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Business Standard

THE MARKETS ON TUESDAY		Chg#
Sensex	41,216.1 ▲	236.5
Nifty	12,107.9 ▲	76.4
Nifty futures*	12,126.8 ▲	18.9
Dollar	71.3	71.3#
Euro	77.8	78.1#
Brent crude ($/BBL)##	54.0	53.0#
Gold(10 gm)###	40,461.0 ▼	₹114.0

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

MONEY MANAGER PII,2

SCRIPTING A NEW PLOT IN SHADOW BANKING

COMPANIES P2

M&M DRAFTS $425-MN PLAN TO REVIVE SSANGYONG MOTOR

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

TRUMP SET TO VISIT INDIA ON FEB 24-25

US President Donald Trump will pay a state visit to India on February 24 and 25, and will travel to New Delhi and Ahmedabad, it was announced on Tuesday. Trump will be accompanied by First Lady Melania Trump. Both governments said his maiden trip would further bolster the strategic ties between the two countries. 6

INDIA IS A DEVELOPED ECONOMY, INELIGIBLE FOR GSP BENEFITS: US P6

Coronavirus death toll surges past 1,000

The death toll from China's coronavirus epidemic has soared past 1,000. Worries grew that the virus was capable of shaving off 1 percentage point from China's GDP growth, as experts said the menace could be over by April in China. Meanwhile, the World Health Organization said the vaccine for the virus could be ready in 18 months. REUTERS

COMPANIES P2

CBI books Educomp in ₹2K-cr bank fraud case

The Central Bureau of Investigation booked Educomp Solutions for allegedly defrauding a State Bank of India-led consortium of 13 banks to the tune of ₹1,955 crore and carried out searches at eight locations on Tuesday, officials said. The agency booked Educomp Solutions, its managing director Shantanu Prakash, guarantor Jagdish Prakash, its subsidiary Edu Smart Services, and two of its directors.

BACK PAGE P20

NCLAT orders reverse real estate insolvency process

In a first, the National Company Law Appellate Tribunal (NCLAT) has passed an order for a reverse insolvency process, which could set a template for stressed real estate projects. The process will give a chance to the promoter to complete the project within a specified time frame.

All medical devices to be treated as drugs: Centre

From April 1, all medical devices sold in the country, including apparatus, appliances, implants, and instruments, used on humans as well as animals, would be treated as drugs, a health ministry notification said on Tuesday. A separate notification said the medical devices would be registered with the Central Licensing Authority.

ECONOMY & PUBLIC AFFAIRS P6

IDBI Bank posts pre-tax profit of ₹756 crore in Q3

Private sector lender IDBI Bank's profit before tax (PBT) stood at ₹755.89 crore in the third quarter (Q3FY20), as against a loss before tax of ₹5,805 crore in the year-ago period, because of a rise in net interest income and a dip in provisions for bad loans.

THE SMART INVESTOR PII,1

NSE gets Sebi notices over COO appointment

The Securities and Exchange Board of India has issued show cause notices to the National Stock Exchange over the appointment and promotion of its Chief Operating Officer Anand Subramanian. The appointment had raised eyebrows because of his earlier profile at a logistics firm.

CAPITAL CHOOSES KEJRIWAL, AGAIN

Delhi presses button, BJP feels the 'current'

AAP sweeps the polls; BJP tally ends in single digit; Congress draws a blank

A boy dressed as Arvind Kejriwal, amid celebrations by party workers at AAP's headquarters in New Delhi PHOTO: PTI

ARCHIS MOHAN
New Delhi, 11 February

The incumbent Aam Aadmi Party (AAP) has secured a massive win in the Delhi Assembly polls, attributing its success to "politics of work" against the Bharatiya Janata Party's (BJP's) "politics of hate". Polling for Delhi's 70 Assembly seats was held on Saturday after a fractious election campaign.

The BJP's defeat in Delhi comes on the heels of it losing in Jharkhand, failing to form the government in Maharashtra, and being forced into a coalition in Haryana after the party fell short of the majority mark.

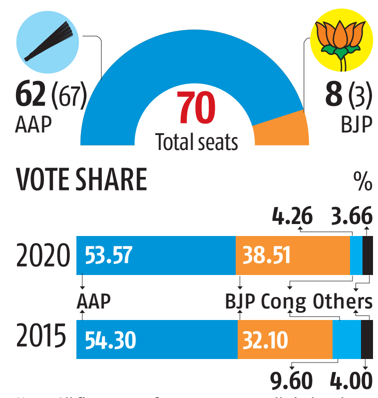
EDIT: AAP'S HAT-TRICK
PAGE 11
MORE REPORTS ON PAGE 4

AAP's win on Tuesday is being seen as a verdict at a time when nationwide protests are being held against the amended citizenship law, including at the capital's Shaheen Bagh. The BJP had made Shaheen Bagh the focus of its election campaign, appealing to residents of Delhi to vote out "terrorists".

