay tax. At present, the rate of tax on PEs is 43 per cent, including cess and surcharge, while subsidiaries of MNCs come under the corporate tax structure, which stipulates 25 per cent (under the new corporate tax regime).

Safe harbour refers to circumstances under which the income-tax authorities accept the transfer price declared by the assessee without any question or scrutiny. An APA is an agreement between taxpayer and tax authority for transactions over a fixed period.

"This is for greater tax certainty. A large number of disputes in international taxation are on the amount of profits that should attributable to a PE in India and hence be taxed in India. Taxpayers can now enter into APAs, which will pre-decide an agreed amount of profit," said an official privy to transfer-pricing matters. Turn to Page 13

CLARITY ON PE TAX STATUS



- New provisions would cover MNCs in the form of PE, foreign subsidiary
- Allow them to ascertain profit attributable to Indian presence
- Applicable on all services rendered in India which trigger PE tax status
- Gillette, IBM, Sony, Oracle, Philips, HUL, Audi operate in India as foreign subsidiary
- Tax litigation arises over foreign firms' operations
- At present, tax rate on PE status attracts 43%, foreign subsidiary pays 25%
- Tax status of digital firms such as Amazon, Netflix, Facebook under deliberation
- India awaiting OECD final outcome, to activate tax on these

Buckle up to pay more for BS-VI cars

Higher import duty on catalytic converter, an essential component to control toxic emissions, is likely to increase the burden

ARINDAM MAJUMDER
New Delhi, 9 February

A hike in import duty for auto components is likely to increase the burden for the ailing auto industry, which is looking to reverse a one and half year-long slowdown in sales.

Automobile industry executives said they were baffled at the government decision to hike the import duty on catalytic converters and various parts and metals that go into making these.

Industry sales have sagged for about 18 months and prices are anyway rising with the compulsory nationwide switch to the stiffer BS-VI emission standards by April 1. The move on converters will make these costlier still.

The duties on converters have been raised by 5-7.5 per cent. The government has levied a similar hike on duty for ceramics, stainless steel, and other metals used to build the converters.

ROUGH RIDE

- The govt has raised duties on converters by 5-7.5 per cent
- Siam says vehicle price will see an average increase of 10%
- Price rise due to conversion from BS-IV to BS-VI will delay demand revival
- Industry sales have sagged for 18 months and prices are rising with switch to the stiffer BS-VI emission standards by April 1

"I don't even understand why. These materials are not much available in India. It will lead to a cost increase of the product for end-customer," Kenichi Ayukawa, managing director (MD) at India's largest carmaker, Maruti Suzuki, told *Business Standard*.

A catalytic converter converts the toxic emissions from vehicles into a less toxic form.

The price increase due to conversion from BS-IV to BS-VI was already worrying industry executives. They are feeling it would further delay a revival in demand. According to industry body Siam, the price of vehicles will see an average increase of 10 per cent due to the transition.

"We're going into BS-VI right now, and BS-VI has a much larger content of many of the parts on which duty was raised, which will increase the BS-VI cost further, when we're already concerned about the cost of BS-VI vehicles," Pawan Goenka, MD at Mahindra & Mahindra had said.

Tata Motors Chief Executive Guenter Butschek spoke likewise. "Any increase in the price of raw materials will have an impact on the overall price. The industry is going to face the need of a price adjustment," he said. "To improve fuel efficiency, we need those materials. Unfortunately, those are not produced in India and we are dependent on import," said Ayukawa.

Such tariff hikes go against the call in the recent Economic Survey by Chief Economic Advisor K Subramanian.

He'd cited the case of Maruti Suzuki and said automobile firms graduate up the production value chain by first starting with low-technology operations such as assembly and then graduate to manufacturing of own components.

"In the process, import of components increase in the short run. Following a policy of import substitution right from the outset does not enable the process of graduation up the production value chain," the Survey had said.

India Ratings revises auto sector outlook to negative for FY21

PRESS TRUST OF INDIA
Mumbai, 9 February

It is set to be a long haul for the auto sector that has already been riding through its worst slump in two decades, with demand, that has so far plunged 16 per cent, unlikely to pick up even next year, according to a report.

The 3 million-plus-units domestic auto industry has seen volume plunging over 16 per cent as of December-end, with some of the segments performing even worse.

The past two Union Budgets have given little respite to the sector that is very critical to generate employment. Instead, lakhs of jobs have already been lost in the industry, including its allied segments, since the past 18 months or so. Expecting very low pick-up in volumes given the lingering growth pangs of the overall economy and other macroeconomic headwinds, India Ratings has revised downwards its outlook on the sector to negative for 2020-21 from stable, as it expects "flat-to-low pick-up in volume in FY21".

Ratings agency says it expects 'flat-to-low' pick-up in volume in the next financial year amid weak sentiment

Amid the weak consumer sentiment and an uncertain regulatory environment, including for the e-mobility push, limited credit availability and increased cost of ownership after BS-VI implementation from April will add to the already negative consumer sentiment.

IN BRIEF

Foreign borrowings of Indian firms down 45% to $2 billion

Foreign borrowings of Indian companies fell over 45 per cent to $2.09 billion in December 2019, as compared to the year-ago period, according to the Reserve Bank of India data. Indian companies had raised $3.81 billion in December 2018, which included $37 million through issuance of masala bonds. Of the total money borrowed by domestic companies during December 2019, $1.2 billion was through the automatic route of external commercial borrowing (ECB) and $840 million via approval route of ECB. PTI

Audi plans to offer lifestyle services to customers in India

German luxury carmaker Audi is gearing up to become a service provider as well, offering a host of premium lifestyle services to its customers, according to a top executive of the firm. The company is working to develop further on the concierge services that it offers to its car buyers. PTI

RINL conducts hot trial of forged wheel line at Raebareli unit

State-owned Rashtriya Ispat Nigam (RINL) on Sunday announced successful hot trial of forged wheel line at its plant in Uttar Pradesh's Raebareli district. RINL has set up a plant in Raebareli at a cost of ₹1,680 crore with a production capacity of 100,000 pieces of forged wheels per annum. "RINL today successfully conducted the hot trial of forging line at its forged wheel plant at Rae Bareily, Uttar Pradesh," the company said. PTI

DLF targets ₹5K-cr revenue from sale of Haryana units

Realty major DLF is eyeing around ₹5,000-crore revenue over the next two years from sale of independent floors in Gurugram and Panchkula in Haryana. DLF plans to construct 7 million sq ft area of independent floors on its existing plotted inventory, the company said in an investors presentation. PTI

Maruti banking on petrol variants to make up for loss

India's largest carmaker Maruti Suzuki India is banking on introduction of petrol variants of existing models such as the Vitara Brezza, besides exploring more CNG options to make up for lost numbers as it discontinues diesel options while moving to BS-VI emission norms. The company is also gearing up to bring petrol version of its S-Cross model. PTI

Brace for long queues at metro airports for 3 more years: Report

Given the slow progress on the ongoing ₹38,000-crore capacity expansion at the four largest metro airports, and also the surging traffic, the snaky queues will continue at least till 2023, warns a report. The four largest airports handle more than half of the traffic and are operating at 130 per cent of their installed capacity. PTI

Pure EV launches electric scooter 'EPluto 7G'

Pure EV on Sunday launched its High Speed Electric Scooter 'EPluto 7G'. V K Saraswat, member, NITI Aayog, G Satheesh Reddy, chairman, DRDO, and Professor B S Murty, director, IIT Hyderabad, launched the vehicle, a company release said. PTI

Arcelor-Nippon bullish on India despite slump

ISHITA AYAN DUTT
Kolkata, 9 February

The India story may have slowed, but for global steel majors ArcelorMittal and Nippon Steel (AM/NS India), that have invested ₹50,000 crore in Essar Steel, it remains a bright spot.

"On a medium-to long-run basis, the growth story is intact," said Aditya Mittal, president, ArcelorMittal as well as group chief financial officer (CFO) and chief executive officer (CEO), ArcelorMittal Europe, during the group's earnings call.

Aditya, who is also chairman of AM/NS India, was responding to questions from analysts on the Essar Steel acquisition and when the joint venture would actually generate a cash return for shareholders.

Mid-December, ArcelorMittal and Nippon Steel jointly completed acquisition of Essar Steel under the insolvency law.

The joint venture — 60 per cent held by ArcelorMittal and the balance by Nippon Steel — was renamed AM/NS India.

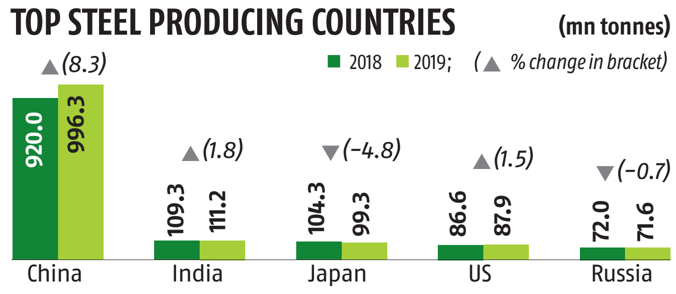
The growth story that Aditya was referring to, was that of India's. "I know the headlines around India was negative, such as automotive demand declining sharply. But apparent steel consumption in India actually grew by about 4 per cent in 2019, and we believe it will grow even stronger in 2020," he said.

He said, "In terms of how you should think about it, it's all a deleveraging story. It's a story in which we want to grow as the market grows in India and capture the value that is created. And so, I would think of it as value that is embedded in ArcelorMittal in owning a 60 per cent equity interest in a world-class facility in the world's fastest-growing steel market," Mittal said.

On whether it is a cash or growth story for ArcelorMittal shareholders, he said, "Every story has cash at the end."

"Do you take the cash and return to shareholders? Or do you take the cash and invest in growth? And, as long as the growth story remains intact, the focus would be to invest to grow the business," he added.

TOP STEEL PRODUCING COUNTRIES



Source: Worldsteel Association

What may have reinforced his belief is AM/NS's performance which has exceeded ArcelorMittal's expectations. "We visited it in December again and have been in constant touch with the team. And, everything we have seen has impressed us. The company is on the right track," he said.

In January, AM/NS India set production records run rate at 7.4 million tonnes. That's an increase of 40 per cent since the time it was doing due diligence for acquisition towards the end of 2017. The increase was achieved with minimal capital expenditure.

The run rate earnings before interest, taxes, depreciation, and amortisation (Ebitda) is $600 million, which is higher than the December figure.

Nippon Steel, too, in its investor presentation on Friday, said, it expected AM/NS India to be in the black from the first year. The total cash injection in the joint venture, Nippon said, was ₹50,000 crore, that is, ₹42,000 crore for repayment of Essar's existing debt as well as ₹8,000 crore for initial working capital, including capital expenditure. The investment is in the ratio of the holding in the joint venture.

Nippon has said it would make strategic investments in growing business fields and regions and that includes Essar Steel India. This comes at a time when Nippon intends to accelerate the reorganisation of or withdraw from unprofitable overseas businesses with no prospects of a future profit recovery.

Nippon said on Friday that it would shut nearly 10 per cent of its production capacity and was expected to book a record loss of 440 billion yen ($4 billion) this financial year.

The steel major said it had been facing unprecedented harsh conditions in which steel demand from the manufacturing industry had decreased and steel prices stagnated, prompted by the US-China trade disputes. Additionally, Japan has been facing a declining and aging population.

In 2019, Japan recorded a decline of 4.8 per cent in production. Among the top 10 producing countries, in fact, most recorded a decline except the US which grew at 1.5 per cent, India at 1.8 per cent, China at 8.3 per cent and Iran at 30 per cent.

'Never copy-only create made Cartier stand out'

FRANCESCA CARTIER BRICKELL, the sixth-generation descendant of Louis-Francois Cartier, recently authored the book *The Cartiers: The Untold Story of the Family Behind the Jewelry Empire*. The Oxford graduate spoke to **Pavan Lall** about the insights on the business of brands and luxury during independent research she undertook while working on her publication. Edited excerpts:

Q&A

The name Cartier is eponymous with luxury and pedigree – were the family's early beginnings any different?

Actually, the first generation was very much the working class and its leaders didn't even have the money to go school. Part of any brand building is always about funds and the Cartier founder didn't have the funds to grow significantly. The next generation came along and managed to keep the firm afloat in difficult times. France by then was going through the Franco-Prussian war that of course impacted Paris. It was not the best time to run a jewellery business. By the time the third generation came along, they were well known in Paris, and had a good base.

When did the business pivot happen?

In the Cartiers' case, a few strategic marriages to the next generation of founders brought in funds to the family. The first and second generation had only one member each but the third generation had three members and that was fundamental to success. This is because they all shared the same ideology of the brand and because they all carved out the business in neat divisions. What worked for Cartier was that it was truly expanding across borders and had stores in New York City, London and Paris run by three brothers who had the same values. Therefore, Cartier was the same in all those three places. This was by 1910.

Your single most important advice for anyone building a luxury brand in reference to your own knowledge through research conducted on Cartier.

I don't think there can be one rule for any luxury company today but for Cartier, they knew what their values were all about. It was primarily the best is good enough, constantly innovate, and employ kindness at every level of business. I think it's the stories behind the pieces and the history that add extra meaning. Can a luxury brand only be built over time today? I can't speak for modern day brands but for the Cartiers, it certainly took several generations to build trust and its global reputation.

What in your view makes a jewellery brand truly exclusive?

My research highlighted three main elements – the creativity, craftsmanship and the business side. At Cartier, there was an absolute focus on the motto "never copy, only create." So, the company had to always innovate and the other part was focusing on the highest quality of craftsmanship. Craftsmen were kept at apprentice-levels for six or seven years. Others were made to sketch for as long as three years, before they worked on jewellery. There was a huge amount of training in the background that was happening which customers may not have known about.

Was there any hesitation to going downmarket in tough situations?

By Cartier's third generation of management, they actually entered the five-dollar department inventory business and didn't hesitate to sell silver spoons or champagne servers instead of sticking to the classic opulent diamond crusted pieces. Of course, those spoons would still be created by the best in the company with the best materials. The point was that they would do anything to keep clients coming into the door until needed. This was during the great depression of the 1930s.

What makes DMart tick? Ability to extract more from less, say experts

Firm's unit economics remain strong amid competitive intensity

VIVEAT SUSAN PINTO
Mumbai, 9 February

Avenue Supermarts, which runs DMart chain of stores in the country, will undertake its second round of fundraising this week after its qualified institutional placement (QIP) last week. The buzz that the over ₹4,000-crore QIP generated and its impact on stock price that touched a 52-week high on Thursday has put the company in the spotlight.

DMart is considered as one of the country's most efficient retailers, with gross and operating profit margins in the 15 per cent and 8 per cent regions, respectively. While peers such as Spencer's and Future Retail have better gross margins (between 21 and 27 per cent), their operating profit margins are lower at 4-5 per cent, data from their financial results show.

Experts said Dmart's ability to extract more from less had been at the heart of its winning strategy.

On an annual basis, Dmart's FY19 sales per square feet stood at ₹37,045 versus Spencer's ₹17,139 and Future's ₹13,166, analysts Avi Mehta, Percy Panthaki and Kunal Shah from brokerage IIFL said.

This came even as DMart had a base of just 176 stores in the period under review versus Future's 1,511 stores and Spencer's 156 outlets, implying it was extracting significantly more from its retail business area than rivals, led by sharp discounts, more footfalls and greater inventory turns.

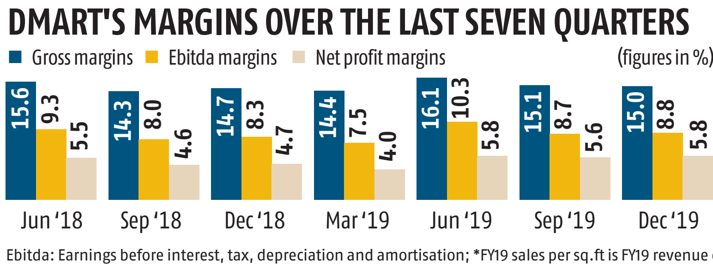
Reliance Retail, the country's largest retailer, was the only exception here, the analysts said, with FY19 sales per square feet at ₹66,000 against a store base of 10,415.

This came as the retailer pushed into tier-II, -III and -IV markets, improving reach and taking organised retail into smaller towns, a strategy that has allowed it to maintain its lead over rivals.

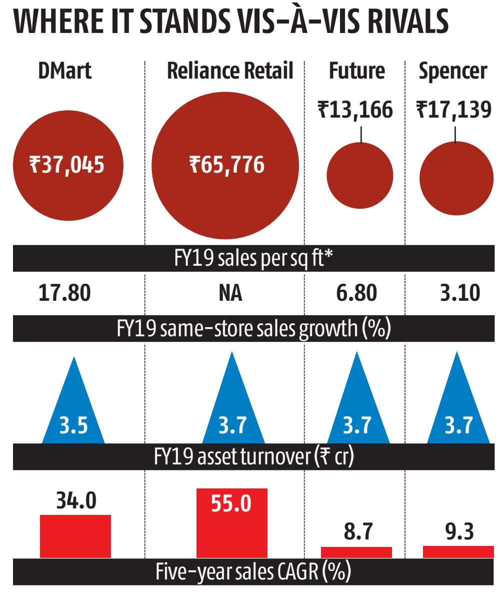
Same-store sales growth (SSG) for DMart has also been higher than its peers, experts said.

PHOTO: BLOOMBERG

DMART'S MARGINS OVER THE LAST SEVEN QUARTERS



WHERE IT STANDS VIS-À-VIS RIVALS



Ebitda: Earnings before interest, tax, depreciation and amortisation; *FY19 sales per sq.ft is FY19 revenue divided by total retail area

Sources: IIFL/company results/analysts

In FY19, Dmart's SSG stood at 17.8 per cent versus Spencer's 3.1 per cent and Future's 6.8 per cent, data from their financial results show. Reliance Retail's SSG for its overall retail operations was not available. It discloses SSG based on formats.

Abneesh Roy, executive vice-president, research, institutional equities, Edelweiss, said DMart had also been tweaking its product mix and renegotiating its pricing with its vendors to extract maximum efficiencies of scale.

"While food still gives DMart over 50 per cent of its revenue in recent years, the retailer has increased its general merchandise and apparels. This has improved the top line share from this segment," he said.

In FY19, for instance, food contributed 51.2 per cent to top line, general merchandise contributed 28.3 per cent while non-food contributed the rest at 20.5 per cent. Two years earlier (FY17), contribution of food was 53.7 per cent, general merchandise was 26.3 per cent and non-food was 20 per cent.

DMart has also maintained its aggressive discount policy amid stiff competition from offline as well as online retailers. The company said last week that it would utilise proceeds from the QIP to set up more stores and fight the competitive intensity.

The QIP and the offer-for-sale, which is expected this week, will also bring down promoter holding to 75 per cent from about 80 per cent.

Patented and in-licensed drugs post robust growth

See 13.9% growth on MAT basis as against 9.4% for other drugs

SOHINI DAS
Mumbai, 9 February

Patented and in-licensed products are growing at a robust pace in the Indian drug market, and now constitute 4.5 per cent of the domestic pharma market.

Latest data from market research firm AIOCD AWACS shows that the patented and in-licensed products clocked 13.9 per cent growth as on MAT January 2020. MAT refers to moving annual turnover or turnover of the past 12 months.

Against this, the domestic pharma market (without the patented and in-licensed products) has clocked 9.4 per cent growth rate during the same period.

A look at the top brands sold in the market explains the same. Mixtard, the insulin brand from Danish drug major Novo Nordisk, has maintained the top position for many quarters.

As in January, multiple brands from multinational players, including Sanofi's Lantus (insulin), Merck's Janumet (diabetes medicine containing a patented molecule Sitagliptin) and GSK's Augmentin (an antibiotic) feature in the top five brands in the domestic pharma market.

THE NUMBERS

(in ₹cr)

	MAT* Jan 2019	MAT Jan 2020	Growth rate (%)
Indian pharma market (IPM)	128,880	141,224	9.6
Patented and in-licensed products	5,516	6,285	13.9
IPM without in-licensing and patented products	123,364	134,939	9.4

*MAT: Moving annual turnover

Source: AIOCD AWACS

Multinational drug makers have clocked 8.6 per cent growth on a MAT basis (as in January) while domestic manufacturers have clocked 9.8 per cent growth. In the last quarter, however, there has been some slip in the growth rate of MNCs — 6.8 per cent as opposed to 11.2 per cent of Indian companies.

Demand for patented and in-licensed products have improved with increased compliance of patients, which means more people are not dropping off their medicines midway, but continuing the therapies. "The demand in the pharma market is price inelastic. These are life-saving drugs and people do not stop consumption. Moreover, compliance has improved than before and hence the share of patented drugs has increased," said a senior executive in a domestic firm.

He said that most of the high-margin drugs in the diabetes segment (around ₹14,000-crore market) are patented drugs — gliptins and gliflozins. While some innovators market the products themselves here, they have also chosen the licensing route to reach out to a wider crowd.

Overall, in January, the Indian pharma market (IPM) grew 7.6 per cent — this was driven by a price growth of 5.2 per cent, but the volume growth was negative (-0.3 per cent). AIOCD noted that in the past 12 months average volume growth has been 1.8 per cent. January, however, saw a dip in volume growth.

DRL to stay focussed on EMs for growth

DASARATH B REDDY
Hyderabad, 9 February

Dr Reddy's Laboratories (DRL) says it would keep focusing on emerging markets (EMs), which includes Russia and the CIS countries, and India for business growth, organically and via acquisitions.

The idea, it says, is to minimise dependence on any single region. Its growth was affected in the aftermath of a warning letter in 2015 from the American sector regulator, the Food and Drug Administration (FDA). At the time, US revenues were half its global sales of generic medicines and largely drove Dr Reddy's generics formulation business. Today, combined revenue from emerging markets and India finely balances that of the North America, at 38 per cent of the total revenue. The US revenue contribution is 36 per cent. To a question in a recent analyst call on possible acquisitions, Erez Israel, CEO, said: "We are always looking for opportunities, and are very active on this front. The priority is on emerging markets and India because this is is the area of focus." However, the firm has also said growth would primarily be via organic means.

Today, combined revenue from emerging markets and India finely balances that of the North America, at 38% of global revenue

Delivering double-digit growth for the past several quarters, emerging markets and India, with respective contribution of 21 per cent and 17.4 per cent to revenues in the December 2019 quarter, have emerged as alternate growth centres for the company. Dr Reddy's wants to further tap the potential of these markets.

It has also shed the earlier US strategy of pursuing only high value products. This created trouble with the delays in new product approvals and fewer launches in the US market after the warning letter. Its generic NuvaRing product met with huge price erosion after a delay in launch due to regulatory reasons, forcing the firm to take an impairment of ₹1,100 crore during the December quarter.

Lamborghini banks on HNIs, plans to sell 50 cars every yr

T E NARASIMHAN
Chennai, 9 February

While the super luxury segment in India dropped by 17 per cent in 2019, market leader Lamborghini grew by around 15 per cent. The firm expect to maintain the growth momentum on the backdrop of increasing HNIs and new offerings from the Italian maker.

In 2019, Lamborghini India sold 52 cars, compared to 45 a year ago registering a 15 per cent growth over the previous year. On the other side, super luxury segment (cars priced above ₹2 crore) dropped to 260 from around 315. Lambo-rghini, a part of Volkswagen group, is leading the market in the segment with 20 per cent share, he said. Rivals in the market are Ferrari, Aston Martin, Bentley among others. The company wants to maintain the growth momentum in 2020 and every year want to add new cars, said Sharad Agarwal, head-Lamborghini India, after showcasing the new Huracan EVO Rear-Wheel Drive (RWD) model. Huracan EVO RWD is a super sports car.

Today, Lamborghini car population in India is about 250 units. The company plans to sell atleast 50 cars every year. Agarwal said the biggest market for the carmaker in the country is south India, which contributes over 50 per cent of its sales as it attracts sizeable foreign direct investment.

The markets of Kolkata and the east are also growing, adding that the company has three dealers in Delhi, Bangalore and Mumbai.

Bond market up for a long bull run

Experts say LTRO is the Indian version of quantitative easing, and that there should be more of it in coming days

ANUP ROY
Mumbai, 9 February

Ten-year bond yields have fallen 16 basis points (bps) since the Union Budget on February 1. And short-term bond yields such as three-year ones have fallen 25 bps since the Reserve Bank in its monetary policy on February 6 introduced long-term repo operations (LTROs) to give banks one and three year money at 5.15 per cent, against the prevailing market rate of nearly 6 per cent.

The bond market had earlier got a wind in its sail after the Budget showed there would be no additional borrowing. The bond yields fell nearly 10 bps in response. The southbound yields bore good news for both the government and the corporate sector owing to the low funding cost. Yields and prices move on the opposite direction.

And then, there was the announcement of LTRO of up to ₹1 trillion.

"Yes indeed, a lot of bullishness has come back to the bond market. The ₹1 trillion repo at 5.15 per cent fixed is directly responsible for it. What the market hopes is that this amount could be increased further depending on utilisation. Also, the RBI clearly showed possibility of rate cuts, maybe in June," said Harihar Krishnamurthy, head of treasury at First Rand Bank.

"The LTRO effectively helped increase bond demand at the shorter end of the curve. The expected additional demand pulled bond yields lower. Now that there is no additional borrowing for the current year and the RBI has sparked an increase in demand for bonds, yields are likely to stay soft for a few more months," said Badrish Kulhalli, head of fixed income at HDFC Life Insurance.