Union Home Minister Amit Shah, who only last month quit as BJP president and was succeeded by J P Nadda, had put his personal prestige at stake by leading the election campaign for the party, addressing several public meetings and also going door to door to contact voters.

During the campaign, AAP, and its leaders including Delhi Chief Minister Arvind Kejriwal and his deputy Manish Sisodia, had tried to sidestep the contentious issue of the new citizenship law. Turn to Page 9

CAPITAL GAINS FOR AAP



Note: All figures as of 11:00 pm; 2015 tally in brackets

Remittances abroad could face double tax

5% to be paid on already taxed income

SHRIMI CHOUDHARY
New Delhi, 11 February

The Budget proposal to impose a new tax on remitting money abroad has triggered fears of double taxation.

In the Union Budget 2020, the government proposed that banks that received ₹7 lakh and above from a person for remitting money overseas under the Reserve Bank of India's (RBI's) Liberalised Remittance Scheme (LRS) or from the seller of a tour package would debit 5 per cent of the amount as tax.

But this money is taxed once as income-tax first.

The move will help the exchequer gather ₹500-600 crore in advance every month, said government sources.

This was proposed after an analytical study by the Income Tax Department. The study revealed people misused the legal route to launder money. Further, it was also detected that misuse was mostly by those who were sending over ₹7 lakh and that was how the threshold was decided, said an official privy to the matter.

The government, however, said the taxpayer could claim refund in the income tax return and hence it was not double taxation, an official added.

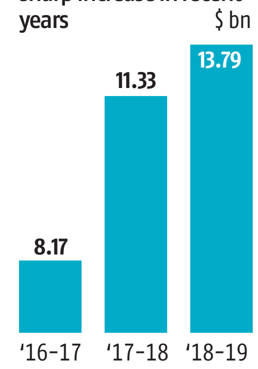
But on the flip side, this process would increase the compliance burden because claiming refund would be cumbersome, the official said.

According to him, there is a proper record of these remittances with the central bank as every transaction quotes the permanent account number (PAN).

Meanwhile, industry players and some companies have sought a review of this new tax in a recent meeting with Finance Minister Nirmala Sitharaman in Mumbai. Industrialists are of the view that whatever money goes abroad under the RBI scheme is legitimate and comes under the purposes listed, such as education and investment. So taxing that money again is an additional burden on taxpayers. Turn to Page 9

ON THE RISE

Outward remittances under LRS have seen a sharp increase in recent years



Source: RBI

Signs of economic revival visible: FM

ARUP ROYCHOUDHURY
New Delhi, 11 February

Finance Minister Nirmala Sitharaman said on Tuesday that the economy was showing signs of coming out of a deep slowdown and that "green shoots" were visible in some sectors.

In replies to the Budget discussion in the Lok Sabha and the Rajya Sabha, Sitharaman also said the Modi government would not repeat the "mistakes" of the Manmohan Singh regime in the aftermath of the 2008-09 slowdown.

"There are seven important indicators which show that there are green shoots in the economy," she said in the Lok Sabha. In both the Houses, first in the Lok Sabha and then in the Rajya Sabha, she listed these indicators.

EDIT: BASE EFFECT
PAGE 11

She said foreign direct investment (FDI) stood at $24.4 billion at the end of November 2019, as against $21.1 billion the year before. Foreign portfolio investment inflows stood at $12.6 billion for April-November 2019-20, compared with an outflow of $8.7 billion for the same period of the previous fiscal year, she said. The minister said ₹22,000 crore had already been allocated to the National Investment and Infrastructure Fund for investing in projects identified under the ₹1.3 trillion National Infrastructure Pipeline. She said that the index of industrial production, purchasing managers indices on manufacturing and services, forex reserves, and tax collections had all indicated an economic recovery. Turn to Page 9

"WHAT WAS THE REMEDY OFFERED IN 2008-09 AND WHAT DID IT RESULT IN? WE CERTAINLY DON'T WANT THAT BURDEN ON THE ECONOMY FOR TODAY OR FOR THE FUTURE"

NIRMALA SITHARAMAN, FINANCE MINISTER

'Sick' pharma PSU offers to step in to reduce China drug dependence

SOHINI DAS
Mumbai, 11 February

The coronavirus outbreak has exposed India's vulnerability when it comes to sourcing crucial raw materials for medicines from China, which meets about 70 per cent of the country's bulk drugs, or active pharmaceutical ingredients (APIs), requirement.