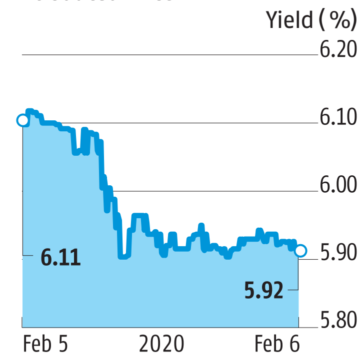
Many in the markets say the LTRO is the Indian version of quantitative easing, and there should be more of it in the coming days. But will the central bank be able to continue with such operations in the months to come? Certainly, RBI Governor Shaktikanta Das emphatically proclaimed that it would not be prudent to discount the RBI.

"It has to be kept in mind that the RBI has several instruments at its command that it can deploy to address the challenges that the Indian economy currently faces in terms of the sluggishness in the growth momentum," the governor had said in his opening remarks on the policy day.

Such confidence exuded by the RBI governor has only assured the bond market that the central bank would be there to support the market.

HOW 3-YR BOND FARED

The bond yields fell 19 bps as RBI introduced LTROs



Source: RBI

The RBI said it would use all the liquidity infusion instruments available to make sure the call money rate remained anchored at around the repo rate. Thus, the market's uncertainty regarding open market operations (OMOs), FX-Swaps, or dated repo instruments were cleared.

"Despite the recent spike in inflation, reassurance with respect to the continuation of the accommodative monetary policy and indication about the further space for easing is positive for the market sentiment," said Ram Kamal Samanta, vice-president investment at Star Union Dai-ichi Life Insurance.

According to Krishnamurthy, while the yields have fallen sharply for now, "further increases in repo amounts, OMO and rate cut hopes will push yields lower, and more probably now in longer term as short term has discounted the development quite a bit."

Through Operation Twist, the RBI has tried to bring down the long-end yields, and that should continue.

Hemal Doshi, vice-president (treasury) at SBI DFHI, said going forward, the "short end of the yield curve will remain anchored but the long end steepness will depend upon the maturity profile of next year's borrowing," even as growth and inflation dynamics will further give direction to the markets. The coronavirus pandemic can soften commodity prices, such as that of oil, which is going to be a big positive for India.

"As long as there is no considerable improvement in global oil price, credit growth or sustained pressure from inflation, incremental measures like inclusion of bond index or LTRO would facilitate lower bond yields, and the 10-year can go down to 6 per cent level too," said Soumyajit Niyogi, associate director at India Ratings and Research.

The 10-year bond yields closed at 6.44 per cent on Friday.

Budget doesn't really enthuse

EXIM MATTERS

T N C RAJAGOPALAN

In her Budget speech, the finance minister announced a number of initiatives to help exporters in the medium to long term. Exporters could see these in the context of allocations and steps taken just before the Budget presentation.

The minister announced a new scheme, NIRVIK, to provide for higher insurance coverage, lesser premium for small exporters and simpler procedures for claim settlements. She proposed to digitally refund to exporters, duties and taxes levied at central, state and local levels, such as electricity duties and value added tax on fuel used for transportation, which are not getting exempted or refunded under any other existing mechanism.

The allocation of ₹12,824 crore in FY21 for the ministry of commerce and industry shows a reduction of ₹875 crore from the revised estimates for FY20

She said institutional mechanisms were being created to develop each district as an export hub. She talked of schemes to encourage manufacture of mobile phones, electronic equipment, semi-conductor packaging, technical textiles and medical devices and a new logistics policy.

Also, fishery export and time-bound adoption of mandatory technical standards, their effective enforcement and issue of quality standards by various ministries. She announced the provision of ₹27,300 crore for development and promotion of industry and commerce for 2020-21.

The allocation of ₹12,824 crore in FY21 for the ministry of commerce and industry, net of receipts, shows a reduction of ₹875 crore from the revised estimates for FY20. At ₹6,219 crore, the department of commerce gets about 14 per cent less. The NIRVIK scheme gets ₹95 crore, whereas there is a cut of ₹568 crore under the interest equalisation scheme. Export Credit and Guarantee Corporation gets ₹650 crore (against ₹1,700 crore announced last September). On the National Export Insurance Account, the entire allocation is withdrawn. There are also some issues of arithmetic and presentation in these expenditure statements. A better explanation from the government will help.

Only three days before the Budget, the finance ministry notified the new duty drawback All Industry Rates for export made from February 4 onward. These show a reduction for many items. For example, on many chemical items (chapters 28 to 39), the rate has gone down from 1.5 to 1.3 per cent.

A similar 0.2 per cent reduction is seen for a number of engineering items. The reasons for these are not clear but it appears, the drawback rates have been cut by 0.2 per cent on many items with a view to save on revenue. The ministry should clarify the reasons.

On January 29, two days before the Budget, the Directorate General of Foreign Trade issued Public Notice 58/2015-20, withdrawing benefits under the Merchandise Exports from India Scheme (MEIS) for items in the apparel and garment sector, with retrospective effect from March 7, 2019.

The notice prescribes a revised procedure for claiming benefits under the Rebate of State and Central Taxes and Levies (RoSCTL) scheme, and a procedure for recovering any excess/undue claims paid under RoSCTL or MEIS.

The finance minister's statement that a scheme for 'Reversion of duties and taxes on exported products' will be launched this year is a repeat of her statement last September about the RoDTEP scheme. That was to replace the MEIS scheme by December but might now happen by April this year.

Overall, it is difficult to get enthused by announcements that have long-term implications and are not backed by enough money, when the short-term outlook looks bleak.

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India's fiscal gap one of the highest in EMs

Combined expenditure of central and state governments exceeded revenues by around 7.5% of GDP in 2019

KRISHNA KANT & SACHIN MAMPATTA
Mumbai, 9 February

At around 7.5 per cent of gross domestic product (GDP), the revenue-to-expenditure gap in India is one of the highest among major emerging markets. According to estimates by International Monetary Fund (IMF), total government expenditure was equivalent to around 27.1 per cent of GDP while total government revenue was around 19.6 per cent of GDP in the last calendar year.

The revenue-to-expenditure gap in India is similar to that in Brazil but much higher compared to China, Russia, and Indonesia. In China, government expenditure exceeded revenues by 6.1 per cent of GDP last year while it was a negative 1 per cent of GDP in Russia and 1.9 per cent in Indonesia (see adjoining chart).

Data on general government operations include state governments but exclude local governments (such as municipal corporations), state and central PSUs as well as social security funds.

In Asia, only Pakistan has a bigger gap between government revenues and expenditure. In calendar year 2019, Pakistan's government expenditure exceeded revenue by 8.8 per cent of country's GDP. In comparison, the gap was only 4.8 per cent in Bangladesh, 5.7 per cent in Sri Lanka and 4.4 per cent in Vietnam.

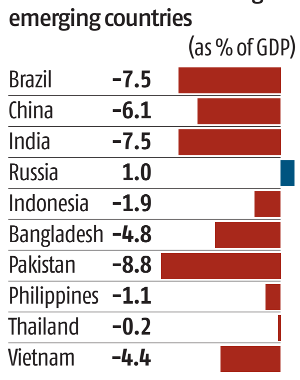
A relatively higher fiscal gap in India has translated into a greater level of public debt-to-GDP ratio in the country. "At around 69 per cent of GDP for the year FY20, India's public debt is relatively large in comparison with other major emerging market economies," said the IMF in its recent consultation paper on India.

The fund partly blamed the recent rise in public debt to the corporate income taxes. "In the absence of offsetting measures, it (tax cut) would contribute to pushing general government debt to a 10-year high of 69 per cent of GDP by the end of FY20," the IMF added.

Higher public debt has translated into a high interest burden which stood at 4.9 per cent of GDP during FY19, well above emerging market peers.

THE FISCAL GAP

Where India stands among emerging countries



*The gap between general government revenue and general government expenditure measured as per cent of GDP
Source: International Monetary Fund

The ratio is around 3 per cent for the other four BRICS countries – Brazil, Russia, China and South Africa – while it's around 1.5 per cent in case of ASEAN countries, according to the IMF.

Piyush Garg, chief investment officer at ICICI Securities said the government will become increasingly constrained in its ability to keep borrowing as the debt-to-GDP keeps rising.

"India's overall debt-to-GDP ratio is an outlier among emerging markets," he said.

He pointed out that nominal GDP growth has also been slowing which further limits the amount by which the deficit can be increased. The risks of higher debt can affect India in various ways, including through downward pressure on currency. Garg believes that the next fiscal year is likely to see some signs of improvement. This may also help government finances.

CARE Ratings chief economist Madan Sabnavis said, "For the last few years, we have been in an economic slowdown which forced the government to spend more money to push up growth. This also meant that it hasn't been able to go by earlier targets on fiscal deficit. Lower growth has also led to lower tax collections which further exacerbates the situation." He feels that things may remain at similar levels for the time being.

"It's going to take some time before the private sector is able to pick up. Until such time, the government will be forced to run these kind of deficits," he said.

The fact that India's debt is largely in its own domestic currency, unlike some emerging markets, may mean that the country is relatively more insulated. This is despite the issues associated with higher debt numbers, according to Sabnavis.

Higher deficit numbers aren't restricted to India. It is expected to rise in emerging and advanced countries alike, noted a January 2020 Economy Watch report by consultancy firm EY.

The US fiscal-deficit-to-GDP-ratio is expected to rise to seven per cent in 2019 and remain elevated.

Rising fiscal-deficit-to-GDP is also true for the UK. China and South Africa may also see a similar trend. India has had its own challenges on revenues, too, according to a forward to the note authored by D K Srivastava, EY India's chief policy advisor.

"The central government's tax base has also been eroded by a significantly lower growth in imports and global trade challenges," it said.

IMF, however, said that a high interest-payment-to-GDP ratio restricts a government's ability to raise public spending on social and infrastructure projects.

FPIs remain net buyers in Feb so far; invest ₹5,177 crore

PRESS TRUST OF INDIA
New Delhi, 9 February

Foreign investors remained net buyers in Indian capital markets for a sixth straight month in February, putting in a net amount of ₹5,177 crore mainly in the debt segment in the month so far, according to depositories data.

Foreign portfolio investors (FPI) put in ₹6,350 crore in the debt segment between February 3-7, the data showed.

However, FPIs pulled out ₹1,172.56 crore from equities during the period, resulting in a total net investment of ₹5,177.44 crore.

On investment in the debt segment, Himanshu Srivastava, senior analyst manager research at Morningstar Investment Adviser India said that it was "largely on the back of RBI maintaining an accommodative stance in its recent monetary policy review, which leaves room for further rate easing." Besides, he also added that markets have been overwhelmed by the spread of novel coronavirus and the impact that it could have on the Chinese economy and global growth.

This would have pushed FPIs to maintain a cautious stance on emerging markets like India until more clarity emerges. Regarding the future course of FPI flows, Alok Agarwala, head research and advisory, Bajaj Capital, said India could continue to attract FPI inflows as "union budget has announced plenty of measures to attract the foreign capital."

STATSGURU

Temporary act in 15th FC report

THE 15TH FINANCE COMMISSION (FC) in its first report has recommended changes in the way taxes should be shared between the Centre and states in 2020-21.

States such as Bihar, Maharashtra, and erstwhile state of Jammu & Kashmir stand to gain, compared with the current year's share, while Karnataka, Telangana, and Kerala stand to lose. Chart 1 shows the degree of increase (growth) in the share. J&K and Ladakh's share has been calculated as 1 per cent of the divisible pool.

The 15th FC has given nearly equal importance to population control (total fertility rate) and population. Another criterion used to arrive at horizontal devolution (among states) is the effort made to improve tax efficiency (Chart 2).

However, the Union Budget for FY21 projected a slower growth in revenues than the FC has envisaged. Worse, the actual amount transferred to states could come down further because of weak revenue collection (Chart 3).

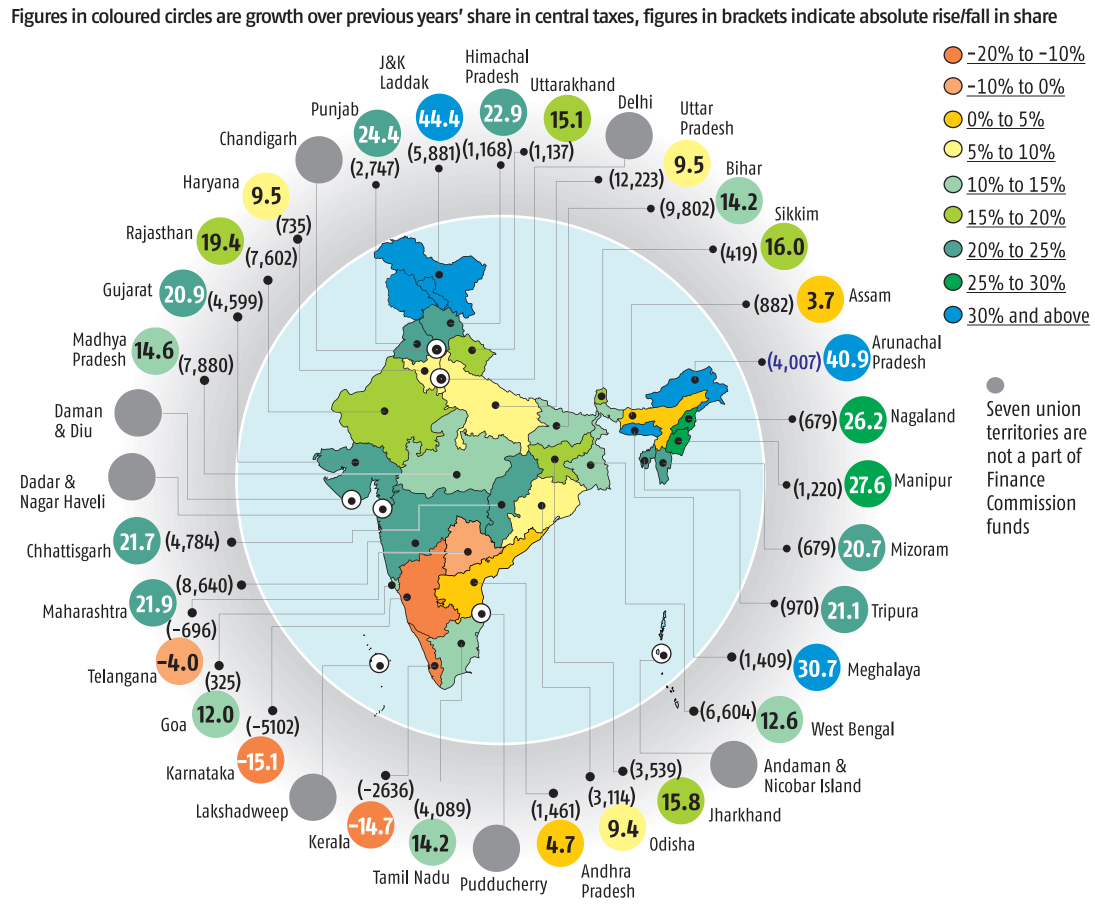
Apart from devolution, the FC also recommends grants to address residual inequality. Chart 4 shows the nature of these grants. However, allocation in the Budget has been lower than the 15th FC recommendation, especially for those compensating revenue deficit after devolution (Chart 5).

Ratings agency ICRA expects that this could result in a higher borrowing by states in FY21 and, for the first time, it could be higher than the Central government borrowing (Chart 6). This has the potential to permanently change government debt market dynamics in the country.

ABHISHEK WAGHMARE

1: THE GAINERS AND LOSERS IN DEVOLUTION

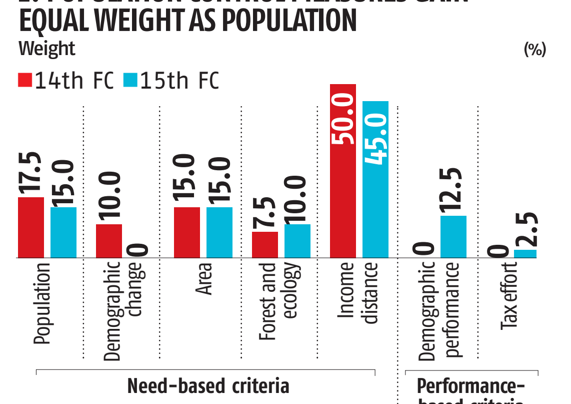
Figures in coloured circles are growth over previous years' share in central taxes, figures in brackets indicate absolute rise/fall in share



Note: Increase over FY20 is over the share, not the actual transfer, as actual amount was lower due to FY19 adjustment
Source: Interim report of the 15th Finance Commission

2: POPULATION CONTROL MEASURES GAIN EQUAL WEIGHT AS POPULATION

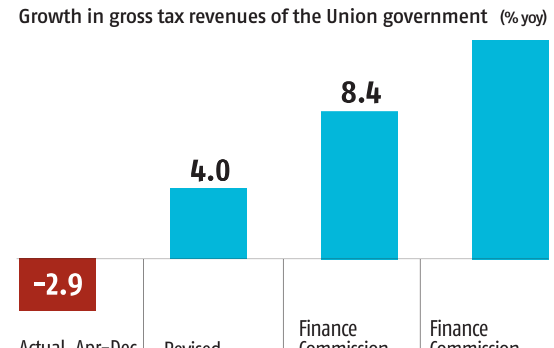
Weight



Source: Interim report of the 15th Finance Commission

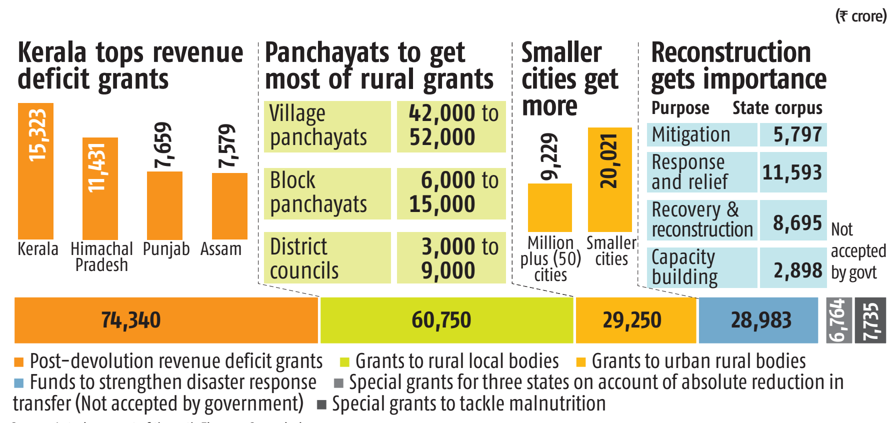
3: BUT REALITY IS STARKER, REVENUES ARE DECLINING

Growth in gross tax revenues of the Union government



Source: ICRA, finance ministry

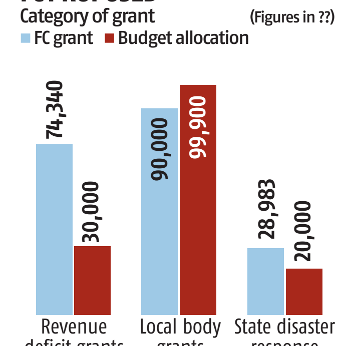
4: DISTRIBUTION OF POST-DEVOLUTION GRANT-IN AIDS TO STATES



Source: Interim report of the 15th Finance Commission

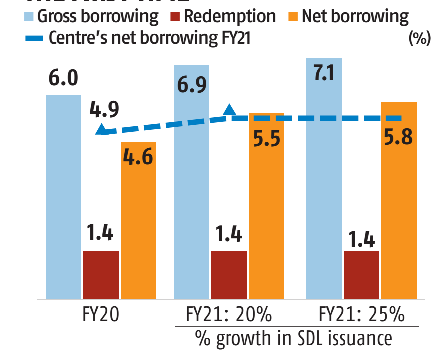
5: IN GRANTS TOO, BUDGET PROVIDES LESS THAN WHAT FC PROPOSED

Category of grant (Figures in ??)



Source: Interim Report of the 15th Finance Commission

6: STATE MARKET LOANS COULD CROSS CENTRAL GOVERNMENT LEVELS FOR THE FIRST TIME



SDL: State development loans
Source: ICRA, Union Budget

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

New BOT may still not be preferred mode for highways

STATUS CHECK (in km)

Year	Award	Execution
2014-15	3,067	1,500
2015-16	4,344	2,017
2016-17	4,337	2,562
2017-18	7,397	3,071
2018-19	2,222	3,320

Source: ICRA

MEGHA MANCHANDA
New Delhi, 9 February

The Union government's ambitious Bharatmala project would only see a miniscule contribution from the Build Operate Transfer (BOT) model projects as there are few takers for such projects.

To revive the BOT mode, the National Highways Authority of India (NHAI) recently came out with new set of guidelines — draft Model concessionaire agreement (MCA) — a move that may provide relief to the stuck projects.

"The MCA has tightened the norms for BOT but the bigger part of the equation is market risk. Healthy traffic forecast is the primary factor," an official told Business Standard.

Experts feel the traffic and stretches will decide the future of BOT projects. The performance of the existing BOT projects in terms of traffic is average 22 per cent.

According to industry estimates, the contribution of BOT projects in the Bharatmala scheme would be 12 per cent. Hybrid-annuity and EPC (engineering, procurement and construction) projects would equally share the remaining share of projects.

To bring the focus back on BOT contracts, Highways Minister Nitin Gadkari had said the Centre would focus on those projects. However, the concessionaires or the construction firms were shying away from these models as they found these projects capital intensive and more risky.

The NHAI has introduced 'harmonious exit' clause in the new concession pacts for the BOT projects.

According to the draft MCA, the NHAI and the Concessionaire would agree that in case of any financial default, the lender or banks can invite, negotiate and procure offers, either by private negotiations or public auction or tenders for the take over and transfer of the project highway.

If the authority has any objection to the transfer of concession in favour of the nominated company in accordance with this agreement, it shall within 15 days from the date of proposal made by the lenders' representative give a reasoned order after hearing the representative, the draft said. If no objection is raised by NHAI, it shall be deemed to have been accepted.

The NHAI's latest available annual report, for FY18, shows the authority had 1,014 cases of arbitration — significantly higher from 125 in FY17 and 119 in FY16. The value of claims for FY18 was pegged at ₹55,344 crore, as against ₹42,074 crore in FY17 and ₹30,071 crore in FY16. The data for FY19 was not available.

Besides harmonious exit, the other major modifications proposed in the MCA are related to capping of liabilities of either party throughout the subsistence of the agreement, tightening of conditions precedent prior to declaration of appointed date, and amendment in dispute resolution mechanism.

They also include changes incorporated from the recent updates in model agreements in other modes of implementation such as Hybrid Annuity Mode (HAM) and engineering, procurement, and construction (EPC).

This move will ensure to draw a fine line of functional balance of public- private partnership for development of highway infrastructure.

MNS HOLDS PRO-CAA RALLY IN MUMBAI

Maharashtra Navnirman Sena (MNS) chief Raj Thackeray warned of a fitting reply to rallies against CAA and NRC, at a mega protest march against illegal Bangladeshi and Pakistani migrants in Mumbai on Sunday PHOTO: KAMLESH PEDNEKAR

Varanasi among 20 best performing smart cities

PRESS TRUST OF INDIA
New Delhi, 9 February

With some of the 100 selected Smart Cities lagging behind, Prime Minister Narendra Modi's parliamentary constituency Varanasi will guide Amritsar and Ahmedabad will help Chandigarh in implementing projects under the mission.

The Union Housing and Urban Affairs Ministry has paired up 20 best performing cities with the 20 bottom cities and they will work as "sister cities".

Ahmedabad (1st rank), Nagpur, Tiruppur, Ranchi, Bhopal, Surat, Kanpur, Indore, Visakhapatnam, Vellore, Vadodara, Nashik, Agra, Varanasi, Davanagere, Kota, Pune, Udaipur, Dehradun and Amravati are the 20 best performing cities, according to internal rankings.

An official said that under the 20-20 formula, Ranchi and Pune will team up with Shimla and Dharamsala respectively, and share ideas with them to improve their performance.

The ministry has issued an advisory for the same and asked the 20 best performing cities and the 20 bottom cities to sign an MoU before February 20.

According to the official, cities have been paired up with those from a similar region and culture.

He said that for instance, Varanasi, a holy city, has been paired up with another holy city Amritsar which need to improve its performance under the mission.

Smart Cities Mission, launched in 2015, is aimed at ensuring all-round developments of a city which has advanced facilities for its citizens.

Visakhapatnam and Surat will help Diu and Sharanpur improve their performance respectively, while Bhopal will share its ideas with Mizoram's capital city Aizawl.

"The pair of sister cities will have to sign an MoU before February 20 to ensure expeditious execution of projects and report compliance to the Smart Cities Mission Directorate," the official said.

"Sister cities" will undertake a 100-day challenge from the day of its announcement to enhance the ranks and performance of the bottom 20 cities.

Under the mission, 100 selected smart cities have identified 5151 projects worth ₹2,05,018 crore to be executed.

Once-a-year tweak in GST rates on the cards, says FM

Sitharaman says changing the rates periodically creates a ripple effect

NAMRATA ACHARYA
Kolkata, 9 February

The government is examining a proposal to consider tweaks in GST (goods and services tax) rates only once a year against the present trend of periodic changes. Speaking at a press meet in Kolkata on Sunday, Union Finance Minister Nirmala Sitharaman said: "Periodically changing rates brings uncertainty and creates a ripple effect on businesses because they cannot ascertain how much to keep aside for the year. The government also does not know how much revenue would come in. So we, not formally, propose to the GST Council to consider a situation where rate rationalisation can be done only once a year."