As the Indian government scouts for options to deal with any potential scarcity that can arise in the near future, the country's oldest public sector pharma company, Hindustan Antibiotics (HAL), has submitted a proposal to the government to reduce dependence on China for fermentation-based bulk drugs, it is learnt.

HAL can make up to 50 per cent of these bulk drugs if it is provided financial assistance to upgrade its infrastructure, the company said.

India sources almost its entire requirement of fermentation-based APIs from China. These bulk drugs are used to make key antibiotics (penicillin, for example) and vitamins.

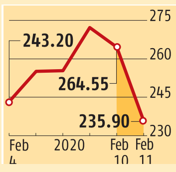
HAL, a sick public sector undertaking (PSU) which the Centre plans to sell off after meeting its liabilities, is the only state-owned entity that makes fermentation-based APIs. It last made them in 2003, revealed sources. Turn to Page 9

STATUS CHECK

- India imports 70% of the bulk drug requirement from China
- Almost entire requirement of fermentation-based active pharmaceutical ingredients (APIs) is imported from China
- Fermentation APIs are used to make antibiotics, vitamins, etc
- Hindustan Antibiotics, which the government is looking to sell off, has sought financial aid for infrastructure upgrade to help reduce dependence on China for such drugs

STOCKS IN THE NEWS

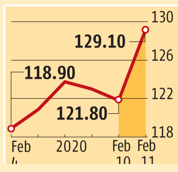
General Insurance Corporation



Q3 net loss at ₹1,035 cr, against profit of ₹377 cr in the year-ago period

₹235.90 CLOSE ▼10.83% DOWN*

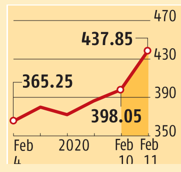
GAIL



Q3 profit before tax up 65% at ₹2,816 cr QoQ

₹129.10 CLOSE ▲6% UP*

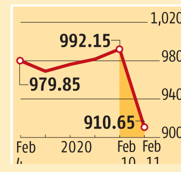
Shilpa Medicare



Q3 profit before tax at ₹65 cr, against ₹11 cr in the year-ago period

₹437.85 CLOSE ▲10% UP*

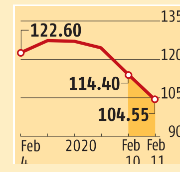
BASF India



To divest construction chemicals business to Master Builders

₹910.65 CLOSE ▼8.21% DOWN*

Himatsingka Seide



Falls 17% in two days as Q3 profit down 95% at ₹2.78 cr YoY

₹104.55 CLOSE ▼8.61% UP*

*OVER PREVIOUS CLOSE

IN BRIEF

MakeMyTrip names co-founder Rajesh Magow group CEO

Online travel agency MakeMyTrip's founder Deep Kalra has stepped down as group chief executive officer (CEO) of the Gurugram-based company, and will be succeeded by co-founder and India CEO Rajesh Magow. Kalra "will devote his full time to pursuing strategic initiatives, including product innovation and expansion, geographic growth, business model innovation and corporate development, in his new role as group executive chairman," the company said in a filing to the US Securities and Exchange Commission. MakeMyTrip is listed on the Nasdaq. Magow will work closely with Kalra in his new role and focus on driving the next phase of growth for the MakeMyTrip Group through its three brands — MakeMyTrip, Goibibo and Redbus. NEHA ALAWADHI

Kesoram's pre-tax loss widens to ₹102.4 crore

Kesoram Industries' pre-tax loss widened to ₹102.42 crore during the quarter ended December 31, 2019 with a 12.58 per cent decline in the firm's net income at ₹640.76 crore. The pre-tax loss and net sales during the corresponding quarter of the last fiscal year stood at ₹52.78 crore and ₹732.99 crore. Kesoram demerged its tyres business under Birla Tyres. BS REPORTER

CRISIL says electric 2-3 wheeler sales to improve by 2024

Around 43-48 per cent of new three wheelers and up to 17 per cent of the new two wheelers sold in the country by 2024 could be electric vehicles (EVs), a report by Crisil Research said. In the four wheeler segment, however, the traction is expected to remain low with EV sales accounting for just 5 per cent of the new sales, it noted. PTI