"We are repeatedly telling industry ... whenever they approach us for rate reduction ... they should also convey the same concern to the states, and the state minister should also voice the same concern in GST Council meetings. It is a federal structure, where there is a healthy relationship between the Centre and the states," she said.

Grandfathering option to taxpayers

Sitharaman gave a hint that for those who had made long-term investment, keeping in mind the previous tax regime, there could be some grandfathering option for them.

"Whenever government policies are made ... there is a whole lot of grandfathering processes which we settle. I don't think that we have been indifferent to that or overlooking that," Sitharaman said. Also, with the twin-tax system, taxpayers have wider investment options, including stocks and debt instruments, where returns are equal or more that those in traditional savings, she said.

"Those who feel they can save with exemptions can continue to be in the old system. Those who feel they can make considered decisions about the money which is now available in their hands have the choice as to where they want to put their income. Savings need not be necessarily in fixed deposits or post office schemes. They can go to shares or debt, on which returns are equal or higher," said Sitharaman.

₹4 trillion retail credit during festive season

On lacklustre credit growth, Sitharaman said that the finance ministry was "closely monitoring" credit growth, particularly in the retail sector.

"Lending, particularly lending for retail by banks, is an issue we are monitoring. The finance secretary has been continuously engaging with banks," the finance minister said.

According to Sitharaman, the government's push for credit growth through credit camps in the last festive season led to disbursements of retail advances worth ₹4 trillion in 400 districts.

"After that we have been following it up ... non-banking financial companies are being given financial facilities so that they can have greater liquidity ... So all steps are being taken so that liquidity is not an issue," she pointed out.

Earlier, some industrialists expressed concern over the impact of TCS (tax collected at source) on Indian exports and issues like employee stock option plans.

Finance Minister Nirmala Sitharaman addresses a press meet in Kolkata on Sunday PHOTO: PTI

GST roll-out: Centre to release another ₹35K-cr compensation to states soon

The Centre will soon release another ₹35,000 crore to states to compensate for the revenue loss on account of GST rollout, an official said. Under the goods and services tax (GST) law, states are guaranteed compensation for revenue loss for five years if their revenue does not increase 14 per cent on the base year of 2015-16. There were no differences between the Centre and states with regard to compensation payment in 2017-18, 2018-19, and in the first four months of the current fiscal year. However, with revenue mop-up from compensation cess falling inadequate, the Centre held back fund transfer to states for revenue shortage beginning August. Following this, states raised the issue with the Centre and in December 2019, ₹35,298 crore was released as compensation for August-September. "The first tranche will be compensation for October-November," an official said. PTI

Govt plans to sell 5% stake in SAIL via OFS; eyes ₹1,000 cr

Centre planning roadshows in Singapore and Hong Kong for selling stake

PRESS TRUST OF INDIA
New Delhi, 9 February

The government is planning to sell 5 per cent stake in Steel Authority of India (SAIL) through an offer for sale (OFS), which could fetch about ₹1,000 crore to the exchequer, an official said.

Officials from the Department of Investment and Public Asset Management (DIPAM) and steel ministry are planning roadshows in Singapore and Hong Kong for SAIL stake sale. However, the Hong Kong roadshow might be called off due to coronavirus outbreak.

The government holds 75 per cent in SAIL. It had last sold 5 per cent in the steel CPSE in December 2014.

"We are looking at a 5 per cent stake sale via offer for sale, but we will assess investor demand in the roadshows," an official said.

At the current market price, the government may raise about ₹1,000 crore by selling 5 per cent stake in the company. Shares of SAIL closed at ₹48.65 apiece on Friday, down 0.51 per cent over previous close on BSE.

The government may look at completing the transaction in the current fiscal as it strives to achieve the ₹65,000 crore disinvestment target set in the revised estimates.

So far this fiscal, ₹34,000 crore has been mopped up from CPSE stake sale and the remaining ₹31,000 crore has to come in by March-end.

For 2020-21, the government has budgeted to collect ₹1.20 trillion from CPSE stake sale. The government is also planning to sell 10 per cent stake in Garden Reach Shipbuilders & Engineers (GRSE) through an OFS, out of its shareholding of 74.50 per cent. The stake sale would fetch about ₹200 crore to the exchequer at the current market price.

The government holds 75 per cent in SAIL. It had last sold 5 per cent in the steel CPSE in December 2014

CII recommends 12 urgent ways to decriminalise business offences

SUBHAYAN CHAKRABORTY
New Delhi, 9 February

Fixed time frames for settling legal proceedings, financial penalties instead of criminal charges, and a more flexible dispute settlement system feature in the Confederation of Indian Industry's (CII's) list of urgent steps needed to decriminalise business offences.

Seeking intervention from different arms of the government to examine how the current criminal provisions can be treated as civil offences with penalties, the CII has laid out 12 ways to decriminalise business offences, thereby improving investor confidence and boosting ease of doing business, the industry body said on Sunday.

Covering 37 different legislations such as the Partnership Act of 1932, Insolvency and Bankruptcy Code, and laws on environmental protection, consumer protection and labour interests, the recommendations have been shared with Prime Minister Narendra Modi and Finance Minister Nirmala Sitharaman, the chamber said.

These include settling technical offences with penalties and not legal prosecution and making summons cases concerning relatively minor offences compoundable in nature by expanding the scope of Section 320 of the Criminal Procedure Code, 1973 and creation of a transparent mechanism for no-guilt admission. Crucially, the settlement of minor tax and economic offences without guilt may reduce the pending backlog of cases, CII has argued.

CII has backed the introduction of Deferred Prosecution Agreements in the dispute settlement process — with certain exceptions

The CII has called for the government to adopt a fixed time frame for filing complaints on economic offences and for completion of probe and adjudication, with a few exceptions. Lengthy prosecution periods have been a constant complaint of the industry. CII has asked the government to award costs where courts have observed a frivolous litigation or dilatory tactics.

The CII has backed the introduction of Deferred Prosecution Agreements (DPA) in India's dispute settlement process— with certain exceptions. DPAs continue to be controversial, especially in the UK where it has been in force since 2015. Under the system, a criminally charged corporate agrees to certain conditions, such as paying financial penalties and in turn, charges against them are laid and proceedings automatically suspended. Schemes that allow one-time settlement and plea bargaining have also been suggested by the CII.

The government may need to shake up the judicial process as well. The government may need to expeditiously fill up the vacancy of judges to ensure that special benches act in full strength and increase the role of technology in courts.

"A change in the nature of penalty provisions in business and economic laws represents the next stage of reforms in ease of doing business. Divesting criminal penalties from business laws will strengthen confidence among young entrepreneurs and investors in doing business," said Vikram Kirloskar, president of CII.

New e-form for starting new firms from Feb 15

Continuing efforts to further improve ease of doing business, the government will introduce an integrated electronic form for incorporating new companies from February 15, wherein EPFO and ESIC registration numbers will also be allotted at the same time.

The corporate affairs ministry would introduce the form — SPICe+ — to offer 10 services. Currently, the ministry has the electronic form SPICe (Simplified Proforma for Incorporating Company Electronically) and that would be replaced with SPICe+.

The 10 services offered through the new form would help in "saving as many procedures, time and cost for starting a business in India," the ministry said in a public notice. The labour ministry, Department of Revenue in the finance ministry and the Maharashtra government would also be offering certain services through the form.

Registration for EPFO (Employees' Provident Fund Organisation) and ESIC (Employees' State Insurance Corporation) would be mandatory for all new companies incorporated from February 15.

EPFO and ESIC registration numbers would not be separately issued by the respective agencies, the notice said. Further, registration for profession tax would be compulsory for companies incorporated in Maharashtra from February 15.

Besides name reservation and incorporation of a company, EPFO and ESIC registration numbers would be issued.

Mandatory issuance of PAN, TAN (Tax Deduction and Collection Account Number), Profession Tax Registration (Maharashtra) and opening of bank account for the firm concerned would be done through the form. Director Identification Number and GSTIN, if applied, would be allotted. The new form would be available on portal MCA21. PTI

Can't treat J&K on a par with states: N K Singh

INDIVJAL DHASMANA & ARUP ROYCHOUDHURY
New Delhi, 9 February

The 15th Finance Commission (FFC) did not take note of the provisions of Jammu and Kashmir Reorganisation Act, 2019, which require it to treat the Union Territory (UT) of Jammu and Kashmir (J&K) as a state for the purposes of transfer of net proceeds of taxes.

"We cannot take suo motu notice of pieces of legislation unless they constitute ToR (Terms of Reference) of the commission. We only act on ToR of the commission," FFC Chairman N K Singh told *Business Standard*.

The Jammu and Kashmir Reorganisation Act, 2019 says that UT of J&K should get grants from the divisible pool.

The Act requires the President "to make a reference to the commission to include the UT of J&K in its ToR, and make award for the successor UT of J&K."

However, the Act simultaneously requires that the UT of Ladakh be treated on a par with the other UTs.

The FFC in its report for fiscal year 2020-21, recommended a marginal reduction in the vertical devolution of the divisible pool to 41 per cent from 42 per cent.

This was on account of reorganisation of the erstwhile state of J&K into UTs of J&K and Ladakh, bringing the number of states in the country down to 28 from 29.

UTs receive grants from the home ministry from the Centre's share of funds.

"We notionally estimated that the share of erstwhile state of J&K would have come to around 0.85 per cent of the divisible pool. We believe there is a strong case to enhance this to 1 per cent to meet the security and other special needs of J&K and Ladakh," said the commission's report, submitted in Parliament earlier this month.

"Since this enhancement has to be met from the Union's resources, we recommend that the aggregate share of states may be reduced by 1 percentage point to 41 per cent of the divisible pool," the report said.

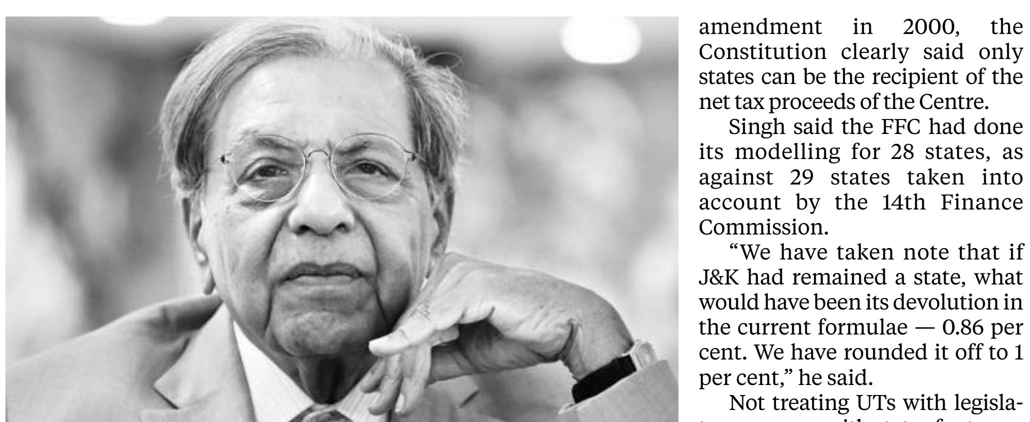
Singh wondered how could treating UT of J&K as eligible for divisible pool be referred to them as ToR. This is so because after an amendment in 2000, the Constitution clearly said only states can be the recipient of the net tax proceeds of the Centre.

Singh said the FFC had done its modelling for 28 states, as against 29 states taken into account by the 14th Finance Commission.

"We have taken note that if J&K had remained a state, what would have been its devolution in the current formulae — 0.86 per cent. We have rounded it off to 1 per cent," he said.

Not treating UTs with legislature on a par with states for transfer of net tax proceeds has always received flak from Delhi and Puducherry.

"We cannot consider demands of states that are outside the purview of our ToR. This is not something which is our preference, it is something on which the commission has little flexibility because we can only go by what the ToR say," Singh had earlier told *Business Standard*.



N K SINGH, chairman, 15th Finance Commission

"WE CANNOT TAKE SUO MOTU NOTICE OF PIECES OF LEGISLATION UNLESS THEY CONSTITUTE ToR (TERMS OF REFERENCE) OF THE COMMISSION. WE ONLY ACT ON ToR OF THE COMMISSION"

Final voter turnout 62.59% in Delhi elections: Officials

PRESS TRUST OF INDIA
New Delhi, 9 February

The final voter turnout in the Delhi Assembly elections was 62.59 per cent, senior officials said on Sunday.

In the 2015 Assembly polls, Delhi had recorded a voter turnout of 67.47 per cent.

Delhi Chief Electoral Officer Ranbir Singh said there was no unusual delay in announcing the final voter turnout figure as the returning officers were busy with scrutiny of data throughout the night to ensure its accuracy. He tried to allay the fears as expressed by a section of political parties over delay in releasing the final voting figures for the Delhi elections held on Saturday, saying "they did not want to speculate and wanted to give exact figures".

Singh's remarks came after Delhi Chief Minister Arvind Kejriwal questioned the "delay" by the election commissioner in giving the final voter turnout figure for the assembly polls, and said it was suspicious and asked if the poll panel was waiting for BJP office's approval.

'We must work today to develop technologies of tomorrow'

At DefExpo 2020, Defence Research and Development Organisation (DRDO) chief **G SATHEESH REDDY** spoke to **Ajai Shukla** about the 'Make in India' initiative. Edited excerpts:

Q&A

How will multiple agencies — the DRDO, defence public sector undertakings (DPSUs), private industry, and academia — function cooperatively?

In the 'Make in India' programme, the role of DRDO is to support industry with technologies that are, as far as possible, developed within the country. These must be transferred to the industry so that they are not reliant on outside technologies. Most technology transfer that happens is "manufacturing technology." There is very little transfer of "know how" and "know why". In contrast, technology developed by the DRDO has been completely developed in-house and in the country. This has involved a knowledge-debate within academia, within R&D organisations and within industry. So the DRDO must focus on developing as many critical technologies as possible and transferring them to the industry.

Meanwhile, the industry's role should not be that of a mere producer. It must upgrade skills from "build to print" (i.e. translate a blueprint into a product) to "build to specs" (translate product specifications into a blueprint, and thence into a product). That would take much of the development load off the DRDO, which can then concentrate on developing core technologies. Today, if we want to satisfy the armed forces, or to address the export market, we need to make systems that incorporate state-of-the-art technologies. So we must work today to develop the technologies of tomorrow, in order to become state-of-the-art.

India has been mostly a technology follower. Weaponry and products come to us and then, years later, we try to develop the technologies in those. That has to change, and we have to become a technology leader, or at least contemporary. I cannot sell a system that incorporates decade-old technology.

Given that we are technology followers, isn't this going to take a long time?

No. In some technology areas, we are very strong. For example, we already have all the technologies that are needed in missile systems. Today, we can develop any missile system that may be required. Similarly, in radar technology, we are completely self-sufficient. Even industry is equipped and experienced to support us in this field. We are also strong in fields like sonar, torpedoes, electronic warfare systems, airborne warning and control systems (AWACS) and artillery guns.

In building these systems we operate at the technology frontier. We are amongst the six or seven most advanced nations in these areas. So, in these areas, we should think innovatively about what will be required after five years and start developing that today. In five years, we could have a technologically leading, first-of-its-kind system.

Who should be responsible for this technology anticipation and planning?

It has to be a combination of R&D organisations and academia, with inputs from the armed forces.

Under someone like the DRDO chairman, or the scientific advisor to the government?

We already meet regularly and talk to the armed forces for drawing up its LTIPP (long-term integrated perspective plan). We also take feedback from academia about what basic research and applied research is under way, and we try and assess what shape the country is in terms of scientific and technological capability. We have not set up a formal body for this purpose, but we have prepared a technology roadmap in DRDO based on these discussions. Each of the DRDO's laboratories has a technology roadmap and all of this comes together in the larger assessment.

In developing weapons platforms in India, traditionally the DRDO has functioned as a systems integrator. Do you believe it should concentrate on developing core technologies, while capable private firms take on the role of systems integrators?

Absolutely. The days when DRDO used to be systems integrator have gone. Already, some DPSUs have begun functioning as systems integrators and soon private industry will also do systems integration. We have brought in a concept called DCPP — development-cum-production partner. This involves selecting a private firm as the DCPP, who joins on Day 1 of the project and works and learns with the DRDO. The firm then becomes the manufacturing partner when the product goes into production.

But in the model you describe, DRDO seems to be the lead integrator...

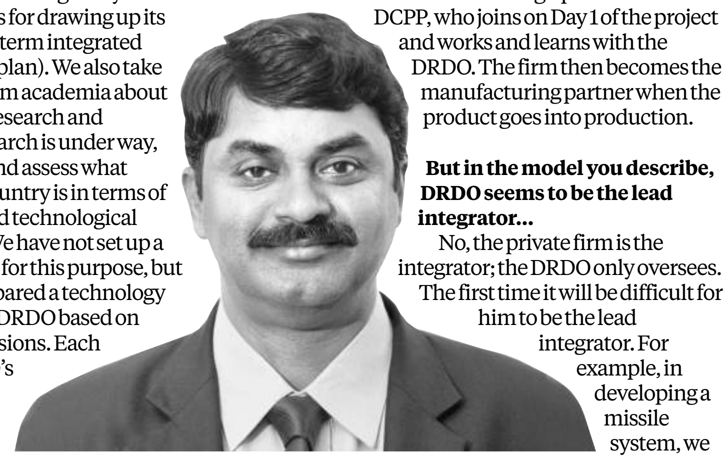
No, the private firm is the integrator; the DRDO only oversees. The first time it will be difficult for him to be the lead integrator. For example, in developing a missile system, we would oversee the working of our DCPP. By the end of the development phase, the firm will have absorbed the technology and developed capability. The DCPP manufactures the system, so there is a smooth induction into service in large numbers.

With the DPSUs not having functioned well as production partners, is it time to give private firms greater opportunities as production partners?

I believe DPSUs and private industry can co-exist. There is an excellent model for cooperation in the Akash missile, for which the military has placed ₹25,000-crore orders. Bharat Dynamics is the lead agency, but 85 per cent of the production value has gone to private industries as tier-I, -II, and -III suppliers.

But is private industry confined to the role of lower order suppliers?

No. The Akash missile has four sections and there are private firms that supply an entire section, fully integrated with all its electronic and mechanical packages. There is a tier-ised production chain that enables BDL to produce a significant number of missiles every month. There is space for both public and private firms to operate. We cannot just close a DPSU. And, when we give the job of lead production agency to a private firm, there is a need to protect the tier-I, -II, and -III suppliers. Otherwise, MSMEs will vanish.



AI to the rescue

The highly connected 21st century can enable diseases to spread with rapidity. AI could be one of the ways to mitigate this danger

TECH-ENABLED

DEVANGSHU DATTA

Meeting the threat of the Wuhan coronavirus, 2019-nCov, will be a test case for the effective and widespread deployment of artificial intelligence (AI) in fights against epidemic diseases. An AI was among the first agents to flag the new disease. AI is being used to mine data to identify and isolate potential carriers and victims, and to guesstimate the likely course of the disease. AI is also being used to try and generate vaccines, and to identify existing drugs, to combat the new virus.

As of Friday (February 7, 2020) there were over 630 confirmed deaths and over 30,000 infections in at least 25 nations. One of the first warnings came from a Canadian AI company, Bluedot, which uses AI to analyse publicly available news and data, and issues health warnings to its clients, which include businesses and public health officials in several countries.

On December 31, 2019, Bluedot issued an advisory that travellers should avoid Wuhan. The WHO sent out a similar public notice only on January 9, 2020, while America's CDC had issued its first public warning on January 6. The Bluedot AI used global airline ticketing data to correctly predict the virus would be exported to Bangkok, Seoul, Taipei, and Tokyo. Impressively, BlueDot has also predicted earlier outliers like a Zika outbreak in Florida.

The Harvard Medical School is running an international team, which uses machine learning to analyse social media posts, news reports, data from official public health channels, and information supplied by doctors for signs of where the virus is now taking hold.

Some AI-based predictions on the potential infection footprint are extremely scary but very likely, wrong. Fintech company, HedgeChatter built a neural network to generate a day by day forecast of the numbers infected, the geographical spread and the death toll etc. The model was accurate to within 3 per cent of actual numbers until early February.

It predicts that up to 2.5 billion people (the global population is roughly 7 billion) could be infected in the next 45 days, and fatalities could rise to over 52 million. However, this could happen only if the assumed conditions for the disease spreading, and the public health response don't change. Since the alarm has been raised, there is likely to be a much lower toll, since those conditions have indeed changed drastically.

AI has been used by the Chinese authorities to mine data. It has led to over 45 million persons — an entire province — being placed under lockdown. The authorities have also quarantined people who have travelled to the affected areas. Apps have been released to enable citizens to check if they have been in a bus, or train or plane, with a confirmed victim. Of course, all this is greatly enabled by the tight surveillance systems of the People's Republic of China and the state's complete lack of concern for violation of privacy.

Baidu, the Chinese equivalent of Google, has deployed a system that uses a combination of infrared and face recognition to identify people and check if they have a higher than normal body temperature. It's claimed that this can check over 200 people a minute, far faster than standard thermal scanners at airports.

On the medical research side, China has released the genome of the disease. Versions of the genome have also been harvested and sequenced outside the country. AI is also being used to search through already available drugs for potential cures. A British start-up, Benevolent AI, and a Korean pharma company, Deargen have both used AI to search for existing drugs that may work against the virus. So has the US pharma company, Gilead.

In these cases, the AI searched through medical data, and scientific papers, looking for drugs that might work. Several other companies have also tried this approach, and there is now a short-list of some 10 existing drugs that could be going into trial soon in the fight with this disease.

An US-based biotech company, Insilico, is using the AI to identify and generate new molecules that could serve as potential medications. It intends to synthesise and test up to a 100 of these new molecules. It took Insilico's AI just four days to identify new molecules with medical potential. Insilico has committed to publishing all the new molecular structures it has generated as a public dataset. Michigan State University has also published a paper about using similar machine learning algos. *(https://www.biorxiv.org/content)*

AI collapses the time period necessary for this sort of math-intensive research from a period of months or years, to a few days. This is critically important during an epidemic. The highly-connected 21st century can enable diseases to spread with rapidity. AI could be one of the ways to mitigate this danger.

CHINESE WHISPERS

Facelift for UP Cong media wing

Ever since Congress General Secretary Priyanka Gandhi Vadra took on the arduous task of re-energising her party's comatose Uttar Pradesh unit last year, the party has been in experiment mode. From rejigging the organisational structure, inducting new members, and expelling rebels, the grand old party has tried everything in the book to put together a winning team before the UP elections two years later. In the final leg, the party has reorganised its media panel and inducted members who had been "benched" under the new scheme of things. The media wing comprises veterans whose experience and goodwill among media houses will likely come in handy in fashioning the election strategy.

Awareness programme for MPs

On account of concerns of breach of privacy and snooping, Parliament will organise a two-day awareness session for Members of Parliament next week. The session will increase awareness on "internet and mobile safety and security". It will cover the "e-mail policy of the government", "mobile and desktop security", "privacy and security concerns while using various apps", and "privacy and security concerns while using social media". MPs will be briefed on Monday and Tuesday by officers of the Ministry of Electronics and Information Technology and CERT-in (Indian Computer Emergency Response Team). The government has until now stonewalled queries from MPs on the alleged snooping incident on Whatsapp, but has been forced to conduct such sessions after red flags were raised not just by opposition MPs but also by some from the ruling party.

Netflix vs Delhi

Around 14.7 million people in Delhi voted on Saturday in an election bitterly fought between Arvind Kejriwal's ruling Aam Aadmi Party and the Bharatiya Janata Party. But streaming service Netflix had a different idea. In a tweet it said: "It's Saturday which means *naps while my favourite show plays in the background*". That drew a sharp response from AAP: "No!!! First go out and VOTE!" the party posted on its official Twitter handle. Despite being urged by both Prime Minister Narendra Modi and Kejriwal, the voter turnout for the Delhi polls remained low through the day, though it picked up somewhat towards the afternoon, touching about 63 per cent by 5 pm, but still short of the figure logged during the 2015 Assembly elections.

How much money will you get if your bank goes bust?

The ₹5-lakh cover brings around 93 per cent of all deposit accounts and 34 per cent of the value of deposits under it

BANKER'S TRUST

TAMAL BANDYOPADHYAY

Finally, the deposit insurance cover has been raised five-fold to ₹5 lakh — a huge comfort for small depositors, some of whom have been staring at losing their money kept in fraud-hit and mismanaged cooperative banks. Now if any bank fails, the depositors will get as much as ₹5 lakh from the Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly-owned subsidiary of the Reserve Bank of India (RBI).

It took 17 years and a ₹6,670-crore fraud in multi-state Punjab and Maharashtra Co-operative Bank to raise the cover. The latest revision, sixth since it started in 1962 with a ₹1,500 cover, has been long overdue. Even though it's a big jump from ₹1 lakh, the last revision in 1993, it is still less than what the amount should have been after adjusting inflation.

Every nation, which has a banking system, offers such an insurance cover to depositors. At least 146 nations have deposit insurance schemes — explicit or implicit. The last country to get into this club is probably Georgia, which set up its deposit insurance agency in July 2017. Incidentally, New Zealand introduced deposit insurance as a provisional system in response to the global financial crisis and it was withdrawn subsequently.

From January 2019, Austria has been running two deposit insurance systems, instead of the five earlier. In fact, many nations including the US, Italy, Brazil and Portugal run at least two such schemes. And, hold your breath, Germany runs nine deposit insurance systems.

There are wide variations among the deposit cover schemes. For instance, the Deposit Insurance Corporation of Japan is responsible for insuring deposit-taking institutions in general, but the agricultural and fishery cooperatives are separately insured as the risk associated with such bodies is different. The Korea Deposit Insurance Corporation provides deposit insurance not just for commercial banks, but also for insurance companies, securities companies, merchant banks and mutual savings banks. And, there are five other deposit protection systems for cooperative financial institutions in Korea. Finally, in Myanmar, deposit insurance is provided by Myanmar Insurance Agency, a state-owned enterprise. There are no rules and regulations for deposit insurance; if bank a goes bankrupt, the government reimburses the depositors.

Who enjoys the deposit insurance cover in India? Well, all commercial banks, including branches of foreign banks functioning in India, local area banks, regional rural banks and all state, central and primary cooperative banks, also called urban cooperative banks, which have amended the local Co-operative Societies Act empowering the RBI to wind up a cooperative bank and supersede its committee of management through the Registrar of Cooperative Societies.

Let's look at the nuts and bolts of the deposit cover.

■ Every depositor in a bank is insured up to a maximum ₹5 lakh for both principal and interest. If an individual opens more than one deposit accounts in one or more branches of a bank (savings/current accounts and/or fixed/recurring deposits), all these will be considered as one account and the aggregate insurance cover will be ₹5 lakh.

■ But if a person opens more than one such account in her capacity as a partner of a firm or the guardian of a minor or director of a company or trustee of a trust or in a joint account, say with her husband, in one or more branches of a bank, each of these accounts will enjoy the insurance cover up to ₹5 lakh, separately.

■ When it comes to the joint accounts, there is a catch. If more than one deposit account (savings, current, recurring or fixed) are jointly held by say three individuals in one or more branches of a bank with their names appearing in the same order (A,B and C — three names, for three accounts) then all three accounts are considered held in the same capacity and the insured account will be capped at ₹5 lakh. To ensure ₹15 lakh insurance coverage (₹5 lakh multiplied by three), the joint holders of three accounts should be shown as A, B and C; C, A and B; and A, C and B. Done in this fashion, the deposits held in these joint accounts are considered as held in the different capacities with different rights. Accordingly, the insurance cover will be available separately to every such joint account (I repeat, provided the names appear in different order) to the tune of ₹5 lakh.

■ The depositors of any bank that goes for liquidation or is merged with another after February 4, 2020, will get the cover. However, the cover is not applicable to the depositors of those banks that have been already deregistered and whose licences have been cancelled before February 4. The deposit coverage of such banks remains up to ₹1 lakh irrespective of whether the claims have been submitted or not.

The new ceiling will cover around 93 per cent of all deposit accounts, up from 90 per cent earlier. Barring government deposits, all other accounts are mandatorily covered. This will also raise the cover for deposits in terms of value from 29 per cent to 34 per cent.

This is in sync with the norms laid down by the International Association of Deposit Insurers (IADI), of which India is a member. Formed in 2002, IADI, a forum for deposit insurers from around the world, works in close coordination with the Basel Committee on Banking Supervision and produces research and guidance on deposit insurance. Going by its norms, 85-90 per cent of the deposit accounts and 25-30 per cent of the value of deposits should have insurance cover. Argentina is probably the only country that went for 100 per cent deposit cover with government guarantee — a one-time measure when a financial crisis engulfed the country.

A depositor's full exposure to a bank should not be guaranteed as there is a moral hazard — once the full amount enjoys insurance cover, a bank will not have any incentive for meticulous care in running it. Earlier, the banks were paying 10 paise per ₹100 deposit; now they will pay ₹12 paise. The premium cost has been kept low keeping in mind the health of many banks, but the discussion of risk-based premiums is not off the table. If not today, tomorrow the weaker banks may have to pay higher premium for the cover.

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

INSIGHT

The IMF's growth downgrade math

ALOK SHEEL

The IMF's January 2020 World Economic Outlook (WEO) update created a stir among global policy makers, Indian political circles and in the Indian media, on account of the sharp downward revision of its estimate for Indian growth in 2019-20 over its earlier October 2019 estimate. The estimate for 2019-20 was lowered by 1.3 per cent, from 6.1 per cent to 4.8 per cent. The projection for 2020-21 was lowered by 1.2 per cent, from 7 per cent to 5.8 per cent, and for 2021-22 by 0.9 per cent, from 7.4 per cent to 6.5 per cent. This was by far the sharpest growth downgrade for any major economy.

The furore was amplified following an interview by the Indian journalist Rahul Kanwal with Gita Gopinath, chief economist at the IMF, where she reportedly said that over 80 per cent of the downgrade in global growth relative to the October 2019 WEO numbers was on account of India. It appeared that India was currently the major drag on the global economy.

There is an associated debate on the line of causation, whether India pulled down the global economy or, since India accounts for only a very small share of the global economy, whether India's growth itself was affected by the global downturn. The Economic Survey for the year 2019-20 and the Union Budget for 2020-21 appears to be of this view.

Where do matters stand? What is the underlying math?

The WEO numbers can be a bit confusing for non-specialists. First, the IMF makes country specific estimates and projections (forecasts) for economic growth, including overall global growth, twice each year in April and October, through its iconic World Economic Outlook. The estimates are for the current year, and are based on observed data available to date. The projections are for the following years, and not nearly as reliable as the estimates. The estimates and projections for major countries, as well as for the world as a whole, are updated twice a year, in July and January.

Second, the WEO has separate calculations for GDP at Market Exchange Rates, and at Purchasing Power Parity. The former is done by converting the national income, calculated in local currency, into US dollars at market rates of exchange. The latter is based on the assumption that ₹70 (the approximate current valued of one US dollar) has more purchasing power in India than one dollar in the US. In its statistical appendix to the WEO the GDP calculations are at market prices, whereas the growth rates are real. So GDP deflators also come into play.

The growth rates being debated are those at Purchasing Power Parity. The accompanying table has therefore taken the GDP figures at PPP for both India and the World for the year 2017-18, available in the October 2019 IMF WEO database, as the base, and used the growth rates contained in the October 2019 WEO and the January 2020 update for the calculations.

GROWTH RATES AT PURCHASING POWER PARITY

	Actual	Estimate 2019		Projection 2020		Projection 2021	
	2018	Oct 19	Jan 20	Oct 19	Jan 20	Oct 19	Jan 20
India	6.8%	6.1%	4.8%	7.0%	5.8%	7.4%	6.5%
World	3.6%	3%	2.9%	3.4%	3.3%	3.6%	3.4%
GDP at PPP (US $)							
India	10,485	11,125	10,989	11,904	11,626	12,784	12,382
World	135,436	139,499	139,364	144,242	143,963	149,435	148,857
Change in growth in WEO January over October 2019							
India			-1.3%		-1.2%		-0.9%
World			-0.1%		-0.1%		-0.2%
Change in GDP in WEO January over October 2019 (US $ bn)							
India			-136		-278		-403
World			-135		-279		-577
Aggregate change in WEO January over October 2019 (US $ bn)							
India	-817	World	-992		India's share		82%

Based on IMF World Economic Outlook

India comprises just 3.2 per cent of the global economy at Market Exchange Rates, and a 1 per cent or so downgrade in its growth may appear too insignificant to impact global growth. However its share of the global economy is significantly higher at PPP, amounting to 7.7 per cent in 2017-18. If one were to factor in the debate relating to the discrepancy between high frequency data and recent Indian GDP estimates, the impact on global growth would be even higher. The IMF, it may be noted, relies on the country's own statistical system for National Income numbers.

The calculations in the table (*Growth rates at purchasing power parity*) indicate that the downgrades in India's estimated growth in 2019-20, and projected growth in 2020-21 are exactly equal to the aggregate global downgrades. India's contribution to the near-term global growth downturn is therefore 100 per cent. It is when the estimate for 2019-20, and projections for 2020-21 and 2021-22, are taken together that India's share in the global downturn comes to 82. This matches the number given by IMF's Gopinath, who is quoted as having said "simple calculation says it would be over 80 per cent".

India's contribution to the current worsening global economic outlook is therefore very substantial when measured at PPP.

IMF's projections show the Indian economy recovering relatively well from 2020-21: "The growth markdown largely reflects a downward revision to India's projection, where domestic demand has slowed more sharply than expected amid stress in the non-bank financial sector and a decline in credit growth. India's growth is estimated at 4.8 per cent in 2019, projected to improve to 5.8 per cent in 2020 and 6.5 per cent in 2021 (1.2 and 0.9 percentage point lower than in the October WEO), supported by monetary and fiscal stimulus as well as subdued oil prices."

This conclusion is puzzling, since it points to structural problems (stresses in the financial system) as the primary cause of the slowdown, and yet it expects macroeconomic (fiscal and monetary) policies to put the economy on the path to recovery. Macroeconomic policies can however address only cyclical problems. Five reductions in the benchmark repo interest rate over a short period by the RBI have done little to lower lending rates or revive the credit cycle. With fiscal space constrained because of low growth and problems with the tax system, the 2020-21 Union Budget also has little stimulus on offer.

Structural problems need structural solutions, such as smoothening frictions in the financial and taxation systems. These were not on offer in the 2020-21 Budget. Moreover, a market economy is dependent on the animal spirits of private investors, and not on command and control, for growth. For this a clear roadmap and assurance of stability in economic policy going forward, the perception that crucial institutions of governance are at arm's length from the state, and continued social harmony, are sine qua non. Macroeconomic policies on their own are unlikely to revive growth to anywhere near former levels as India's growth potential itself has possibly declined on account of lingering structural problems.

The author is RBI chair professor, ICRIER

LETTERS

Playing with words

It was interesting to watch Prime Minister Narendra Modi falling back on the first prime minister, Jawaharlal Nehru, as many as 23 times in the Lok Sabha last week in an attempt to defend the Citizenship (Amendment) Act. Of course, it was not without a tinge of his usual sarcasms by referring to Nehru as a "big secular person", "great thinker", "big visionary" and so on. Latching on to the word "minorities" in the 1950 pact between Nehru and his then Pakistani counterpart Liaquat Ali Khan for the protection of minorities in their respective countries, Modi, looking towards the Congress benches, asked why did Nehru not use the phrase, all citizens, instead of "minorities"? Sadly, the Prime Minister was being less than ingenious in not reading out the very first line of the Nehru-Liaquat Pact of April 1950, which read as under: "The Governments of India and Pakistan solemnly agree that each shall ensure to the minorities through its territory, complete equality of citizenship, irrespective of religion..."

By omitting the words "irrespective of religion", the Prime Minister was being selective. The recorded events leading up to the eventual Partition do not support the accusation against Nehru. Desist from distorting historical facts for political gains.

S K Choudhury Bengaluru

Call for *nafrat-mukt* Bharat

This refers to the editorial "A dangerous path" (February 7). As rightly outlined, the BJP under PM Narendra Modi is on a strong wicket with literally no worthwhile Opposition to destabilise his government and in this scenario, it has no reason to enter Delhi using hate speeches. It is high time the leaders, irrespective of parties, stopped delivering hate speeches. Spreading hate through words or action would only lead to more hate resulting in killings and anarchy. Here is proof: A call by a responsible Union minister has led someone take a countrymade pistol and injure a fellow citizen. Again, a leader at the fag end of campaigning for Delhi made a stupid speech where he said that in six months the unemployed youth would take up sticks to beat the PM who in turn jibed that the former was a tubelight. In UP, a captor was killed by police when he took 23 children as hostage and also fired at the police team.

The United Nation has rightly said, "Genocide is a process. The holocaust did not start with gas chambers. It started with hate speech." All over the world (including India), most communal and other riots were sparked by hate speech. It is high time opposition leaders, if not the PM, pledged to make Bharat *"nafrat-mukt"*.

N Nagarajan Secunderabad

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HAMBONE

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The coronavirus threat

Govt should prepare for the fallout

In 2003, the outbreak of severe acute respiratory syndrome (SARS), which killed hundreds in East Asia, had a noticeable but eventually manageable effect on the global economy. The People's Republic of China, where SARS emerged, suffered some growth costs — but the economy was so supercharged at that point in its development that it soon shrugged off the effects and continued to set world-beating records. Much is different today, as another coronavirus has emerged from the Chinese city of Wuhan. Mainland China is far more integrated into global supply chains than it was in 2003, when it accounted for less than 5 per cent of global output. And the Chinese economy itself is less robust than it was earlier — and, of course, many experts believe that this coronavirus is even more virulent and dangerous than SARS. Beijing's response, though scandalously tardy, is finally reaching proportions commensurate with the crisis. Many factories in globally networked areas of the mainland are closing their doors temporarily. The effect on some industries such as automobiles and mobile phones will be particularly marked. Both these networked industries depend crucially on output from Chinese factories.

It is important to note that coronavirus is still some distance from reaching worst-case scenarios. Indeed, the World Health Organization has been careful to not yet call it a pandemic. But its effects will soon be felt. The Indian auto industry, for example, has at best a couple of weeks of inventory of supplies from mainland China. The pharmaceutical industry, which is a major export earner for India, imports many of its active ingredients — and by some estimates over 80 per cent of those are imported from China. Thus, in any case there is likely to be an economic effect of coronavirus on India. This assumes that the virus itself will not take hold in Indian conditions. The first case in India was reported in Kerala some time ago. However, it is far from certain that the Kerala cases are the only ones of concern. After all, the Indian public health system is not among the most efficient in the world, and it is worryingly possible that some relevant cases are dropping through the cracks. There is no reason yet to panic, as global cases of coronavirus appear to be under control. But the government should be clear and transparent about what it plans to do if cases happen to multiply in India. How can capacity be created at short notice to deal with an epidemic?

There are other ways in which the government should prepare for the fallout of coronavirus. One such consequence is already visible in the global crude oil market, which has now entered bear territory. Brent crude for April delivery is now trading at around $55 a barrel, with estimates that global oil demand might drop by as much as 200,000 barrels a day. If large oil producers do not cut production, the downside for oil prices could be considerable. But it means that the burden on the Indian exchequer and the external account would be considerably eased. As was done in 2014 and 2015, when oil prices began their sustained drop, the government should take advantage of this to secure its finances.

Cracking defence exports

Forces should first induct indigenous weaponry

New Delhi's aim of increasing defence exports ten-fold, from the existing level of about ₹2,000-3,000 crore annually to over $5 billion (₹35,000 crore) each year, was first enunciated in the Defence Production Policy of 2018 (DPrP-2018). At Defexpo 2020 in Lucknow last week, Prime Minister Narendra Modi reaffirmed that pledge. Helped along by adding the export of civil aerospace products to that of the defence kit, the export figure has reached a high of ₹10,700 crore this year. Even so, meeting the DPrP-2018 export target still requires a three and a half times increase, which will take some doing.

Multiplying defence exports is crucial for meeting the DPrP-2018 target of taking India into the league of one of the world's top five defence producers, with an annual turnover of $26 billion (₹1.8 trillion). Currently, defence production is a mere ₹90,000 crore per year and doubling this would require vastly increased exports. The current defence capital allocation is ₹1.18 trillion and the lion's share of this is spent on foreign equipment. Further, the defence public sector undertakings (DPSUs) get to feed at the table, with the defence ministry ensuring their order books are full. The leftovers, if any, are then made available to India's private sector defence firms. The ministry of defence official who interacts with the industry explicitly spelt out in a seminar of the Federation of Indian Chambers of Commerce and Industry in June that the private sector must export to survive. He warned the limited capital budget would be barely enough for paying instalments for equipment purchased in previous years, and for purchases from the public sector defence production units. Private defence firms could expect only "a small share of the pie", he said.

To be sure, the government has moved purposefully to boost defence exports. It has charged defence attaches posted at Indian embassies across the world with seeking out opportunities to supply their host countries with Indian military equipment. New Delhi has created a liberalised trade environment for Indian defence exports by obtaining entry into the four global export control regimes. India is already a member of the Missile Technology Control Regime, the Wassenaar Arrangement, and the Australia Group. Entry into the fourth — the Nuclear Suppliers Group — could be nigh. In October, Indian officials invited 50 foreign military attaches posted with their embassies in India and made a pitch for Indian defence and aerospace products. To facilitate sales, New Delhi has offered friendly foreign countries such as Myanmar, the Maldives, and Sri Lanka "credit lines" for purchasing Indian defence equipment. DPSUs have been given export targets of 25 per cent of their turnover. A nodal agency, the Indigenous Defence Equipment Exporters Association (IDEEA), was set up in October for processing defence export inquiries from prospective customers across the globe.

Notwithstanding these measures, a large boost in defence exports requires the emphasis to change from exporting low-value ammunition, spares, and aerospace components to the export of high-value, complex combat platforms such as the Tejas fighter, Dhruv and Rudra helicopters, the Arjun tank, Akash air defence systems, Pinaka rocket launchers, and a range of indigenous warships including corvettes, frigates, and destroyers. The Indian military's reluctance to buy these platforms raises legitimate questions among potential customers. The defence ministry must ensure the defence forces induct indigenous weaponry into service, working with industry to incrementally develop and improve the products, even as the resulting exports create economy of scale, bring down equipment prices, and generate strategic heft for India.

ILLUSTRATION: AJAY MOHANTY

Dodging a bullet?

2019–nCoV is a reminder that we must build the foundations of public health

A newly identified virus, 2019-nCoV, has killed over 800 people worldwide. We do not know whether this will now subside, or whether it will become more important. If there is an outbreak in India, this could have a significant adverse impact on the country and test the public health system. Public health functions on communicable disease are critical functions in a society, which only a state can provide. Such tasks are more important than curative health care, in the agenda for public policy.

The new coronavirus, 2019-nCoV, is similar to the SARS-CoV, which originated in China in 2002. In that episode, which roiled the world economy, 8,096 persons were affected and 774 died, with a case fatality ratio of about 10 per cent. While the new 2019-nCoV appears to be less virulent than SARS-CoV, we have crossed 813 deaths. Of these, 811 were in China, and one each was in Hong Kong and the Philippines. 2019-nCoV is more important for the world economy, than SARS-CoV was, for two reasons: The death toll has exceeded that of SARS-CoV, and the Chinese economy in 2020 is more important for the world than it was in 2002.

SNAKES & LADDERS

AJAY SHAH

In the field of public health, dealing with communicable diseases and epidemics is of primal importance. Governments add value by doing things that are not done by private persons. Fighting communicable disease and responding to epidemics is clearly an area where private responses do not suffice, but where governments are required.

The toolkit of fighting communicable disease in the 21st century has not changed much compared with the 19th century. It involves detective work in watching disease all over the country and obtaining early warnings about epidemics. It involves administrative interventions to contain the spread of an epidemic. Intellectual leadership is required for understanding each new problem, and extension functions are required to communicate this to the health care industry, most notably inside the hot zone.

There is a great deal of humdrum work, which has to be done every day, in the process of obtaining information and analysing it. A large number of false alarms have to be diligently tracked down and ruled out. And then there are occasional crises, like the plague outbreak in Surat in 1994, which require mobilising a full-blown response.

It takes great political and organisational capability to commit resourcing to this problem and to obtain success. In the Indian environment, with low state capacity, we tend to underinvest in this work and we tend to obtain low organisational capability. It is very difficult to organise Indian state structures to do prosaic work every day at high levels of quality. As an example, the difficulties of running the official statistical system in India, about economic and demographic statistics, give us insights into the difficulties of running the health statistical system, which is a critical component of public health. As a consequence, public health authorities have low knowledge about the disease burden present in the population every day.

If an epidemic of 2019-nCoV or ebola or lassa fever got going in India, the Indian state would find it difficult to set up a statistical system, with maps that show every case which is correct and updated. As an example, there is no data in India showing each case of dengue, which generally has a case fatality ratio higher than 2019-nCoV.

We have a government organisation, the National Centre for Disease Control (NCDC), which works on these questions. Its peers abroad include the Centers for Disease Control (CDC) in the United States and the European Centre for Disease Prevention of Control in the European Union. There is a lot to do in building the NCDC. As an example, the US CDC has about 11,000 employees (of whom half have an advanced degree) while the NCDC has about 400. It must be emphasised, however, that the problem of communicable disease goes well beyond a single organisation like the NCDC. Every part of the public and private health system has to play a role in the overall problem of controlling communicable disease.

Some pathogens are able to rapidly mutate. In this case, the public health system has a remarkable consequence: It influences virulence. When the public health system reduces the probability of person-to-person transmission, the strains that succeed are those that keep victims alive for a longer period. Conversely, when it is easy for a pathogen to jump from one person to another, the most successful strains will evolve in favour of high virulence. As an example, many decades ago, when the quality of drinking water in West Bengal improved, the virulence of cholera declined, while this did not happen in East Bengal, where drinking water was inferior (at that time).

We were lucky in the past, and problems like SARS-CoV or ebola did not erupt here. In the case of 2019-nCoV, every day of delay works in our favour, as 2019-nCoV is likely to spread less when temperatures are higher. If February goes by without major problems, then we have a fair chance of faring well. But we cannot indefinitely count on such good fortune. While we do wrong to engage in teleology and in anthropomorphism, a community of 1.33 billion people with low state capacity is an attractive target for an ambitious pathogen.

The prime focus of health policy in India at present is upon running or providing health care. The market failure in public health (externalities and public goods) is, however, different from the market failure in health care (monopolies and asymmetric information). The institutional apparatus for controlling communicable disease is a critical pillar of public health. Prevention is better than cure, and we can do much better on prevention by refocusing upon public health. It would make sense to shift resourcing and prioritisation, away from health care, towards public health. When the government is willing to spend money on health care, there is a direct link between improvements on prevention and reduced government expenditure.

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

Nature's revenge

Call it the revenge of the bug. The new coronavirus, named 2019-nCoV, has done to the Chinese economy what US President Donald Trump could not do. It has wreaked havoc on the world's second-largest economy, grinding it to a halt, shutting down its cities, and isolating its people. Today, we are seeing perhaps the largest effort ever to contain the spread of this infection — Chinese President Xi Jinping called it a people's war on the virus. But the worrying question is this: With over 600 deaths and over 31,000 people infected in just about a month, how long will it last? The virus stays dormant for over two weeks — that is even if people are infected, the symptoms do not show. The good news is that the mortality rate is low; but on the other hand, the fear of contagion is high as the virus moves through the air from people to people. So, the answer is to ensure that anyone possibly exposed is isolated and quarantined.

DOWN TO EARTH

SUNITA NARAIN

But what does this mean for an inter-connected world, which has broken every record in terms of transboundary movement of people and trade? Consider this. In 2003, when the world witnessed the first such global health crisis, the severe acute respiratory syndrome (SARS), China accounted for only 4 per cent of the world's GDP. Today it is 16 per cent. Business begins and ends in China. It is the world's ultimate low-cost supply chain. So, this health crisis will disrupt businesses all across the world. Also, now, the movement of people is massive and this is why the movement of the virus is also so fast.

There is no doubt that governments are stepping in, closing doors. But it shows our common vulnerability — how quickly a common cold can become a global contagion.

There is also more that we must discuss — more seriously than when we were confronted with SARS in 2003, and then with the Middle East respiratory syndrome (MERS) in 2012. The fact is that in these cases, and also the 2019-nCoV, the virus found in bats has jumped from animals to humans. In the case of SARS, the World Health Organization (WHO) found that the civet cat, raccoon dog, and badger were the most likely intermediate hosts. In the case of MERS, the camel was the intermediate host. The route of 2019-nCoV is not yet clear — the local market, which is seen to be the source of the outbreak, does not sell bats, it is said. But even as scientists work out the details, the fact is that we are beginning to see more zoonotic diseases — from swine flu to avian influenza. These are diseases that are getting transferred from animals to humans, triggering a pandemic.

The fact is that so much of this virus transference is happening because of our dystopian relationship with the natural world. On the one hand, we are pushing every kind of chemical and toxin into our food. This is making food a source of disease, not just nutrition. Antibiotics are being shoved into animals and even crops — not for disease control but to make them grow more and put on weight, so that business profits. As a result, resistance to drugs needed for human survival is on the rise. On the other, we are growing our food in ways that favour disease growth — industrial farms, which are vertically integrated, are fast becoming the source of contagion. Remember the origin of swine flu from industrial hog factories in Mexico that contaminated water! This breaking of the boundaries between animal and human habitats will lead to more such outbreaks. And this, in a world that is even more interconnected and globalised, will make the infection wildly contagious.

There is also the question of the manner in which trade works in the world. The fact is global vulnerability will increase — from disease to climate change. In the past three decades, the world has invested in building a monolith trade system, which has no local or regional control.

The risk management systems of the poor should teach us that diversification is the key to survival. The farmers of our world always minimised risk through a system of crop and livestock management. They grew a variety of crops — scientists have counted over 50 crops growing in single homesteads. They reduced dependence on the factors that they could not control, but worked on ways to build more resilient local economies. Now, I know that we cannot turn back the clock of globalisation; we cannot wish away this monster world trade system. It is profitable and it is aspirational — everybody wants to be integrated with the world supply chain. But surely, given the almost certain shocks that await us in our world, it is time we re-thought the very idea of globalisation. Let's start by working on localisation first.

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Donald Trump: Colossus unbound

BOOK REVIEW

JENNIFER SZALAI

There's something cosmically perverse about the fact that a president whose reading habits, by all accounts, are practically nonexistent has inspired a deluge of books about his tenure in the White House.