Ikea founder's assistant named chief executive

Jon Abrahamsson Ring, a former assistant to furniture giant Ikea's founder Ingvar Kamprad, has been named new chief executive (CEO) of the Inter Ikea Group, the company said on Tuesday. Abrahamsson Ring, 45, will take over the reins on September 1, replacing Torbjorn Loof, 54, who resigned after seven years at the head of the group, it said in a statement. Under Loof's management, the Swedish flat-pack furniture company expanded into 15 new markets and is scheduled to open its first South American store in Chile next year. PTI

100-member Uber Money team debuts in Hyderabad

Uber on Tuesday said it has set up Uber Money, a team of more than 100 technology professionals responsible for global financial products and technology innovations, at its Hyderabad Tech Centre. The team will enable upcoming new global features and improvements, including real-time earnings, updated debit accounts, and debit cards for Uber drivers, along with Uber Wallet and refreshed Uber credit card for Uber riders. PTI

₹2-trn InvITs to hit market in five years: ICRA

Infrastructure investment trusts (InvITs) worth ₹2 trillion are expected to hit the market over the next five years, says rating agency ICRA. Of the total, about ₹80,000 crore of InvITs could be launched within a year, it said. The National Highway Authority of India InvIT, Tower Infrastructure of Reliance Jio, a second InvIT from IRB, and eight road assets by L&T and IndInfravit from Sadhbav are some of the issuers that are in advanced stages to raise money through this instrument. So far, about ₹22,000 crore has been raised through InvITs. ICRA said a favourable tax regime would be required to ensure healthy investor interest. BS REPORTER

Tea cafe chain Chaayos raises $21.5 million

Chaayos on Tuesday said it has raised $21.5 million in a mix of equity and debt funding to expand business. It said the company is looking at opening 300 cafes over the next 3-4 years. "Continued confidence of our guests has allowed us to expand our café network at a fast pace and we will end FY20 with nearly 100 cafes. We shall endeavour to get to 300 cafes over the next 3-4 years," Chaayos founder Nitin Saluja said. PTI

M&M lines up $425 mn to revive Ssangyong Motor

Automaker draws up three-year turnaround plan a decade after acquisition

SHALLY SETH MOHILE
11 February, Mumbai

For Ssangyong Motor, life has come full circle. Almost a decade after Mahindra and Mahindra (M&M) wrested control of the then ailing South Korean automaker, the Anand Mahindra-led firm has chalked out a three-year turnaround plan for Ssangyong amid dwindling sales in the domestic and overseas markets and mounting losses.

Mahindra acquired 70 per cent stake in Ssangyong (in March 2011), which had a troubled past and militant trade unions.

As part of the latest plan, Mahindra will pump in 450-500 billion Korean won ($380 million-$425 million) to revive the company that has been hit hard by a rapid shift in buyer preference from diesel to petrol, steep drop in exports volumes and a global economic slowdown.

While half of the fund will be raised via equity, the other half would come from a bank loan. The maker of Rexton SUV reported a loss of 300 billion Korean won for the year that ended in calendar year 2019, the steepest in its history. "We have made a three-year plan which has been approved by the board of Ssangyong. We want to be profitable by 2022," Pawan Goenka, managing director, M&M, told reporters on Tuesday.

Among other things, the plan includes shaving off the material costs in an aggressive way and save at least 80-90 billion Korean won per year. This will be a two-year project which will give the company around 3 per cent improvement in the operating profit margin, said Goenka.

Ssangyong working with Ford will be yet another pillar in the turnaround strategy, he added.

"It is our estimate that for full recovery, it will take 450 to 500 billion Korean won of funding support," said Goenka. Mahindra is in talks with lenders for funds. It has also engaged external consultants to vet the turnaround plan.

Also, as a result of the recent round of negotiations with the labour union, Ssangyong is hoping to pare personal cost significantly in 2020 and 2021. Meanwhile, the company is working on developing new markets, including Russia, China, and Vietnam, as part of a strategy to de-risk itself geographically.

"A combination of these three to four steps will give us the kind of improvement that we are looking at, said Goenka. Though the new model launches are expected to boost volumes, it is unlikely to be much different from last year when it sold a total of 120,000 units, he said.

The turnaround may not be easy to execute, said Mitul Shah, vice-president, research, at Reliance Securities. "Considering they couldn't get the desired performance even during the best of times — when sales were looking up globally, executing a turnaround now, amid disruption and a global slowdown, looks tough. The plan, therefore, doesn't give enough confidence to investors," said Shah.