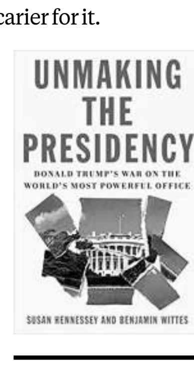
A number of them are elaborate chronicles of bad behaviour, full of double-dealing and palace intrigue. The sources tend to be current or former White House staffers jostling for position and posterity, strategically leaking to journalists in order to cast themselves as noble custodians and their rivals as craven sycophants. Whatever you might learn from the relentless churn of the news cycle, books like these suggest there's always more.

Unmaking the Presidency, by Susan Hennessey and Benjamin Wittes, isn't just another compendium of insider gossip and bumbling treachery. The authors offer something more sobering, more analytical and, at this point, more revealing. This book situates Trump's tenure in the history of the executive branch, and shows how he is remaking the office itself in his own image.

Ms Hennessey and Mr Wittes, who edit the blog Lawfare, argue that Mr Trump is pursuing a "vision of the presidency" that's all his own. Not that this "vision" requires much expenditure of effort on the president's part; Trump, just by being Trump, "elevates the expressive and personal dimensions of the office." This is the authors' careful way of saying what they eventually conclude: that Mr Trump wants the executive to look more like an absolutist monarchy, with all of the glory and unfettered power that entails.

The book isn't the work of bleeding-heart insurgents; the authors are national security pundits, and Ms Wittes is famously a friend and confidant to the former FBI director James Comey. In *Unmaking the Presidency*, the authors are earnest and methodical — and the case they make is scarier for it.

Presidents have always chafed at the limits of the executive, and some, as this book shows, have engaged in power-mongering. Richard Nixon and Watergate may be the most obvious and most flagrant example, but the authors offer more, including George Washington making secret land purchases, Ulysses Grant firing a special prosecutor and John F Kennedy appointing his brother Bobby as attorney general.



UNMAKING THE PRESIDENCY: Donald Trump's War on the World's Most Powerful Office
Author: Susan Hennessey & Benjamin Wittes
Publisher: Farrar, Straus & Giroux
Price: $28, **Pages:** 418

For the most part, though, Ms Hennessey and Mr Wittes characterise earlier presidential overreach as "small potatoes" compared to the conflagrations of the last three years. What makes the current presidency truly unprecedented, they say, is how Mr Trump combines a seething vindictiveness with a total lack of interest in governing. "The traditional presidency — indeed, the structure of the Constitution," the authors observe, "does not account for the president's caring about something profoundly dumb."

Mr Trump's antics are bound to exact a price in terms of his "effectiveness," the authors write. The president behaves so impulsively, and speaks so outrageously, that some of his advisers have taken to removing papers from his desk so that he won't be tempted to act on them. The American public and foreign governments have been taught to disregard most of what he says. Instead of a "credibility gap," the president presides over a credibility void.

But traditional credibility doesn't matter to him. The authors say that the president is in it for the grand gesture and the cruel optics, like the swift proclamation of his first travel ban, which caused acute suffering but was hacked together so hastily and shoddily that it got tied up in the courts for more than a year. Trump wants to show his supporters, or fans, that he's acting decisively — if anything, the pushback he gets from establishment institutions only serves to heighten the drama.

Which is why the executive powers Mr Trump brags about the most are those that aren't subject to legal wrangling or stringent oversight. Among the many phrases he likes to tweet repeatedly, the authors point to one — "absolute right" — as the most telling. "I have the absolute right to PARDON myself," he tweeted in 2018. Ever since he discovered his pardoning powers, he's been dangling presidential pardons as incentives, like a lonely birthday boy promising some awesome goody bags.

Unmaking the Presidency was going to press when the Ukraine scandal came to light, prompting Ms Hennessey and Mr Wittes to add a postscript explaining how Trump's attempt to pressure a foreign government to investigate his political rival is a grubby distillation of everything they write about in their book.

But Mr Trump's brazenness and his insistent "assertion of prerogative," the authors write, could teach us something by shining a klieg light on the shadowy corners of executive power. Where other presidents may have worn an uncomfortable mask of hypocrisy, paying "lip service" to lofty ideals of "civic virtue," the current president doesn't even pretend to anything so high-minded.

"Whatever Trump is," they write, "he is not a hypocrite." Trump's mask has been off from the beginning. An impeachment acquittal, this book warns, might give Americans a glimpse of what executive power looks like when the gloves come off, too.

VALUE OF ₹1 LAKH INVESTED IN VARIOUS ASSET CLASSES

*Note: Cumulative equity gains up to ₹1,00,000 in a financial year are tax-free. All post-tax returns are calculated for an individual in the 30 per cent tax bracket, without considering the indexation benefit

	SENSEX	GOLD	SILVER	FD (SBI)	PPF
1-YEAR	1,11,281	1,22,736	1,15,836	1,06,800	1,08,000
1-YEAR POST-TAX RETURNS	1,11,281*	1,15,916	1,11,085	1,04,760	1,08,000
5-YEAR	1,43,262	1,48,417	1,21,498	1,48,641	1,51,757
5-YEAR POST-TAX RETURNS	1,43,262*	1,43,575	1,19,348	1,32,408	1,51,757

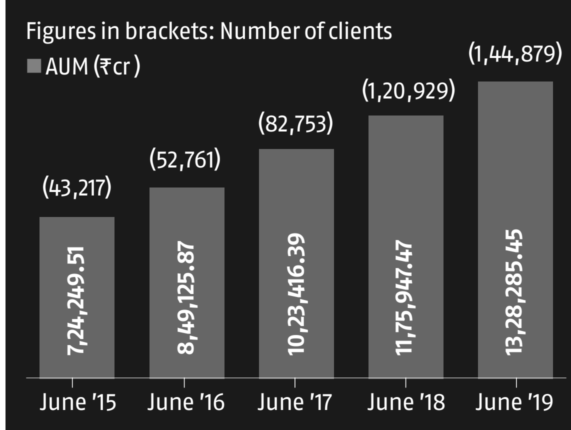
As on February 7, 2020, in ₹; compiled by BS Research Bureau

PMS 2.0 curbs mis-selling

Not allowing PMS providers to charge an upfront fee will bring them on a par with mutual funds

SANJAY KUMAR SINGH

CLOCKING RAPID GROWTH



Data is for discretionary PMS

Sources: Sebi, PMSBazaar

KEY CHANGES IN REGULATIONS GOVERNING PMS PROVIDERS

Change	Implication
■ Time-weighted rate of return must be provided	■ Will bring uniformity in reporting of performance by various players
■ Portfolio management can't be outsourced	■ PMS managers must not act as advisors; must perform core task of portfolio management
■ Can invest only in direct plans of MFs	■ They should not collect commissionon on regular plans from MFs
■ They should not leverage using derivatives	■ Leveraging should be left to AIFs

The portfolio management service (PMS) industry has grown at a rapid pace in recent times. The number of clients under discretionary PMS has nearly tripled from 52,761 (in June 2016) to 1.44 lakh in June 2019, according to the latest data available from the Securities and Exchange Board of India (Sebi). Many new portfolio managers have entered the arena. Amid this frenetic growth, reports of mis-selling of this product were also increasing. Hence, Sebi has proactively tightened the regulations (they were notified on January 21) for what is becoming a crucial instrument in the portfolios of mass affluent and high net worth individuals (HNIs).

Minimum investment hiked from ₹25 to 50 lakh: The purpose behind this change is to ensure that only HNIs participate in PMS, and not retail investors. The former type of investor is better equipped to handle the higher risk in PMS that arises due to the concentrated nature of their portfolios, and other factors. The regulator wants that retail investors should stick to mutual funds, which are more tightly regulated to ensure their safety.

The hike in minimum investment limit means smaller clients will face the issue of diversification. With a ₹50 lakh corpus, they could have diversified adequately in mutual funds, both in terms of market cap (large, mid and small) and investment style (growth, value, and blended). But in PMS they will be forced to invest the entire ₹50 lakh in just one fund manager and one style.

Experts say PMS providers have a solution for this issue. "Many PMS houses have multiple investment strategies. They allow ₹50 lakh to be distributed among different fund managers with varied investment strategies so that the client gets adequate diversification," says Pallavarajan R, founder-director, Pmsbazaar.com, a portal that provides PMS-related analytics and advice.

Investors should first invest adequately in mutual funds, and only then enter the PMS space. "Earlier, I would tell my clients that they should have a ₹1 crore portfolio in mutual funds and only then make their first investment of ₹25 lakh in mutual funds. Now, I tell them to first have ₹1.5 crore in mutual funds and then take their first exposure of ₹50 lakh to PMS, so that their exposure to the latter is limited to 25 per cent of their total portfolio," says Ankur Kapur, managing partner, Plutus Capital.

Nowadays, many advisors who hold a Sebi RIA (registered investment advisor) licence also offer stock advice. Investors who are unable to access PMS may use their services. Another option is to go for smallcases, which allow investors to put their money in a range of investment portfolios catering to varied risk appetites via their brokers.

Net worth requirement hiked: In August 2008, the net worth requirement for PMS managers was hiked from ₹50 lakh to ₹2 crore. Now it has been revised again from ₹2 crore to ₹5 crore. Existing players have been given 36 months' time to comply. "Sebi has taken this step to ensure that the sponsor's commitment to the venture is more substantial," says George Mitra, co-founder and chief executive officer, Fintso. This measure is also aimed at weeding out less serious or fringe players from the arena.

No upfront fee to be collected from clients: In August 2013, the regulator had banned entry load in mutual funds. Later, it also banned the payment of upfront commissions to mutual fund distributors and they were asked to follow a purely trail commission model. But this ban did not extend to PMS. So, PMS managers would charge what in industry parlance is called a set-up fee, which would be shared with distributors. As a result, distributors were keener to sell PMS products rather than mutual funds. This also created an incentive to mis-sell.

Experts believe this is a positive, much-needed reform for the PMS industry. "It will lead to players competing on the basis of performance, and not on the basis of incentives provided to distributors," says Sushant Bhansali, CEO, Ambit Asset Management.

Discretionary managers barred from investing in unlisted securities: PMS products do not have a lock-in. Investors can redeem their money anytime, though they may have to pay an exit load in the initial years. This is unlike an alternative investment fund (AIF) that could have a lock-in of five-seven years. "Unlisted securities tend to be less liquid. If PMS managers invest in them, they may have difficulty in meeting redemption requests from investors," says Pallavarajan.

However, Sebi has provided leeway to non-discretionary PMS managers to invest in unlisted securities up to 25 per cent of the client's portfolio. In these schemes, the portfolio manager only gives advice; he does not decide what to buy or sell. So, if a client sees good opportunities in the unlisted space, he may invest up to one-fourth of his portfolio. However, he should do so with the knowledge that exiting these securities could take time.

Imported volatility in Indian markets

You'll see extra volatility and sudden sell-offs when optimism dims in New York or Frankfurt

MARKET INSIGHT

DEVANGSHU DATTA

When economists make projections, they leave wriggle room for acts of God, or unpredictable black swan events. The prognosis for the global economy in 2020 was generally positive. It factored in downside risks from a potential escalation in the Iran-US faceoff, the impeachment of the US president, and others.

The novel coronavirus out of Wuhan is a black swan: An epidemic centred in China wasn't part of any mainstream risk-modelling. As of now, it's being assumed that global growth will remain positive but there will be slowdown caused by the disruptions of dealing with the disease.

The lockdown in China has caused disruptions to trade. It has also messed up global supply chains. China is the manufacturing powerhouse of the world. It supplies not only finished goods but also components for practically every sector you could think of. There have been major disruptions to the electronics industry, and to automobile manufacturing, for instance.

> **All current estimates are based on the assumption that the epidemic will be contained soon. But what if the virus proves intractable?**

The current estimates for growth are based on assumptions that the disease will be contained soon and the disruption will be short-term. Those calculations could change if the disease proves intractable. It has a high infection factor ("R0" or "R-nought" in epidemiologist jargon), and it can be fatal. We don't know how many people have been infected, but there have been over 500 deaths so far. China has decent public health standards — far better than many other nations where the disease is likely to be "exported". It's possible that the disease will flare up elsewhere and if so, the potential for economic damage is being underestimated.

The upside to this is that central banks will be opening the taps wide, or keeping them open, to combat any potential slowdown. The major central banks were already oriented towards easy money. Indeed, the People's Bank of China (PBOC) was among the few majors not to have eased rates in the recent past. It's very likely that the PBoC will indulge in monetary easing now. More money being freely available everywhere makes it likely that there will be higher FPI flows to Third World stock markets and bonds.

The Reserve Bank of India (RBI) has decided to hold status quo on interest rates although retail inflation is now well above the upside limit of 6 per cent. Since the inflationary spiral is due to expensive food, it's assumed that this is temporary. The RBI will also maintain an "accommodative" stance with respect to liquidity. It has to do this.

The Budget makes it clear that there will be a lot of government borrowing to fund in 12-18 months. Government borrowing will crowd out private sector borrowing from the bond market. Indeed, the Budget also indicates that regulations will be eased to ensure that overseas investors can be more active in the bond market.

The promise of that new liquidity has led to a quick revival in the stock market after a crash in the Budget session. Corporate results for the third quarter (Q3) have been nothing to write home about. But that's not really driving prices anymore. It's the global situation.

There have been phases like this before, when movements in Indian and other Third World assets have been tightly correlated to movements on the NYSE and Nasdaq. One such phase occurred after the subprime crisis, for example. Traders went long or short on the Dow Jones and the Nasdaq in a given session, and then did precisely the same things in the next session in India.

This pattern of strong correlation to overseas markets could last indefinitely. This is useful for a short-term trader. He or she can look at what happened to the Dow and Nasdaq the previous night and take appropriate positions in the Nifty. However, a long-term investor has to find ways to filter out that overseas influence to judge if the market is over or under valued.

It also means that there will be "imported" volatility in Indian bonds and equities. If something spooks Wall Street, there will be a crash on Dalal Street and vice versa, if Wall Street is bullish, Indian equities will also rise. As a consequence, the rupee is also likely to see sudden jolts.

Be prepared to ride out this phase. You'll see extra liquidity, extra volatility and sudden sharp sell-offs when optimism dims in New York or Frankfurt.

CAR LOAN FROM A DEALER COULD BE COSTLIER

Balloon payment option also carries a hidden tag

CAR LOAN- RATES AND CHARGES

Bank	Interest rate (%)	EMI (₹) Loan amount: ₹5 lakh Tenure: 5 years	Processing fee (₹)	Financing	Maximum tenure (yrs)
Oriental Bank of Commerce	7.95-8.50	10,126-10,258	2,500-7,500	Upto 85%**	10
Union Bank of India	8.20-8.70	10,186-10,307	Upto 15,000	Upto 85%**	7
Allahabad Bank	8.30-9.75	10,210-10,562	Upto 8696	Upto 85%**	7
UCO Bank	8.35-8.60	10,222-10,282	Upto 1,500	Upto 85%**	7
Canara Bank	8.45-11.05	10,246-10,884	1,000-5,000	Upto 90%**	7
Punjab National Bank	8.55-9.00	10,270-10,379	1,000-1,500	Upto 90%**	7
State Bank of India	8.65- 12.10*	10,294-11,148	Nil	Upto 90%** (Upto 100% under specific schemes)	8
Indian Overseas Bank	8.70	10,307	500-10,000	Upto 90% of vehicle's cost	7
HDFC Bank	8.80-10.00	10,331-10,624	3,000-10,000	Upto 100% **	7
Axis Bank	9.05 -11.30	10,391-10,946	3,500-5,500	Upto 100% **	8

*Additional concession of 0.25% on application through the SBI YONO app. Concession of 0.20% available on purchase of electric vehicle;
**Percentage of vehicle's on-road price; Rates as on February 6, 2020

Source: Paisabazaar.com

BINDISHA SARANG

- Consider approaching your bank for a car loan but also shop around.
- Avoid taking a car loan from the dealer. The rate offered may not be the best.
- Remember the 20/4/10 rule of car shopping. Pay 20 per cent as down payment, take a four-year loan, and ensure that the EMI does not exceed 10 per cent of your monthly salary.
- Balloon payment is increasingly becoming an option dealers push, where there may be no down payment, or the EMIs may be smaller in lieu of a large payment at the end.
- The total interest cost of such a loan tends to be higher.

Dear men, it's 'shoe time'

Double monks and loafers are making inroads into a segment dominated so far by Oxfords and Derbys

NAMRATA KOHLI

Clockwise from above: Tan Oxford shoes with brogues from Alberto Torresi; Rosso Brunello Signature shoes with double monk strap; and Rosso Brunello Crocodile formal pair

PRICE OF A SNAZZY PAIR

Brand	Price (₹)
Steve Madden	10,999-14,999
Brune	5,999-14,999
Aldo	11,000-14,000
Dune London	10,000-14,000
Rosso Brunello	9,499-12,499
Ruosh	5,490-12,490
Clarks	4,000-11,000
Hush puppies	5,500-10,500
Woodland	3,000-10,000
Alberto Torresi	5,995-6,995

Source: Companies and stores

Whether or not he has a shoe fetish, every officegoer needs to keep a few items of formal footwear in his shoe wardrobe. Conventional classics, such as the Oxfords with closed lacing or Derbys with open lacing, continue to hold sway. Increasingly, more informal shoes are also beginning to find a place in the officegoer's list of must-haves.

Of the annual global production of 23 billion pairs, 2.2 billion pairs are made in India. Says Ishaan Sachdeva, director, Alberto Torresi: "India is the second-largest footwear supplier after China. Gender-wise, men's footwear dominates the Indian market, with around 58 per cent share."

What's trendy

A few must-haves are a pair of brown Oxford shoes and black Derbys. Even loafers are trending. In fact, brands known for their conventional classics have started offering loafers and moccasins in a big way now. Shoes with tassels, buckles and shiny stuff remain a no-no for regular office wear, though they may be worn for office brunches and casual meetings.

The toe of a shoe—its shape and decoration—is an important style consideration. From round and square to almond-shaped and pointed, the toe leads the way in many shoe purchases. "Cap-toe shoes are back in trend," says Harkirat Singh, managing director, Aero Club, the maker of Woodland and Woods brands. A cap-toe is a shoe with horizontal stitching across the toe box, which extends to the welt on either side, thus forming a "cap" on the toe.

Brogues are a style of low-heeled boots that originated in Scotland and Ireland. They are made using untanned hide with small perforations, whose purpose was functional—to allow water to drain through the footwear when the wearer walked in wet terrain. The perforations are mostly decorative now. Different types of brogues are available. Designs include the full (wingtip), half and quarter brogue. Full brogues are the most iconic style and feature a pointed toe cap with wing-like extensions that run along both sides of the shoe. Half and quarter brogues are considered the ideal choice for business and formal occasions. But on the whole, brogues are versatile and can go with everything from blue jeans to two-piece suits.

Heels are back now. "A heavy sole with heels was everybody's favourite in 2019 and will continue to rule the market this year," says Tabby Bhatia, founder of Brune. Singh adds that formal loafers are also in demand.

As for colours, brown is the new black, with around fifty shades of the colour available in the market. Neutral shades have always been in demand. "For men, black, yellow and brown tan are the trendiest colours in leather so far as pairing with a shirt and leather jacket is concerned," says Bhatia. He adds that this year will also see the sole game at its peak, apart from more designs. "You will find various modifications in casual heavy shoes like buckle, zardozi and many more. Tassel, triple monk and fringes are trending the most in Oxford and loafers shoe styles," he adds.

Soul of the shoe

The best material for the sole of shoes needs to be durable, sturdy, and water-resistant. It should also complement the style of the footwear. The most common materials are rubber and leather, though a variety of other materials such as polyurethane and PVC compounds are also used. Thermo Plastic Rubber (TPR) and Ethylene-Vinyl Acetate (EVA) soles are also gaining in popularity.

Size does matter. Gone are the times when big shoes were impossible to find. Almost every brand has shoes till size 12, and some even go as far as size 14. The Indian male officegoer typically wants comfort, style and price, in that order, says Shivendra Bhat, store manager, Aldo at Vegas Mall, Dwarka. He adds that apart from genuine leather, there is interest in other materials such as suede and nubuck that tend to be smoother.

FROM PAGE 1

High-powered jury selects best seven

Apart from the financial data, high standards of corporate governance followed by firms should be kept in mind while selecting the winners, said Birla.

Jindal, who won the award in 2017, was of the opinion that a company's all-round growth should be kept in mind to select the winner and not just growth in market capitalisation. Kaka, who joined the meeting via videoconferencing from Tokyo, gave key inputs on every company from a global perspective.

The CEO of the Year award goes to Bhat as he made Titan Company the second biggest in the Tata Group. "He was leading from the front. He made Titan what it is today," Shroff said on the jury's choice.

All jury members agreed that while financial ratios were important for making the first cut, equal importance had to be given to individuals who focused on innovation and built institutions when challenges in the external environment were severe due to flagging consumer demand — especially in the second half of FY19. Besides statistics from listed firms, the jury discussed qualitative aspects affecting companies, industry, and the business environment.

"The jury deliberated for some time to choose the winners of the year. It was a hard decision, considering there were so many good companies on the list. The statistics provided by Business Standard showed outstanding financial performance of all the shortlisted companies in recent times," said Birla.

The jury selected L&T as Company of the Year, while Indraprastha Gas won Star PSU of the Year award. Nestlé won Star MNC of the Year award. Vinati Organics was declared Star SME of the Year. Grocery delivery player Bigbasket was chosen Start-Up of the Year.

Several names came up for discussion for these coveted awards. But what tilted the scales in favour of the winners was the confidence of the jury in their business models. "In a year like this, we looked for a company which contributed hugely to the economy, building of the firm and contributed to jobs and export earnings. No company stands out better than L&T," said Nayar.

The jury discussed several outstanding individuals who have left a deep and lasting impact on India's corporate history, but quickly decided on software major Wipro's Founder Chairman Azim Premji as winner of the Lifetime Achievement award.

"Wipro has been a huge success story. The sheer impact Premji has made through his philanthropy was a huge factor which also worked in his favour. That he is well known for very high standards of governance was a big plus. Premji was head and shoulders above other contenders in the lifetime category," said Birla.

The jury recognised that Premji, 74, is a trailblazer not only in the world of business but also as a philanthropist. Under him, Wipro has grown steadily, eschewing the typical brashness that marks much of the software business around the world. The market value of Wipro as on February is around ₹1.39 trillion — making it one of the most valued companies in India.

Premji's grit and ability to look adversity in the eye is evident in his personal life, too. He had to drop out of Stanford in 1966 to take on the mantle of the family's cooking oil business after his father passed away. Thirty years later, he returned to his alma mater to complete his degree. As a philanthropist, Premji stands tall among his peers. He transferred $125 million worth of Wipro shares in 2001 to a trust to fund education in India. This donation is the largest of its kind to date in India.

Nine years later, Premji donated about $2 billion of Wipro shares to the trust. In February 2013, he transferred an additional 12 per cent stake in the company, worth $2.2 billion then, to the trust. The foundation now holds about 18 per cent of Wipro's shares. In 2019, with almost $7.6 billion as fresh donation, Premji has become the world's largest contributor to charity of the year. He also raised his total lifetime charity to $21 billion in 2019.

On Start-up of the Year award, the jury was split between Bigbasket and another contender — both considered pathbreakers in their respective segments. The preference of the jury was for innovative use of tech and making consumers' lives easier. "There was overwhelming support to select Bigbasket. The main considerations for giving the award was first, it has become India's largest online grocery seller in the past eight years, and second, innovation from the firm such as 2-hour delivery, private label products, etc," said Kudva.

On the selection of Star PSU, the jury felt the candidate should show outstanding financial metrics, apart from facing competition from the private sector. After a discussion on several companies, including a long debate on Gujarat State Petronet, the jury zeroed in on Indraprastha Gas, as its sales grew by 27 per cent and profit was up 17 per cent last year. "Indraprastha is the largest city gas company in India. It has done well on consumer connect. It has got four new licences and bought companies. This has expanded its footprint in other cities. Its focus on gas is important from a climate perspective," said Memani after the jury meeting.

For Star MNC award, the jury debated a few listed entities, but zeroed in on Nestlé soon after. From a crisis five years ago, the firm has come a long way — clawing its market share back. In the past three years, its top line has grown at an annual clip of 11 per cent, while net profit has grown at an average of 42 per cent per annum. "It was clear choice. It was not only performance but how the firm bounced back from the Maggi crisis. It stood out among its peers," said Shroff.

When the jury came to the SME space, the discussion was on the challenges faced by SMEs due to a dawdling economy. The jury finally picked Vinati Organics, a Mumbai-based chemical company, which saw its FY19 sales rising by 52 per cent and net profit rising by 96 per cent in the same year. "To see a company which has had such a consistent financial track record in the past three years is truly spectacular — given the economic situation India was in," said Chandra.

Shroff summed up the jury process saying, "The analytical rigours at the jury meeting are always among the highest. This year, the names we chose are a mix of known organisations that have outperformed peers consistently for many years. My compliments to these champions of India Inc."

SoftBank...

Experts say this is an advantage which Mahindra can leverage if the tie-up happens.

As it happens, SoftBank Group's subsidiary, SB Energy Corp, is in the mobility business, which combines renewable energy with EV battery cells to develop services. The subsidiary has substantial interest in India.

Mahindra Electric Mobility started its push into EVs after buying out Reva Electric Car Company. It now sells a range of EVs. The company clocked up revenues of ₹25,130 lakh in FY19, over double the previous financial year's, though its losses also went up in the same period. In 2019, the company launched Treo, the first lithium-based three-wheeler from its stable. Its other vehicles include the flagship e-Verito and e20 passenger car, the Supro for cargo transportation, and three-wheelers.

Indian MNCs...

The provision would also give an opportunity to foreign subsidiaries that do not have a PE though some of their services mandate entering into an APA, the official added.

For instance, certain segments of foreign subsidiaries deal with royalty payments to headquarters because they involve technical and consultancy services. These segments come under the purview of PE. In that case, the parent company (based overseas) can enter into an APA, the official said.

While the concept of PE is there in the double tax avoidance agreement, attributing an appropriate amount of profit to such PEs has always been a contentious issue. Experts say identifying a PE often results in tax disputes.

Shilpa Bhatia, director, direct taxes, Ashok Maheshwary & Associates LLP, said: "Earlier APAs were possible in the case of determining arm's length price or the manner in which arm's price was to be determined in relation to international transactions to be entered into by the person. Now the government has covered determining attribution to PE within the scope of APA."

The Central Board of Direct Taxes (CBDT) had last year proposed a draft to deal with profit attribution concerning PEs. The body observed business profits were a result of both supply- as well as demand-side factors. It also took into consideration the guidance under international best practices, judicial precedents, and the data gathered from the field, and has accordingly recommended adopting a fractional apportionment approach. The apex body also talked about the margin under the safe harbour regime.

"The margin they are going to prescribe under the safe harbour regime should not be unreasonably high. The approach recommended by the CBDT has a high mark-up margin, which foreign players may not accept," said Nikhil Rohera, partner, PwC.

Meanwhile, the government's tax framework under a "significant economic presence" or digital permanent establishment was introduced in 2018 and was supposed to be operative in April next year.

The government has postponed this because it is waiting for the Organisation for Economic Co-operation Development to come up with final guidelines on taxing foreign firms. The OECD will finalise the rules by the end of this year.

RBI 'reminds' banks...

Many banks had also gone easy on a closer scrutiny of these accounts, despite being told to do so by the central bank.

The total debt riding on the sector has been estimated to be nearly ₹4 trillion, but a banker pointed out the entire amount is not at risk; some say at worst this will be ₹1 trillion, including Reliance Communications, which is undergoing bankruptcy proceedings. "We are talking about specific accounts, and how they have been structured. It could be that even on the same account, some banks within the consortium are better placed," said a banker.

The central bank's reminder on additional provisioning on 'standard' advances will apply to Reliance Jio, Bharti Airtel, and Vodafone Idea as a matter of hygiene. "But in the case of Vodafone, we may have to provide substantially (if we are to follow the spirit of the April 2017 advisory), even though the account is still current in our books and has not been classified NPA," said another banker.

Incidentally, IDFC Bank has made a 50 per cent provisioning for a legacy telecom account of ₹1,622 crore for the third quarter of 2018-19 — the bank did not name the account. This resulted in the bank reporting a net loss of ₹1,639 crore for the quarter, though it was lower than the loss of ₹2,504 crore posted in the corresponding period of the preceding fiscal year. "We now have a range on the treatment to be accorded on telecom loans — from a benign mark-up over the 40 bips mandated on 'standard' loans to the hefty provisioning made by IDFC Bank," said a third banker. All eyes are on the next meeting of the banking consortium to Vodafone Idea, led by the State Bank of India — it will hold the key for banks as to how they move ahead on sectoral exposure. This is notwithstanding the relief expected by telecom players from the Centre after the SC ruling on AGR.

While the RBI's April 2017 notification was for the sector as a whole, and not limited to service providers, it is not clear if banks are to be proactive on all exposures which have been affected by the SC order.

In the aforementioned notification, the RBI said: "More immediately, as the telecom sector is reporting stressed financial conditions, and presently the interest coverage ratio for the sector is less than one, the board of directors of banks may review the telecom sector latest by June 30, 2017. And that banks consider making provisions for standard assets in this sector at higher rates, so that necessary resilience is built in the balance sheets should the stress reflect on the quality of exposure to the sector at a future date. Besides, banks should also subject the exposure to the sector to closer monitoring".

The RBI's Financial Stability Report of December 2019 notes that telecom topped all the sectors, with increasing average risk weight (ARW). During the six-month period between end-March 2019 and September 2019, the ARW for telecom moved to 34.2 per cent, from 27.4 per cent. Infrastructure had a higher ARW at 65.9 per cent, but hardly moved from the 65.8 per cent during the same period.

BS SUDOKU

2969

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Hard: ★★★★

Solution tomorrow

HOW TO PLAY

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SOLUTION TO #2968

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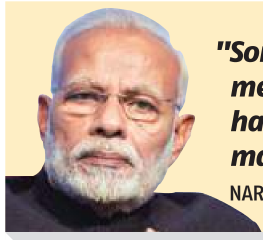
MUMBAI | MONDAY, 10 FEBRUARY 2020 Business Standard



"Sometimes, people talk about hitting me with a danda (stick). Nothing will happen to Modi irrespective of how many sticks he is hit with"

NARENDRA MODI, Prime Minister

"I don't think in the worst of cases our party leaders have made such outlandish personal remarks against him (Rahul Gandhi), threatening to beat him with a danda"

HARSH VARDHAN, health minister

"A prime minister has a particular status, a prime minister has a particular way of behaving, and a particular stature. Our prime minister doesn't have these"

RAHUL GANDHI, Congress leader

Data: More politics, less policy

Experts fear the govt's desire to appease its core voter base could be detrimental to businesses

NEHA ALAWADHI

ILLUSTRATION: BINAY SINHA

At a recent technology event in the national capital, off-stage conversations were nothing like the usual banter one hears at such gatherings.

"I hope this Delhi election gets over soon. Actually, it feels like election season all the time. There is no movement on any important policy and we just can't plan," said a policy executive from an online e-commerce firm. The others around the table nodded and agreed.

This is increasingly the sentiment you will come across if you were to speak to anyone who runs a technology-based business in India today.

Technology has always been political, but even large corporations are now increasingly investing time and effort in understanding the politics of the country to lobby effectively for their issues.

For instance, the long-awaited Personal Data Protection Bill. It has been in the works for almost three years now and there is still no clarity on when the Bill will finally become law, and what form it will take.

The core issue with the legislation — that of data localisation — was being spoken of by the ruling Bharatiya Janata Party (BJP) even before it won the General Election in 2014. At the time, a BJP functionary had said: "We are not forcing them, but it is our opinion that they (tech companies) should bring the data to India." The party also promised regulatory support.

In the following six years, the campaign for data localisation, or storing data locally, has gathered steam. While the first draft of the Personal Data Protection Bill mandated local data storage by all data processing entities, the final draft softened the blow on certain conditions.

The idea of "data is the new oil" has also gathered momentum and the need to control, surveil, and have more access to data has become an important theme, with several policies being introduced by the government.

The final Bill was introduced in the Lok Sabha on December 11, and referred to a Joint Select Committee, instead of being sent to the Parliamentary Committee on Information Technology, which is headed by Shashi Tharoor, an Opposition leader.

While Tharoor registered his protest with the Lok Sabha speaker against the move, the technology policy circle was quick to understand the political undertones of the episode.

"The government knows someone like Tharoor will take a more nuanced view of the Bill. It also knows the joint committee, with a majority of its members from the ruling party and its allies, will likely ensure most of the issues important to the ruling party are not diluted," said a senior policy executive with one of the large technology firms.

The joint committee is being headed by Meenakshi Lekhi, who is a member of the BJP. In the days immediately after the joint panel was announced, policy circles were abuzz with how things will pan out.

One of the contentious issues of the Bill is the overarching powers given to the central government to exempt any agency from the provisions of the proposed law.

"A lot of companies invested in India looking at the state of the economy in the last 10-15 years. Now it just seems like we are going back to the pre-liberalisation era," said a company executive at the technology event mentioned earlier.

The buzz in technology circles is that the joint panel will probably amend a few rules but not back down on some issues — data localisation, providing anonymised non-personal data to the government for policymaking and better targeting of service delivery, and verification of users by social media firms.

Other technology experts feel the desire to appease a core voter base will also be detrimental to businesses. "Take for instance what happened when the commerce minister said at an international conference about Amazon investing in India. We all understood he was trying to please the traders before the Delhi Assembly elections, but that is not how the world saw it. This impacts investor sentiment. This may work for the government in the short term, but it will have no long-term gains," said another executive at a top enterprise software company.

Goyal had said Amazon wasn't doing India any favour by investing a billion dollars in the country. Even though he later clarified and said he was quoted out of context, several national and international publications wrote opinion pieces about the dampening of investor sentiment because of such statements.

At the end of the day, all that technology firms want is certainty in their business plans. "A long-term certainty in the policy framework is good for innovation and growth because it helps them plan. Business decisions are made for the long term and have to be defined in clear, unambiguous terms in policies. Multiplicity of agencies and ministries sometimes makes it more difficult. In most cases, growth of the digital economy is guided by light-touch regulation and defining principles than mandatory regulations," said Kumardeep Banerjee, global technology industry trade group ITI (Information Technology Industry) Council's country manager.

IN A LIMBO...

- **Data protection** increasingly important in world order
- **European Union's General Data Protection Regulation** set the stage for data regulation globally
- **Punishment for data theft/misuse** not clearly defined in Indian law
- **One clause on non-personal data in PDP Bill** seen as a way to have more control over citizen data
- **Rise of digital economy** causing more and more cybercrimes
- **Tech executives increasingly question** ease of doing business in India
- **Tech and emerging tech policy** increasingly becoming polarised, alleges industry
- **Other problematic tech legislation:** Intermediary liability, encryption, cybersecurity

Khattar wins a fragile victory

NITIN KUMAR

Haryana Home Minister Anil Vij (*left*) was recently at odds with CM Manohar Lal Khattar for control of the CID

Tension between Haryana Chief Minister Manohar Lal Khattar and Anil Vij, now home minister, had been brewing for five years, with the former seen to be foisted upon the seasoned players of the state by the top leadership of the Bharatiya Janata Party (BJP).

But when the floodgates opened for an all-out war, the party brass had to intervene to reach a truce.

Though the central leadership has weighed in on behalf of Khattar, the whole episode has indicated the chief minister's feebleness in keeping his flock in order.

According to a notification issued by the chief secretary and dated January 22, the portfolios of the Criminal Investigation Department (CID) and the departments of personnel and training and Raj Bhawan Affairs have been allocated to the chief minister in addition to his existing portfolios.

The notification has seemingly ended the fight between Vij and Khattar.

Their quarrel became shrill following the Assembly elections, in which the BJP could not rustle up a majority. After the party's poor showing, Khattar's image as an administrator was tarnished, and this gave Vij an opportunity to tilt the power scales in his favour because he was the only cabinet minister, apart from Khattar, to win election this time. The charge of the home department gave him greater heft.

STATE SCAN

HARYANA

After assuming the home department's charge with a press conference, Vij made it clear that he was the new broom and referred to himself as "Gabbar", the dacoit in Bollywood classic *Sholay*.

While ensuring justice for all, he said "*Ab Anil Vij aa Gaya hai, ab theek rahega sab kuch* (Now that Anil Vij is here, everything will be fine)."

However, Khattar, who saw this as an act of insubordination, was peeved. More so because he is insecure as the party is not happy with his performance.

On the other hand, to balance power sharing and create a strong BJP leadership, Vij was given seven departments, including home, which is usually held by the chief minister. This made Vij the most well-endowed minister after Jannayak Janata Party chief Dushyant Chautala, who holds 10 departments, and Khattar, who has 18, including the CID.

Anil Vij is the most well-endowed minister after Dushyant Chautala, who holds 10 departments, and Manohar Lal Khattar, who has 18

According to an intelligence department source, Vij, after assuming charge of the CID, had ordered with immediate effect stopping phone tapping, which the CID has been accused of doing for a very long time. He also asked for reports related to the Assembly elections and security. "If the CID had been under the home minister, he would have got full access to all the past investigations ordered by the chief minister and this would give him a handle to put Khattar in difficulties," said a state government insider.

Stressing that Vij in the very first round had to eat the humble pie, sources say the CID issue has been resolved by the central leadership to convince the rank and file of the party that Khattar is the supreme leader of the state.

"Vij is known for righting the wrongs and his intolerance of corruption. This move might have restrained him this time but he is not the one to throw in the towel so easily. We have to see when Gabbar gets back at the chief minister," said a source close to the top leadership.

In the previous term of the BJP government in the state, Vij, a sixth-term BJP MLA, kept his animosities closeted because Khattar was considered close to Prime Minister Narendra Modi. "This time Vij is not short of opportunities because it's a coalition government and Khattar is not as astute a politician as Vij is," said a BJP source.

However, publicly he has accepted Khattar as the boss. "I have always maintained that the chief minister is supreme and he can take away or divide any department," he told the media when he was asked to comment on his being stripped of the charge of the CID.

STORY IN NUMBERS

IN BLUNT TRAUMA

As many as 17 people die in road accidents every hour, on average, in India, according to the latest data from the ministry of road transport and highways.

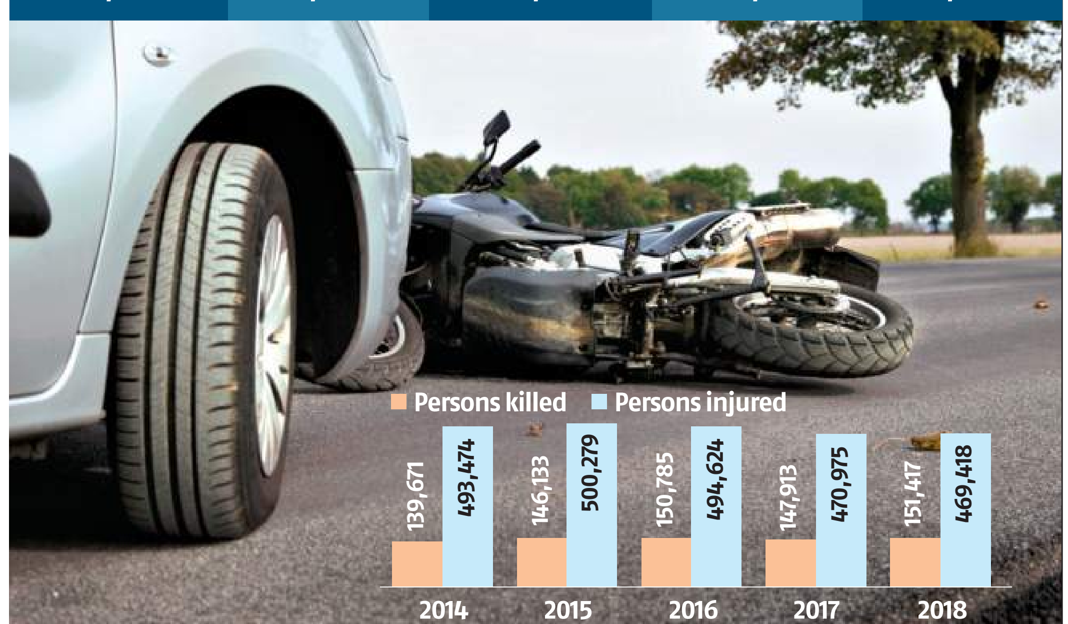
Yet, none of the 80 hospitals and medical colleges announced to be upgraded to trauma-care centres during 2012-17 were functional as of August 2019, the government data shows. Courses, such as advanced trauma life support (ATLS), are not mandatory for doctors in India, experts said, while emergency care centres are spread out unevenly, often manned by junior doctors. The few that are well-equipped are overburdened, leaving trauma care unprepared.

Nationwide, 467,044 road accidents were reported in 2018 — or 53 every hour, on average — an increase of 0.46 per cent compared to 2017, according to the Road Accidents in India 2018, released in September 2019. These crashes killed 151,417 people — or 17 every hour —2.4 per cent higher than in 2017, and injured 469,418 people.

A third of the road-accident deaths reported were in urban areas, which accounted for 41% of all reported accidents, while two-thirds were in rural areas, the data shows.

ACCIDENTS

2014	2015	2016	2017	2018
489,400	501,423	480,652	464,910	467,044



Sources: Ministry of Roads and Highways and IndiaSpend

CONSIDER THE EVIDENCE

Old wine in old bottles?

The Sri Lanka prime minister's India trip provided interesting insights into what has changed in Sri Lanka — and what hasn't. **Aditi Phadnis** writes

Some things don't change. Maybe they can't. During the current ongoing India visit of Sri Lanka Prime Minister Mahinda Rajapaksa, the Lankan, especially the Tamil language, media noted that in his media statement, Prime Minister Narendra Modi said he was "confident that the Sri Lankan government will realise the expectations of equality, justice, peace and respect of the Tamil people within a united Sri Lanka". But the Sri Lankan prime minister did not mention the Tamil question in his media statement at all. Instead, he spoke of bilateral cooperation in economic, educational and skills development, and defence and intelligence gathering.

Moreover, Rajapaksa said: "I requested PM Modi to consider further assistance to expand the housing project to all parts of the island. Doing so will provide significant benefits to many Sri Lankans living in rural parts of the country." Only those looking for it would have found it — the emphasis is on housing for all, not just for those living in the Tamil areas of Jaffna, where India has built and handed over homes to thousands of displaced Tamils.

In other words, Sri Lanka continues to deny it has a problem with its minority Tamils. India continues to insist it does and advises Colombo to do something about it.

Prime Minister Narendra Modi (*right*) with Sri Lanka Prime Minister Mahinda Rajapaksa. Rajapaksa arrived in India on Friday on a five-day visit, his first overseas tour after being appointed PM of the island nation in November PHOTO: PTI

The context

Rajapaksa's visit comes against the backdrop of some deft moves by the Sri Lanka government. The most recent controversy was to drop last week the singing of the national anthem in Tamil on Sri Lanka's independence day. This is not the first time this has happened. But it was a message to both the Tamils in Sri Lanka's north and east and the government of India that the new government had a project for Sri Lanka and would continue with it. This was to force all people of the island nation to consider themselves Sri Lankan first. India took the hint and has not reacted to the national anthem move, treating it as an internal affair of the country.

But simultaneously, last month Rajapaksa inaugurated the China-built 269-hectare Colombo mega port city, declaring it a future financial hub. He pooh-poohed fears about Sri Lanka walking into a China debt trap. India wasn't really expecting any movement on the Economic and Technical Cooperation Agreement (meant to correct drawbacks in the FTA and to establish an agreement on trade in services and technological exchange, taking economic and trade relations to a new level). And it did not happen during this visit. In other words, the visit strengthened a view of Sri Lanka — that while Colombo was willing to discuss politics and security with India, China would be the preferred partner in economic development.

Rajapaksa was frank about what he expected from India. He said: "I would like to reiterate what President Gotabaya Rajapaksa said during his State visit that since our recent experience in April last year, we have had to re-think our national security strategies and assistance from India in this regard would be much appreciated. I thanked PM Modi for visiting Sri Lanka in the aftermath of the Easter Sunday terrorist attacks. That visit provided us with immense strength to come to terms with the tragedy. I also appreciate PM Modi's offer of $400 million as a credit line to enhance the economy of Sri Lanka and another $50 million credit line for our efforts in combating terrorism. We discussed how to follow up on these offers that were made during President (Gotabaya) Rajapaksa's visit in November."

Going forward

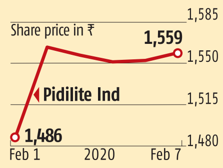
General elections in the island are due in August but the Constitution allows the President to dissolve parliament in March and order snap polls. Mahinda Rajapaksa is interim PM and finance minister, having been President earlier. Because his popularity, especially in the Sinhalese-dominated south of the island, is at an all-time high, the expectation is that his party, the Sri Lanka Podujana Peramuna (SLPP), will sweep the 225-member Parliament, making it easier to push through legislation further diluting minority rights. The current cabinet has no Tamil or Muslim representation.

One thing is certain: Unlike the past, Sri Lanka will no longer be a soft state mollycoddling its minorities and ignoring threats from them. On the other hand, the new government's handling of the majority Sinhala Buddhists will be the challenge: Will it acknowledge it came to power on the back of the support of this constituency, yielding political space to them? Or will it seek to gently but surely rein in a section of political opinion that is increasingly becoming more strident? Politics in Sri Lanka promises to become more complex than it has ever been before.

BSE 200: TOP 5 GAINERS OF LAST WEEK

BSE price in ₹	Jan 31, '20	Feb 7, '20	% chg
Ajanta Pharma	1,107.1	1,369.1	23.7
Honeywell Automation India	27,974.3	34,339.8	22.8
Shriram Transport Finance Co	1,020.8	1,222.6	19.8
Aurobindo Pharma	481.4	546.7	13.6
Abbott India	12,488.2	14,133.2	13.2

QUICK TAKE: UPSIDE LIMITED FOR PIDILITE INDUSTRIES



The stock of Pidilite Industries hit its 52-week high on steady December quarter performance and expectations of growth revival in FY21. While its distribution reach and strong franchise are key positives, upsides in the near term are limited given high stock valuations

"THE IMPACT OF CORONAVIRUS ON CHINA'S ECONOMY IS GOING TO BE SUBSTANTIAL. IT'S GDP GROWTH WILL SLOW FROM 6% TO 4%. THIS WILL SPILLOVER TO OTHER ECONOMIES WITH A VARYING DEGREE"

ROB SUBBARAMAN
Head of Global Macro Research, Nomura

Too early to turn positive on vehicle financiers

Uptick in used CV sales helped in Q3, but new vehicle sales remain weak and operational challenges haven't eased

MUTED GROWTH

	Loan disbursement growth (%)*			NIM	Change
	Q1 FY20	Q2 FY20	Q3 FY20	Q3 FY20	bps*
Chola Finance	22.0	7.0	-3.0	6.91	-10
M&M Finance	2.5	-10.0	-4.0	7.17	-21
Shriram Transport	-8.4	-5.1	19.4	7.70	-31

* year-on-year change, NIM: Net interest margin; bps: basis points
Source: Brokerage reports

HAMSINI KARTHIK
Mumbai, 9 February

Shriram Transport Finance's stock took investors by storm last week when it gained 23 per cent, reacting to its December quarter (Q3) results. Even the stocks of its peers — Mahindra & Mahindra Financial Services (M&M Finance) and Cholamandalam Investment and Finance (Chola Finance) — had a good run after their Q3 results, prompting a section of investors to think if the tide had turned favourable for vehicle financiers. Shriram Transport's 19 per cent year-on-year (YoY) growth in disbursements may have particularly nudged one to think so. But, the devil lies in the detail and some of the broader parameters, such as cost of funds, net interest margin (NIM; measures profitability of a lender), and asset quality suggest that there's more room to cover before one could turn entirely positive on these stocks.

In the case of Shriram Transport, analysts at JM Financial note that on a YoY basis, calculated margins have compressed 22 basis points (bps) to 7.6 per cent as the cost of funds rose by 40 bps due to a rise in the share of high-cost funding sources, such as bank loans and retail deposits, in borrowing mix. For M&M Finance, NIMs contracted by 21 bps YoY to 7.17 per cent, despite the cost of funds getting a marginal 8 bps YoY respite to 8.36 per cent. This was on the back of greater reliance on securitisation contracts, the share of which in the overall funding mix rose to an all-time high of 14.7 per cent in Q3. That the firm's yield on advances is still down by 6 basis points YoY indicates the competition in the sector and pricing constraints that lenders continue to work with as business remains patchy.

As for asset quality, Shriram Transport's gross non-performing assets (NPA) remained near-about the September quarter level of 8.7 per cent, prompting some analysts to believe that its asset quality has more or less stabilised. M&M Finance, however, saw the number increase by 60 bps sequentially, prompting analysts at HDFC Securities to note that the extent of deterioration in asset quality was surprising, given the usual seasonal trends and the creditable progress made so far. One also needs to be mindful of the spike in the cost of provisioning and the write-off incurred by Chola Finance and M&M Finance in Q3 which went up 41.5 per cent and 78 per cent, respectively. For Chola, the issue was also with a marginal 10 bps sequential rise in its gross NPA ratio to 3.3 per cent. The credit cost guidance for these lenders remains higher YoY. Shriram Transport has guided for 2.1–2.2 per cent, while for Chola, it is anticipated to touch 1 per cent in FY20, a level not seen in recent years.

Amid these concerns, what's helping these lenders beat the slowdown in the underlying sector is their ability to lend to the used-vehicle (including commercial vehicles or CVs) space. The underwriting strength that these companies have acquired over a period is giving analysts some confidence in their loan quality. But, here, too, barring Shriram Transport's (which is primarily a used vehicle financier) strong disbursement trend, rest continue to see a shrinkage, indicating that the lenders are cautious on growth. For Chola Finance, in particular, which outpaced its peers on most parameters till Q3, analysts at Motilal Oswal Financial Services expect growth to slow down to 15 per cent over the medium term. "There could also be a 30-bps rise in credit costs (for Chola), unless the macro environment improves," they add.

Another aspect not currently priced in for these firms is the potential risk of higher delinquencies in used vehicles segment. "Lending to the used-vehicles segment is presenting a growth opportunity in an otherwise tepid market. But, these loans carry near-zero recovery value and are dependent fully on the borrower's cash flows to meet repayment obligation. If the slowdown is prolonged, how the asset quality of these loans will pan out is tough to call out now," said a senior analyst from a domestic brokerage.

The question, therefore, is whether investors must be lured by the steep discount that these vehicle financiers trade at. While Shriram Transport trades at 1.1x estimated FY21 book, M&M Finance and Chola Finance trade higher at 1.8x-2.2x FY21 book. Majority of analysts have "buy" rating on the these three stocks, though after the recent rally, investors could wait for better entry points.

'Global investors will continue to invest in India'

With the Budget for FY21 presented and the Reserve Bank of India's review of the Monetary Policy over, **ASHISH GUMASHTA**, chief executive officer, Julius Baer, tells ***Puneet Wadhwa*** that the markets' focus will return to fundamentals — the economy and earnings — as well as global cues, especially the coronavirus scare and its potential impact on global economies. Edited excerpts:

Q&A

ASHISH GUMASHTA
Chief executive officer, Julius Baer

What is your interpretation of proposals in the Budget?
There was a widespread expectation of big-bang reforms and some growth stimulus from this year's Budget for reviving the economy, which has been witnessing the worst slowdown since the global financial crisis. However, the Budget fell short of heightened expectations. Overall, the Budget lacked any major announcements pertaining to the financial sector, infrastructure, real estate, and exports, which are all critical for reviving growth and business sentiment. The much-needed growth stimulus, anticipated by the markets, was missing. Now that the Budget is out of the way, the equity markets will focus back on fundamentals — the economy and earnings — as well as global cues, especially the coronavirus outbreak and its potential impact on global economies.

Do you expect the markets to consolidate now?
Yes. In the near term, we expect them to pause and consolidate at the current levels. However, economic indicators are bottoming out and should gradually improve from hereon. Investors should view interim corrections to build up their equity exposure.

What are the key concerns for global investors?
Global investors will continue to invest in the Indian markets, despite the current slowdown, keeping the long-term growth potential in mind. Besides, with slowing growth in global economies and potential risks to growth in other Asian markets, given the outbreak of coronavirus, India could stand out as a relatively attractive investment destination.

The key concerns that global investors currently have about India are around the sequential slowdown in economic growth, tepid earnings recovery, and the credit crisis. While the overall expectation is that there will be an improvement on these fronts, global investors will continue to show a keen interest in these factors.

How comfortable are you with the valuation of Indian benchmarks?
The benchmark indices may seem fairly valued at current levels compared to historical valuations. However, this may not be a true representation of the broader markets, as there has been a polarisation in favour of a few index heavyweights. Moreover, there has been pushback in the earnings recovery cycle as reflected in the muted 5–6 per cent growth over the last few years.

How should investors approach the mid- and the small-cap segments?
With respect to large-caps, investors can continue to maintain their existing allocation, particularly to high-quality growth stocks. However, investors can now look at increasing allocation to mid-caps in their holdings. Over the last two years, mid- and small-cap stocks have seen both price and valuation correction and are now trading at a discount to their large-cap peers. We believe that these stocks can rebound in 2020 if the global momentum continues. In the mid- and small-cap space, we would focus on bottom-up ideas where the company is a leader in its segment or has a niche positioning, there is an operating leverage play, and the stock is trading at a valuation which is close to its multiple-year lows/significantly below the long-term average

How do you see global central banks respond to economic and geopolitical developments over the next few months? What about the Reserve Bank of India (RBI)?
Globally, the trend of low growth, low inflation, and hyper-accommodative central banks is expected to continue in 2020. US Treasuries yields have dropped since the outbreak of coronavirus and will remain low in the coming months until the second half of the year when attention turns to the US presidential elections and the effects of coronavirus ease.

In India, we are nearing an end of the rate-easing cycle, although the policy stance may remain accommodative for a while. The bar for incremental rate cuts will be high. A stagflationary environment is likely to persist in the first half of the current calendar year (H1CY2020) and the RBI may, therefore, remain vigilant and choose to focus on inflation over growth.

> WITH RESPECT TO LARGE-CAPS, INVESTORS CAN CONTINUE TO MAINTAIN THEIR EXISTING ALLOCATION, PARTICULARLY TO HIGH-QUALITY GROWTH STOCKS. HOWEVER, THEY CAN NOW LOOK AT INCREASING ALLOCATION TO MID-CAPS

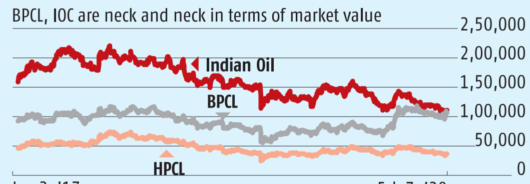
BPCL closes market cap gap with IOC

SAMIE MODAK

State-owned Bharat Petroleum Corporation (BPCL) and Indian Oil Corporation (IOC) are in a fight to bag the most-valuable oil-marketing company (OMC) tag. At Wednesday's closing prices, BPCL's market value at ₹1.09 trillion was more than that of IOC (₹1.08 trillion). The feat is noteworthy considering BPCL's market cap was less than half of IOC's about 15 months earlier. The privatisation buzz and tailwind provided by subdued oil prices have triggered a massive rally in BPCL. Its shares have nearly doubled from the October 2018 levels of ₹265 to over ₹500 last week. On the other hand, IOC's has declined 5 per cent during the same period. Hindustan Petroleum Corporation (HPCL) — the smallest OMC in terms of market value — has seen its share price go up 30 per cent in the past 15 months. IOC by far remains the biggest OMC in terms of profits and revenues. In 2018-19, its sales and profits were nearly twice that of BPCL at ₹5.3 trillion and ₹17,377 crore, respectively. BPCL has seen re-rating with the stock currently trading at 13 times its estimated 12-month earnings. IOC and HPCL trade at single-digit price-to-earnings multiple. The Centre has put on the block its 53 per cent stake in BPCL. Global oil majors such as Russia's Rosneft, Saudi Arabia's Aramco, and UAE's Abu Dhabi National Oil Company are considered to be in the fray to buy the state-owned firm.

SIBLING RIVALRY

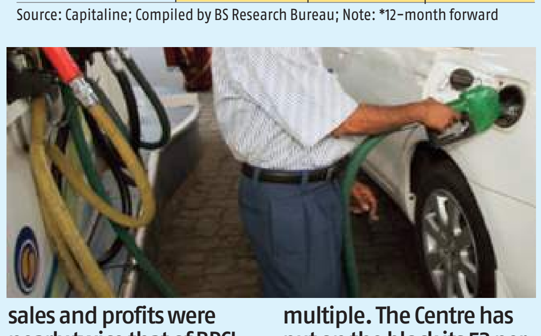
BPCL, IOC are neck and neck in terms of market value



IOC's revenues and profits still dwarf other two OMCs

For FY19 (in ₹ cr)	Indian Oil	BPCL	HPCL
Sales	5,28,149	2,98,226	2,75,473
Profit	17,377	7,802	6,691
P/E*	9.6	12.9	7.3

Source: Capitaline; Compiled by BS Research Bureau; Note: *12-month forward



Gains ahead for Tata Global

Improvement in international business, merger of Tata Chemicals' consumer business are positives

SHREEPAD S AUTE
Mumbai, 9 February

SYNERGY BENEFITS

Figures for FY19 In ₹crore	Tata Global Beverages	Tata Chemicals*	Merged Entity
Revenue	7,252	1,847	9,099
Ebitda	838	316	1,154
Ebitda margin (%)	11.6	17.1	12.7
Net profit	408	204	612

*Consumer products business
Ebitda: Earnings before interest, tax, depreciation and amortisation
Sources: Company and brokerage reports

The stock of Tata Global Beverages (TGBL) has gained about 32 per cent in the last three months, outperforming the Nifty FMCG index, which was down 5 per cent during the same period. Factors like the merger of Tata Chemicals' consumer business, restructuring of international businesses in the past couple of years, and appointment of new MD and CEO are keeping investor interest high in TGBL.

The company last week announced the completion of the merger process (consumer business of Tata Chemicals). Apart from direct synergy benefits, the merger has given a strong growth opportunity to TGBL in the consumption space. According to analysts at Motilal Oswal Securities, the merger of Tata Chemicals' consumer business with itself marks TGBL's entry into an additional segment of staples with the addressable market size of ₹77,000 crore.

In fact, in the December 2019 quarter (Q3), TGBL's domestic business reported a steady performance in Q3 despite the consumption slowdown. Its branded tea business (over 45 per cent of its revenues) reported a 7 per cent volume growth led by market share gains and the Dhunsera Tea acquisition last year. However, poor pricing power pulled down the overall revenue growth to around 6 per cent. But what helped TGBL at the Ebitda (earnings before interest, tax, depreciation and amortisation) level is benign input costs, resulting in 191 basis point year-on-year (YoY) expansion in the Ebitda margin to 12.2 per cent despite higher advertising spends. Raw material tailwind is likely to continue for TGBL going ahead, according to analysts.

Though TGBL's international business (around 40 per cent of revenues) witnessed some pressure in Q3 with a 3-4 per cent YoY fall revenues, it is expected to improve going ahead. Sanjay Manyal, analyst at ICICI Securities, believes that TGBL's restructuring of international business, including exit from loss-making units, is expected to yield good results. Some brokerages also believe that Unilever's (parent company of Hindustan Unilever) decision to review its global tea business augurs well for TGBL, which could gain market share. Tea is TGBL's key business accounting for over 80 per cent of its overall revenue.

The Street also has high expectations from TGBL's newly appointed MD and CEO Sunil D'Souza, who is currently managing director of Whirlpool India and has vast experience in the consumer segment.

The growth triggers should augur well for the stock, which is currently trading at 41x its FY21 earnings per share estimates.

STREET SIGNS

Low cost of capital at work

Avenue Supermarts has launched a share sale to mop up ₹4,000 crore in fresh capital. The DMart retail chain operator will have to dilute less than 3 per cent to raise this amount. Three years ago, the company had diluted 10 per cent to raise ₹1,870 crore in its initial public offering (IPO). Since then shares of the Radhakishan Damani-promoted firm's market value have soared nearly eight times. Experts say Avenue Supermarts is a classic example of how well-managed companies with growth potential can reap benefits of low cost of capital. "On one hand, the environment is challenging. On the other, there is enough liquidity floating around. Companies that have demonstrated good growth and that hold potential, can access cheap capital. It is a virtuous cycle," said an analyst. Barring employee stock options, this is the first time Avenue Supermarts is issuing fresh capital since its listing.

SAMIE MODAK

Aavas Financiers on investors' radar

Jaipur-based housing finance company Aavas Financiers saw institutional investors make sizeable investments on Friday. Three funds made aggregate investments of ₹513 crore. Smallcap World Fund made the largest investment of ₹278 crore through a bulk deal on BSE, followed by Kotak Midcap Fund (₹161 crore) and American Funds Insurance (₹73 crore). The investment came a day after the Reserve Bank of India relaxed bad loan norms for commercial real estate. In one-year period, the stock has gained 113 per cent. Analysts are positive on the housing finance company's asset quality.

JASH KRIPLANI

Profit-booking in rail PSUs

Fund managers are looking to book profits in the four rail PSUs that have listed in recent times. Shares of all the four—IRCTC, Rites, Rail Vikas Nigam and Ircon International—have made good gains over the initial public offering (IPO) price. Most of the IPOs had seen good participation from mutual funds (MFs). "Although most of these stocks hold potential, we expect consolidation after the sharp run-up that most of them have seen," said a fund manager.

JASH KRIPLANI

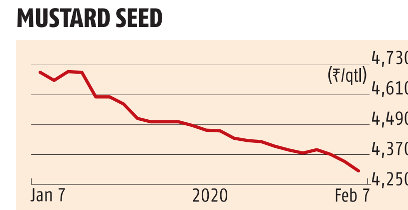
EVENTS THIS WEEK

Date	Particulars
10-Feb	Results: Motherson Sumi, Bharat Forge, Grasim, GAIL, MRF & Petronet LNG
11-Feb	UK- imports, exports & trade balance, GDP figures
	UK- industrial & manufacturing production
	Results: BHEL, Coal India & Siemens
12-Feb	India - CPI & IIP figures
	India - imports, exports & trade balance#
	Results: Info Edge, Ashok Leyland & Hindalco Industries
13-Feb	US - CPI & core CPI figures
	US - jobless claims
	UK - RICS house price balance
	Results: Nestle, BPCL, Apollo Hospitals & Page Industries
14-Feb	India- WPI figures
	US - industrial production & capacity utilisation figures
	Results: ONGC & Shree Cement

 # Tentative between February 12-15
Source: exchange/websites/Bloomberg
Compiled by BS Research Bureau

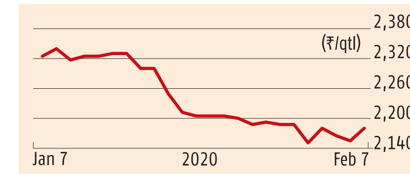
COMMODITY PICKS

MUSTARD SEED



Prices at the benchmark Jaipur market are at ₹4,317 per quintal. For the week ahead, prices are expected to head towards ₹4,260 per quintal. Huge stocks with NAFED and aggressive selling by the agency coupled with upcoming new crop arrival to keep prices under pressure.

WHEAT



Wheat prices in Indore are trading at ₹2,170 per quintal. Prices are expected to trade lower to ₹2,100 per quintal following record wheat production estimates for upcoming season and ample stocks across the value chain.

Prerana Desai,
Research Head - Edelweiss Agri Services and Credit

BRIEF CASE ● M J ANTONY

A weekly selection of key court orders

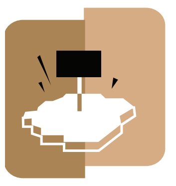
Flood includes rainfall for insurance claim

Damage to property because of heavy rainfall is included in the definition of 'flood' and 'inundation' in the general insurance policy, the Supreme Court has ruled, rejecting the argument of Oriental Insurance that it was outside the scope of the policy. Loss because of heavy or extraordinary rain is not insured, the company argued. The case arose when heavy rainfall led to the flooding of coal stock held by J K Cement Works in Nimbahera. The claim was rejected on the tricky argument over the meaning of flood and inundation. The insurer lost all the way, from district consumer forum to the National Consumer Commission. Rejecting the arguments of the insurer, the court pointed out that there was no doubt that heavy rainfall had occurred in the area, causing flood-like conditions that resulted in the coal kept on the premises being washed off. Moreover, the surveyor's report also stated there was an accumulation of water because of the heavy rainfall and that had resulted in the coal being washed off. The court directed Oriental to pay ₹58.89 lakh as damages, with 9 per cent interest.

Delay in reporting theft to insurer condoned

Settling differences between two judges on the question of consequences of delay in informing theft of a vehicle to the insurance company, the Supreme Court has ruled that such delay by itself would not be a ground to reject the claim. In this case, Gurshinder Singh vs Shriram General Insurance, the person whose tractor was stolen had lodged a complaint with police but the vehicle could not be traced. He filed a claim before the insurer but it was rejected on the ground of delay of 52 days. The consumer forum and the National Commission rejected the claim on the same ground. But the Supreme Court reversed their rulings and stated that "when an insured has lodged the FIR immediately after the theft and when the police after investigation have lodged a final report that the vehicle was not traced and when the surveyors/investigators appointed by the company have found the claim of the theft to be genuine, mere delay in intimating the insurance company cannot be a ground to deny the claim of the insured."

Petro firms lose plea to buy leased land



The Supreme Court has dismissed the appeals of three government-owned petroleum companies which wanted the court to direct their landlords to sell the leasehold land to them. The companies had constructed petrol pumps and given them to their dealers long ago, even before nationalisation, under dealership agreements. The companies were not in actual possession of the land given to their dealers. There was no time limit mentioned in the lease deed. The companies now wanted the court to fix the price for the land and sell the plots to them. The three companies, Bharat Petroleum Corporation, Indian Oil Corporation, and Hindustan Petroleum Corporation invoked the Madras City Tenants' Protection Act to claim the right. The Madras High Court had earlier dismissed their plea as the companies were not in actual possession of the land, yet given the plots to their dealers. The Supreme Court upheld that view.

Gift vouchers come with strings

Gifts offered by corporates come with strings, it was evident in the judgment of the Supreme Court in Today Merchandise vs Anil Kumar. The company advertised holiday vouchers on its website which would enable buyers to get gifts like laptops, cell phones and LED TV sets. But there was a condition: The gift would be contingent on the number of referrals the buyer makes. This buyer bought three vouchers and claimed gifts on them. The company rejected the claim as he did not refer it to anyone. The buyer moved the consumer forum and succeeded in convincing it that he suffered mental torture because of his disappointment. The company's appeal against the order of compensation failed in the appellate forum. But on the last appeal, the company succeeded in overturning all the orders against it. The Supreme Court stated that the buyer was not entitled to the gifts by merely buying vouchers, without fulfilling other conditions.

Govt loses CWG contract arbitration

The Delhi High Court has dismissed for the second time the appeal of the ministry of youth affairs challenging an arbitral award against it in its dispute with a consortium, GI Litmus Events. The disputes go back to the contracts in the Commonwealth Games held in New Delhi around 10 years ago. The consortium had complained about non-payment of dues and the matter was decided against the government. It challenged parts of it last September and lost in most of them. Now it again lost on other parts when the high court rejected its arguments. The government had argued that under the contract, it was absolved from paying compensation and interest. The court repelled the contention and stated that the tribunal had found that the company "was illegally deprived of the amounts rightfully payable to it on an appreciation of the evidence placed on record". The court also pointed out that its role in appeals against awards was limited. A court reviewing an arbitral award under the Arbitration Act does not sit in appeal over the award, it quoted the Supreme Court. If the view taken by the arbitrator is possible, no interference is called for.

Direct sellers on e-platform sue each other

A division Bench of the Delhi High Court has lifted the injunction passed against one set of direct sellers against another, all top companies. Earlier, a single judge Bench had imposed the restriction on one group, which claimed to be direct selling entities in terms of the Model Framework for Guidelines on Direct Selling on e-commerce platforms. Three appeals were by Amazon Seller Services against Amway India, Oriflame India, and Modicare. Two of the appeals were by Cloudtail India against Amway and Oriflame, respectively. The sixth appeal was Snapdeal's against Amway. An illustration of the cause of the internecine legal battle was that Amways' products were being sold on various online portals or mobile apps and wholesale and retail shops illegally at unwarranted discounts, resulting in a decline in the sales of the Amway's direct sellers. The further allegation was that such unauthorised sellers were removing the unique code imprinted on Amway products to avoid the distributor channel from being tracked. The single judge found that there was a breach of contract. The division Bench asserted that there was no prima facie case against the opposite parties.

Minority report: It's still unfair

The takeover rules for unlisted companies only protect the price, say experts

RUCHIKA CHITRAVANSHI

India has perhaps become the first major country to bring out takeover rules for unlisted companies. However, a week after it was notified, the jury is still out on the implications of the regulations. Experts point out that there are several ambiguities in the rules and that the exact purpose is not clear, given that takeover rules had so far been limited to public listed companies.

"The intention even when the provision (takeover rules for unlisted companies) was first introduced in the Companies Act in 2013 was not clear. It seems to be a departure from the stance that you cannot buy the minority forcefully," said Lalit Kumar, partner at law firm J Sagar Associates.

The overarching theme of the provision experts said is to protect minority shareholders from getting a raw deal while selling their stake and letting the tribunal make the final decision on the matter. However, Section 230 (11) of the Companies Act, 2013 does not mention if the consent of the minority is required when a person holding 75 per cent equity shareholding wants to acquire the rest of the shares, experts say.

"If all conditions are met — a fair valuation from registered valuer and half the amount deposited in a bank account — the National Company Law Tribunal (NCLT) will allow the take over according to the rules," Kumar said. To many calling it a takeover itself is a misnomer; squeeze out is a better description, they argue.

According to legal experts, a takeover is when a non-controlling shareholder takes control and a squeeze-out is when a controlling shareholder squeezes out minority shareholders.

"The rules are only protecting the price... They are not minority friendly," said Sandeep Parekh, managing partner, Finsec Law Advisors.

Experts note that a member of a company holding 75 per cent of the shares gets all the rights, such as passing a special resolution, entering mergers and acquisitions, and even changing the name of the company.

Also the wording of the rule, which allows an acquirer to take over "any part of the remaining shares of the company", adds to the ambiguity. "Who will this be acquired from if a person wants to increase his shareholding from 75 to 90 per cent, for instance... will it put some party or the other at a disadvantage?" asked Kumar.

An additional measure taken to safeguard the minority is Sub-section 12, which gives an aggrieved minority shareholder the option to approach the NCLT against any such deal. "He/she will be at a disadvantage. The NCLT is already clogged with insolvency cases. Getting a remedy will take more than a year, at least," Parekh said.

Legal pundits dissecting the rules also said while it seems that half the proposed amount has to be deposited upfront in a separate bank account when the takeover offer is made, lack of a clear timeline may leave certain matters open to interpretation.

Section 236 of the Companies Act covers the subject of the purchase of minority shareholding and prescribes a time limit of 60 days to make the disbursement to the entitled shareholders. "Other provisions in the Companies Act or shareholder's agreement mention a time-frame, and so do the Sebi takeover guidelines. In what manner this has to be paid is not clear," said Astha Pandey, senior resident fellow, Vidhi Centre for Legal Policy.

Based on the Rules, the acquisition would be cash-only and not a swap ratio, or through any other method, putting a strain on the company's liquidity situation as well.

"It is also not clear what happens to Section 236, where an acquirer with 90 per cent equity can squeeze out the minority without the tribunal's approval," Pandey said. The inter-play and overlaps between the existing provisions need to be examined, she added.

In jurisdiction other than India, transactions involving mergers and acquisitions (M&A) of unlisted companies are largely governed by the respective company law statutes and other ancillary laws, such as laws governing contracts, competition, tax, labour, environment and foreign exchange.

"Globally, while parties usually have a significant degree of freedom in negotiating the terms of such arrangements, compliance with relevant provisions of company laws is required and there are no specific takeover codes governing M&A transactions where unlisted entities are concerned," Pandey added.

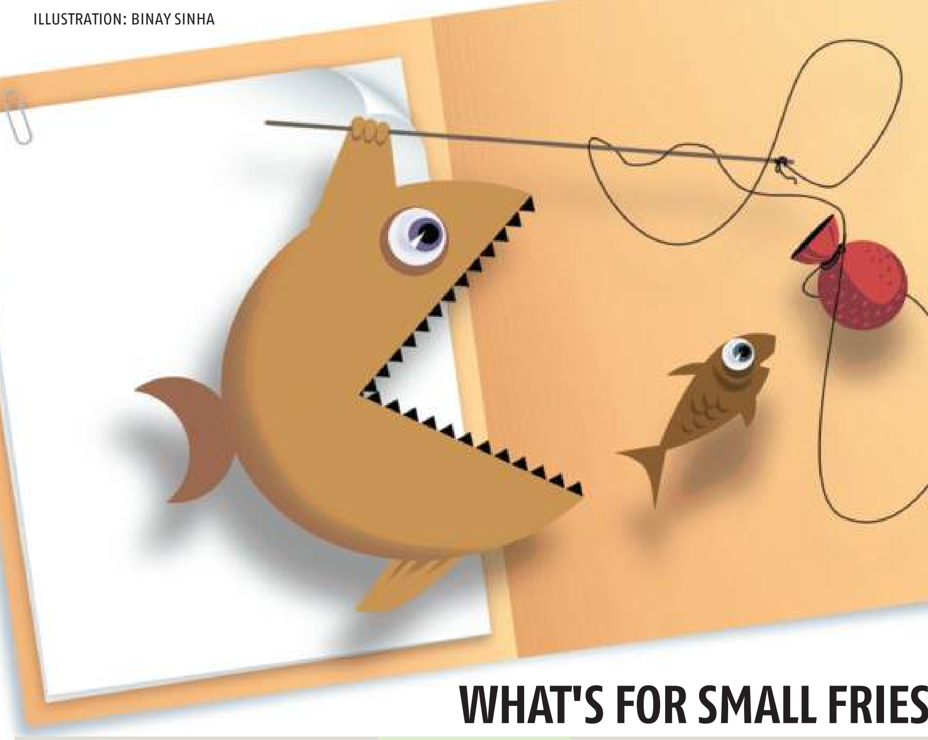
Company law experts also say that while the latest rules do not apply to any transfer or transmission of shares through a contract, arrangement or succession, all shareholder agreements will have to align with the new law going forward.

For instance, the much-talked-about Tata versus Cyrus Mistry case, where analysts believe these rules may have a bearing, Tata Sons have been barred by the Supreme Court from using the provision in its Articles of Association to buy-out minority.

"If two set of shareholders in a privately-held company have entered into an agreement, as long as it does not contradict the law, it will stand," Kumar said.

To that extent, the latest notification provides ample room for the majority shareholder to buy-out minority, but not let them go without paying a fair price.

ILLUSTRATION: BINAY SINHA



WHAT'S FOR SMALL FRIES

How it worked so far
- Listed companies are governed by Sebi's Substantial Acquisition of Shares and Takeovers Regulations, 2011
- Compromises, arrangements and amalgamations under the Companies Act, 2013 take care of unlisted companies
- Section 236 of the Act allows an acquirer with 90% equity to buy out minority shareholders
- No permission of tribunal or any other forum is required

What's new
- **Section 230(11) notified;** it allows holder of 3/4th of equities to approach the NCLT to buy any of the remaining shares
- **Section 230(12)** allows aggrieved minority shareholders to approach the tribunal

Price protection for minority
- Fair valuation of shares by a registered valuer
- Half the total amount proposed to be deposited in a bank account

Ambiguities
- Consent of minority not a must if other conditions are met
- The time-frame for depositing money not specified, experts say
- Overlaps between the existing provisions need to be examined

BUDGET PROPOSALS 2020-21

Tax disputes may raise their head, once again

SUDIPTO DEY

While Finance Minister Nirmala Sitharaman's Budget speech emphasised the government's intent on curbing tax-related litigation, there are some proposals which could potentially give rise to newer disputes.

Tax experts say one of the most dispute-prone proposals is making "fraudulent availing" of input tax credit (ITC), without an invoice or bill, a cognizable and non-bailable offence. Tightening the noose on fraudulent availing of the input tax credit, the proposal is to widen the coverage of Section 132 of the CGST Act, 2017, from "whoever commits" the offence to "whoever commits or causes to commit and retains the benefit" of the fraud.

"This is a reaction to the alarming volume of GST credit frauds being unearthed, almost daily. However, a fall-out of this, which should worry even genuine taxpayers, is that inclusion of 'fraudulent availing' of ITC in Section 132(c) brings such cases under preventive arrests," says Sudipta Bhattacharjee, partner, Advaita Legal.

Earlier, GST rules were amended to empower officers to block input credit of assessees if they had 'reason to believe' that credit had been fraudulently availed/ineligible.

Bhattacharjee says the 'reason to believe' leeway under this new Rule has been grossly misused and thousands of taxpayers have suffered blockage of input credit by way of similarly worded notices from the GST authorities.

Another likely point of dispute could be the retrospective amendments made to transitional provisions, say experts. "The amendment seeks to modify Section 140 of the CGST Act and prescribes a time limit on availing transitional credit," says Rashmi Deshpande, partner, indirect tax, Khaitan & Co. Earlier, the CGST Rules prescribed the time limit.

There is a proposal to amend the Customs law to introduce anti-abuse provisions relating to benefits under India's free-trade agreements. "Reliance on the certificate of origin issued by notified authorities in exporting country will no longer be sufficient and a host of obligations have been cast on the Indian importer, failing which Customs duty benefits under free-trade agreements may be disallowed or temporarily suspended," says Bhattacharjee.

Industry players say many of these new obligations are beyond the control of importers. Legal experts point out any denial of concessional Customs duty benefit to an importer in India based on the new provisions is vulnerable to a constitutional challenge.

The proposal to reduce the withholding tax rate on fees for technical services (other than professional services) to 2 per cent from the existing 10 per cent has potentially prepared the ground for other disputes.

"There could be various services with respect to which confusion can arise as to their classification as technical or professional services, such as lawyers, chartered accountants, engineering consulting, and doctors. This will add to the burden on the courts, which are already laden with the controversies related to withholding tax issues," says S Vasudevan, partner, Lakshmikumaran & Sridharan.

The Budget proposes to curtail the influence of the Income Tax Appellate Tribunal (ITAT) in the dispute resolution mechanism. A minimum deposit of 20 per cent of the tax demand, or furnishing of security, has been proposed as a pre-condition for granting of stay by the ITAT. "The proposal may pave the way for the filing of writ petitions before the high court for getting stay of demand," says Vasudevan.

According to Rajeev Dimri, partner and co-head of tax at KPMG in India, both direct and indirect tax systems in the country are going through a transition. "We have to ensure the transition pains should not become litigation pains."

PRONE TO LITIGATION

- Tightening the noose on fraudulent availing of input tax credit
- Retrospective amendments made to transitional provisions on availing of input tax credit
- Anti-abuse provisions under preferential trade/free-trade agreements with other countries
- Confusion around the classification of services, as technical or professional concerning the application of withholding tax
- Curtail the powers of the Income Tax Appellate Tribunal

Some criticism of GST put in proper perspective

EXPERT EYE

SUKUMAR MUKHOPADHYAY

Many analysts have been criticising the model of goods and services tax (GST) from different points of view, one of the reasons being the collection of revenue has not been as expected. But the fundamental structure of GST has also been attacked. This is where I want to add my observations to say that nothing is wrong in it.

First, analysts say that GST is essentially a flat tax. And by not designing it as a flat tax, there has been a mistake. The fact is that GST is not a flat tax. In major countries like Germany, France, the UK, Italy, Russia, Sweden, and China there are four to seven rates. In Canada, there is one central rate of 7 per cent, but several rates of provincial sales tax. Only in Japan, Australia, New Zealand, and some African countries, there is a flat rate. So multiple rates are the norm, and not a flat rate. Making it a flat rate will be a dangerous mistake for India. Three rates are the best, with limited exemptions.

The second criticism is that it was a mistake that 14 per cent guaranteed rate of compensation to states was too high. It is not a mistake since a guaranteed rate was necessary to make states agree. The slowdown in the economy and less collection were not anticipated by either the Center or states. Compensation cess is for five years, but that can be extended and increased by the GST Council.

There is no mistake in the design of GST. There could be many cases of fake invoices for taking input tax credit but those were there earlier also

Third, it has been said by analysts it was a mistake that many important items like petroleum, tobacco, and liquor have been kept out of the GST fold. This was not a mistake if we recollect the long and protracted discussion and difference of opinions on this issue. States would never have agreed to include all items since they would have lost all opportunity to raise revenue on their own. They wanted to preserve their fiscal federalism. So keeping these items was a compromise. Even in the European Union, there are some items like cigarettes, beer, wine, spirits, and gasoline which were out of VAT and in 2001, the excise revenue as a percentage of total tax revenue was 9.6 (Sijbren Cnossen; *Tax Policy in the European Union* 2001, p 36).

The fourth criticism is that it was a mistake to include more goods in the 5 per cent rate to bring prices down in the run-up to election which has led to more input credit compared to the final rate of GST on the output. The fact is that this sort of situation of input credit more than the tax payable has always been there. In the UK and other developed countries, a refund is given. In India, we have been traditionally solving this problem in CENVAT by increasing the output duty. It is not a widespread concern. It is sporadic. Only in a few such cases occur. Usually, value addition in the final output takes care of it.

Actually, there was no mistake at all in the design of GST. There could be surely many cases of fake invoices for taking input tax credit but those were there earlier also. The government replied to a parliamentary question on July 2, 2019, in which it was disclosed that in 2018-19, 1,620 cases of fake invoices were registered involving an evasion of ₹11,251 crore and 154 persons were arrested. Obviously, a lot of this evaded tax will be realised. So, it is not full evasion but only an attempt. Even the story of evasion is highly exaggerated since a large percentage of cases fail judicial scrutiny. Invoice matching was never done in the pre-GST situation both in regard to State VAT and CENVAT. I know it for certain. Only audit and intelligence-based checks were being done. If there was no furore about evasion at that time, why is there so much furore now? Actually, it is the slowdown and lower rate of duty which is responsible for low collection. Not for any structural flaw or evasion. Surely more anti-evasion measures and wider audit should be mounted. There should be more checks on the export side since star-exporters get less checked which they misuse. The revenue officers must independently check the authenticity of the so-called star exporters without harassing them.

The writer is member, Central Board of Excise & Customs (retired)
Email: smukher2000@yahoo.com

"We restructured the entire company in terms of costs and made it much more resilient. We also sharpened our focus on exports"

SATYAKAM ARYA
MD & CEO, Daimler India Commercial Vehicles

"We are transforming from a radio-alone company to a video company as well. There is a whole new corporate identity exercise going on"

PRASHANT PANDAY
Chief executive officer, Entertainment Network India

"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"

ANANTH NARAYANAN
Co-founder & CEO, Medlife

Brands' TikTok challenge

User-generated content has upended the rules of traditional communication

SHUBHOMOY SIKDAR

The rapid rise and immense potential of user-generated content is indisputable. But what does it mean for brands and marketers? Is it overhyped as would seem from last year's episode when an Instagram influencer with over 2 million followers failed to sell 36 T-shirts? Alternatively, what exactly is the potential since brands — from an FMCG major like ITC to entertainment platforms Shemaroo and Eros — seem to be reposing great faith on influencers?

The story will still take some time to unfold completely and advertising through user-generated content may still be too raw to give celebrity endorsements a run for their money yet. However, they definitely have an impact. And that conclusion is backed by trends and projections. For example, Deloitte India's *Unravelling the Indian Consumer* survey last year said that 28 per cent of the millennials purchased products due to social media recommendations while 63 per cent among them stayed updated on brands through social media. So it could be a TikTok star, an Instagrammer or a home-chef or a teacher with a reputation of being good at imparting the right skills to YouTube watchers, brands are increasingly looking to associate themselves with people who matter on social media.

But with each platform, comes a new challenge, more so with newer ones such as TikTok or Share Chat whose rise have taken many by surprise. What then are the rules of the game if at all they have managed to frame some?

The top three rules of advertising on user generated content (UGC) platforms according to Sunil Kamath, chief business officer, Share Chat are something like this. Brand campaigns are experience-led and must be relevant and contextual (something like the ice-bucket challenge will never fly in the regional market). The second major factor, he adds, is content filtering and brand safety. Explaining this, Kamath says the algorithms that ShareChat has developed ensure that the platform is a brand safe environment, and provide the desired impact in the targeted audience. Last, since it is all UGC-led campaigns, the platform help brands in identifying micro-influencers so that they can collaborate and make exciting content for the brands they are working for.

TikTok did not address a set of questions *Business Standard* sent but the ByteDance-owned platform spoke only of the kind of brands that have tied up with it. "TikTok has become the preferred platform for creative expression for today's mobile-first audiences and brands are quick to realise that. Verticals across industries including fashion, FMCG, banking and more have effectively used the platform to run innovative campaigns. From leveraging artistes, actors to engaging with creators on the app, brands are also adopting innovative marketing tools such as the hashtag challenge that our platform offers," said Sameer Singh, vice-president, monetisation, TikTok India.

Various estimates peg the number of active users on ByteDance platforms (TikTok being the biggest) at approximately 800 million globally. The strategies it offers to brands include brand takeover that helps advertisers take a dominant visual position to achieve exposure, in-feed native video that allows for more immersive, original, and interactive format for ads, brand lens that is designed with cutting edge technology and is tailor made for advertisers or a hashtag challenge. And brands do tailor such tools to suit their needs. For example, FMCG major ITC tied up with a set of entertainers last November and went for a hashtag challenge when it made its foray into pulse chips. "Our association with TikTok helped us further our objective and gave the audience an interesting challenge while having fun munching their new favourite snack," Shuvadip Banerjee, VP-marketing at ITC, had said back then.

While brands understand the importance of all such platforms — from TikTok to Instagram and beyond — it is widely believed they are yet to develop a complete understanding of these platforms individually. Ankur Pahwa, partner, transaction advisory practice and national leader for the e-commerce and consumer internet sector, EY, adds another challenge: Brands don't have much control over the quality of the content. "So they have no or some degree of control over the narrative of the piece where they have been integrated but if the influencer or content creator later does something which may be embarrassing, the brand might also suffer which may not be the case with bigger celebrity endorsements."

Such challenges have given impetus to influencer marketing and the rise of new generation agency structures/marketing platforms such as One Impression which claims to be working with over 150 brands across categories. "At One Impression, we generate a influencer content brief that is pre approved by the brand and essentially aligns the brands expectations and influencer's content. We also typically create a sample theme content pool and share with other influencers to give a sense of the campaign. Finally, our team looks at each content independently and checks for a match with the brief which is then sent to the brand for final approval. This way, the chances of going wrong at content level are almost eliminated," says the company's founder and CEO Apaksh Gupta.

More on www.business-standard.com

WHAT DOESN'T WORK

- **No point chasing global trends** such as the ice-bucket challenge if your target audience doesn't connect with those
- **While follower count is an important yardstick,** it is not prudent to tie up with a micro-influencer just on that basis. The personality of the individual also counts
- **The strategy of relying solely on influencers** to come together and initiate commerce on the platform (i.e. a 'no external ads policy') hasn't been very successful so far

Brands see these associations helping them further their objectives and give the audience interesting challenges

MY FAVOURITE CAMPAIGN

The power of 'phygital'

MY TAKE
It combines engrossing storytelling, direct customer connect & clarity on product explanation

BRAND: Google India
YEAR OF LAUNCH: 2013
AGENCY: Ogilvy India

SHUBHOMOY SIKDAR

Which is your favourite campaign and why?
My personal favorite is Google India's 2013 "Reunion" campaign for Google Search in which the next generation utilises its digital prowess to identify precisely a location in a different country to reach out to her grandfather's friend. The sensitivity with which Google entwined its sophisticated search capabilities around the sentiments of the characters was a real heart stealer.

On what parameters did you base your decision?
The video takes the "risk" of dealing with a sensitive theme and pulls it off with elan, thereby creating poignant and impactful messages that convey the core product value in an elegant manner. It is moving to see how the doubts of the seeker convert into an affirmative search with local terms like jhajhariya. The campaign is a complete package as it combines engrossing storytelling, direct customer connect, clarity on the product features to be communicated and the intended target audience.

What do you think was the key idea the campaign was trying to drive home?
In my opinion, the campaign clearly highlighted how digital is ushering in a boundaryless world; internet search bridging geographical borders and bringing hearts together. One subtle idea which the campaign carried was taking offline into an online mode. Here we have a grandfather sharing his childhood memoirs and prized photograph with his granddaughter who in turn seeks the digital search validity of these memoirs. It is the perfect epitome of "phygital" customer experience.

Did this campaign inspire any of your work? What are your takeaways from the campaign?
We are a premier partner of Google, and I remember watching the campaign with my Google agency team in New York. Some of the key inspirations from the campaign have been that one should never overlook the human element, understand one's target audience well and invest in the social fabric of one's target audience.

UDAYAN BOSE
CEO and Founder
NetElixir

Since the message was so powerful, do you feel the campaign overshadowed the brand?
The theme is close to most of our hearts, the situation is one that all of us can relate to and the ad leaves the viewers with a positive and a happy feeling. The campaign also highlights the human face of data and technology.

What else could have been done to make the campaign better?
If we could have time-travelled the ad campaign for 2020s, we could have seen a larger virality for the ad. It would have been very interesting to gauge the responses from our digital natives.

1 Connect a parody of HW Longfellow's poem Hiawatha penned by another famous writer on a product that was introduced in the 1850s that was of the folding type. Name the writer and the product.

2 Connect this river which is one of the great salmon rivers of Britain and the only river in England where an environment agency rod licence is not required for angling and a globally very well-known type of fabric and what do you arrive at?

3 Name the product that contains aldehydes, orange and lemon blended with floral notes of carnation and jasmine along with aromatic cinnamon and pimento.

4 Who said this "The arrival of Windows 95 received more media attention than the Middle East peace accords...While everyone applauded Microsoft's increasingly complex desktop software, I was convinced that every application that could be moved off the PC should be moved off the PC"?

5 What is the buzzword used for any proliferating management fad or simply dumb concept that overtakes and eventually strangles a company or organisation?

6 What is so unique about this company's culture that uses the lines "Reman.Respected"?

7 This company was founded in the late 1980s and since the early 1990s to last September it has acquired 207 companies till date. Crescendo is a hint, name the company.

8 This company was founded in the early 50s and was named after goddess Laxmi Devi's consort. It has relaunched its famous TV commercial with Alia Bhatt. Name it.

9 Which brand's tagline is "Live Authentically"?

10 Connect the images and name an iconic person behind an iconic brand

COMPILED BY GAURAV SRI KRISHNA, www.facebook.com/gaurav.s.krishna

ANSWERS TO THE STRATEGIST QUIZ 650

1. Asics came out with a limited edition of its Gel-Nimbus 22 variant for running shoes
2. Jeff Bezos; his Bezos Expeditions company has invested money to recover these engines lying in the Atlantic Ocean floor
3. Hildebrand and Wolfmüller which is considered to be the world's first production motorcycle.Since it didn't have clutch or pedals, one had to run and jump when the engine started
4. Mauritius
5. Bibendum, the mascot for Michelin tyres
6. Clean Sheet design
7. Colgate
8. 3i, the investment management company that focuses on private equity and infrastructure, founded in 1945
9. Indian Terrain
10. Quetzalcoatl, the Mayan feathered serpent god called Kukulkan. He was a great chewer of gum and thereby probably a good fit as a patron saint for the chewing gum industry

One lucky winner will receive a cheque for ₹2,000. Send your entries to strategist@bsmail.in. All entries must carry the postal address of the contestant. Last date for receiving entries is February 11 till 8 pm. Previous winners and employees of *Business Standard* and their families are not eligible to participate. The winner is chosen on the basis of the first correct entry received.

There was one correct entry to Quiz number 650. The winner is Sunil Pal from Meerut

'Unlike tactical cashbacks, loyalty plans are strategic'

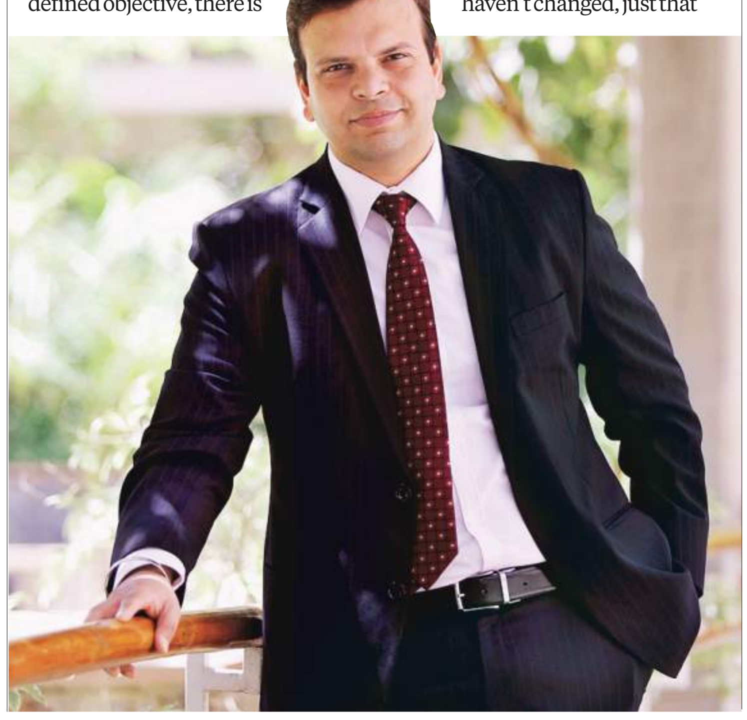
Core customer expectations have remained unchanged, but the expectation levels are getting recalibrated, **Kaushik** tells Alokananda Chakraborty

Q&A
GAUTAM KAUSHIK
MD & CEO
Payback India

In what ways are multi-brand loyalty programmes superior to traditional, standalone customer loyalty schemes?
Multi-brand loyalty is a very successful concept as it works for the customers and the partners beautifully. Let's talk about the customers first. They can join the programme with any one partner and use their membership across all participating brands (more than 100 in the case of Payback) to earn or redeem loyalty points and to avail of all other privileges. It offers them a lot more value for a very small effort and that keeps their engagement high. For the participating brands in the network, it is great as they have access to a diverse set of customers, the cost burden of point issuance is lower vis-à-vis standalone programmes as they get a ready set of customers who hold points, which are earned from multiple brands within the loyalty network. So, instead of crafting their customer engagement plan in a silo, they work in a collaborative and intelligent ecosystem, and that shows in the results too. To ensure that this concept is widely successful, the most critical factor is to create the network by onboarding large brands from key consumer spend categories.

Let me also address the issue that standalone programmes face. For success of any loyalty programme, relevance, value and frequency of interaction are important indicators. Standalone programmes generally fall short on relevance and frequency, and the cost of offering value single handedly is very high and unsustainable. That's the reason we see very few successful standalone loyalty programmes around.

Loyalty programmes per se have evolved over the years in terms of design and their attractiveness, but are there any newer ways of measuring their effectiveness?
The design of a loyalty programme needs to ensure that there is a clear and defined objective, there is transparency in the point value and the amount of points issued is commensurate with the effort required by the customers and the financial objectives. The core expectations of customers around value, convenience and consistency over time haven't changed, just that expectation levels are getting recalibrated. In terms of measurement, the core concept remains around retention, followed by the ability to get more wallet share of the customer. Simply put: How often are the customers coming back to your brand, for how long and is their cart size increasing over time? In some way, that by itself is the factor that defines the success and sustainability of any business at an overall level. Thankfully, in today's digital environment, measurement processes have become precise and you get to hear the customer voices almost in real time to carry out any course correction if required.



How much should brands ideally spend on loyalty programmes? What customer actions should they encourage?
While there is no single yardstick for this, there are some guiding principles. Loyalty programmes must be as a strategic and a long-term initiative. It is not a tactical campaign that most of the cashback offers tend to be. The investment appetite comes from the returns that the programme is going to deliver in the long run.

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Omar under PSA for his 'influence' over voters

PDP leader Mehbooba Mufti accused of pro-separatist stand, says dossier

PRESS TRUST OF INDIA
Srinagar, 9 February

Former chief minister Omar Abdullah's "considerable influence" over people, including the ability to attract voters to polling booths despite poll boycott calls and the potential for channelling energies of public for any cause, has been cited in support of his detention under the stringent Public Safety Act (PSA).

Peoples Democratic Party (PDP) leader Mehbooba Mufti has been accused of making anti-national statements and extending support to organisations such as the Jamaat-e-Islamia of the state, which has been banned under the Unlawful Activities (Prevention) Act (UAPA).


Omar Abdullah (*left*) and Mehbooba Mufti were booked under the stringent Public Safety Act (PSA) on February 6, just hours before their preventive detention was to end

The PSA dossier prepared by the police against Omar, who had served as minister of state for external affairs, states his ability to convince electorates to vote in huge numbers even during the peak of militancy and poll boycott calls by separatists and militants. The grounds of detention against Omar, who was chief minister of the state from 2009-14, state that on the eve of reorganisation of the state he had made attempts to provoke general masses against the revocation of Articles 370 and 35-A.

The grounds also mention his comments on social networking sites to instigate common people against the decisions on Articles 370 and 35-A which had the potential of disturbing public order. However, the police have neither mentioned any of Omar's social media posts in the dossier nor in the order for grounds of his detention. "To the people of Kashmir, we don't know what is in store for us.......stay safe and above all please stay calm," was the last few tweets of Omar before he was taken for preventive detention.

Restrictions have been put on communication links since August 5 last year. These were subsequently eased. Internet is functional at a few places through leased lines. Mobile internet facility has been made functional but with a speed of 2G with instructions it won't be used to access social media sites.

Omar and Mehbooba had been under preventive detention since August 5, when the Centre announced abrogation of Article 370 granting a special status and bifurcation of the erstwhile state into two union territories — Ladakh, and Jammu and Kashmir. They were booked under the PSA on the night of February 6, barely a few hours before their preventive detention was to end.

Thailand shootout toll rises to 30, gunman shot dead

A Thai soldier who killed 30 people before being shot dead in a mall by commandos went on the rampage because of a debt dispute, the kingdom's premier said on Sunday, offering the first official speculation for the motive of an "unprecedented" shooting spree.

After a night which seesawed between heavy exchanges of gunfire and terrifying dashes for mall exits by trapped shoppers, sharp-shooters brought an end to the 17-hour-ordeal when they killed the gunman on Sunday morning in Nakhon Ratchasima, also known as Korat.

Thirty people including civilians — the youngest a 13-year-old boy — and security forces were killed by the rogue soldier, Thailand's prime minister Prayut Chan-O-Cha said. "It is unprecedented in Thailand, and I want this to be the last time this crisis happens," he said outside a hospital where victims, including at least two undergoing brain surgery, were being treated. Prayut, a gruff former army chief, blamed a "personal problem" over the sale of the house for the soldier's rampage, which began on Saturday afternoon near an army barracks and was for several hours relayed by the gunman via Facebook posts.

The attacker, a junior army officer identified as Sergeant-Major Jakrapanth Thomma, used a stolen M60 machine gun and rifles from one of Thailand's largest barracks as well as a military humvee to carry out the attack. AFP/PTI

Virus death toll crosses 800

Modi writes to Xi, offers help; India lifts ban on export of surgical masks

AGENCIES
9 February

Prime Minister Narendra Modi has conveyed to Chinese President Xi Jinping India's readiness to provide assistance, as the coronavirus epidemic has killed 813 people and infected more than 37,000 in China as of February 9. In a letter to Xi, Modi expressed solidarity with the president and people of China over the outbreak of the virus, official sources said.

CORONAVIRUS
OUTBREAK

The Centre has removed surgical masks and gloves from a list of banned export items, according to a notification. "... items such as surgical masks/disposable masks and all gloves except NBR gloves are allowed freely for export," the directorate general of foreign trade said. It, however, said export of other equipment accompanying masks and gloves shall remain prohibited for exports.

Indian pharma firms are closely monitoring the outbreak as it could hit the supply of active pharmaceutical ingredients, if the situation does not improve soon. "The Centre is working in an integrated way to deal with the situation," said Indian Pharmaceutical Alliance Secretary General Sudarshan Jain.

In another development, the Directorate General of Civil Aviation stopped pre-flight breathalyser (BA) tests for crew operating out of Kerala's four airports — Calicut, Kannur, Trivandrum, and Cochin — during the next 15 days. However, the crew departing from these airports will compulsorily undergo post-flight tests at the city where they land.

China's finance ministry said on Sunday the government had allocated $10.26 billion to fight the coronavirus. China's central bank said it would offer a $43-billion boost next week to help businesses involved in fighting the virus. Hong Kong businesses are set to benefit from over $3.9 billion in liquidity relief offered by HSBC Holdings to support firms as the deadly coronavirus weighs on the economy.