M&M's December quarter profit fell 73 per cent year-on-year, on a one-time impairment provision of ₹380 crore. The financials include that of the commercial vehicles unit, Mahindra Vehicle Manufacturers.

Goenka guided for a slow first quarter for the auto business as disruption from implementation of the BS-VI norms take effect. While price of gasoline-powered models are expected to rise by ₹20,000, diesel will see a sharper increase of up to ₹1.25 lakh, said Goenka. None of the manufacturers, however, will be able to take the price increase in one shot, given the weak demand, he added.

Starting from the first quarter of fiscal year 2020-21, M&M plans to bring a litany of new models in the SUV, tractor and electric segments.

Shah expects Mahindra's margins to remain under pressure as the company may end up absorbing the additional demand. M&M's shares closed at ₹524.40 on Tuesday, down 0.69 per cent on the BSE. The Sensex closed at 41,216.24 points, up 0.58 per cent.

"WE HAVE MADE A THREE-YEAR PLAN WHICH HAS BEEN APPROVED BY THE BOARD OF SSANGYONG. WE WANT TO BE PROFITABLE BY 2022"

Pawan Goenka, Managing director, Mahindra & Mahindra

THE BALANCE SHEET

Figures ₹ cr	Revenue	Net profit
Dec 31,'18	6,728	-24
Mar 31,'19	5,844	-164
Jun 30,'19	5,576	-308
Sep 30,'19	4,930	-635
Dec 31,'19	5,570	-704

Figures for quarter ended Dec 2019 are estimated
Compiled by BS Research Bureau
Source: Bloomberg

Bikes, CVs may see a smooth drive from H2

T E NARASIMHAN
Chennai, 11 February

Commercial vehicles (CVs) and two-wheelers, after clocking growth in January 2018, have reported a decline of 14.04 per cent and 16.06 per cent, respectively, in the same month this year over the equivalent period in 2019.

CVs and two-wheelers reported 39 per cent and 33 per cent growth, respectively, in January 2018 over the same month in 2017.

The two segments continue to feel the pressure of slowdown in rural sales and changes in regulations, among other things.

Industry representatives, however, have said from the second half of the year, they hope to see revival because the rural economy is looking up and the projects the government has announced.

According to the wholesale numbers Society of Indian Automobile Manufacturers has given, CV sales were 61,305 units in January 2017, 85,660 units in January 2018, and 87,591 units in January last year. However, they dropped to 75,289 units in January this year.

Two-wheeler sales, which rose to 1.68 million in January 2018 from 1.26 million in January the previous year, started falling since January 2019 (1.59 million) to 1.34 million in January this year.

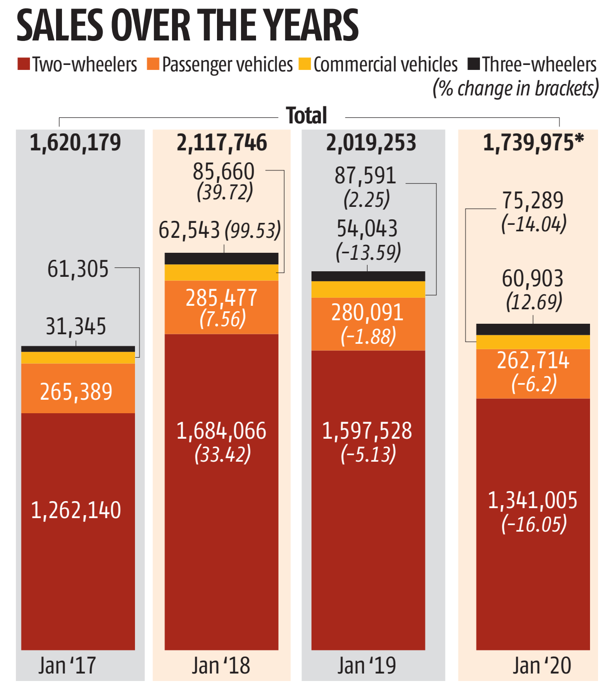
Factors that affected sales of CVs are: Slowdown in infrastructure spending, drops in freight rates, revised axle-load norms, goods and services tax rates, crisis in non-banking financial companies, and emission norms.

Ashok Leyland expects the M&HCV (medium and heavy commercial vehicle) industry would close 2019-20 with sales of around 200,000 units, a drop of nearly 46.23 per cent over last year. However, it hopes things should revive.

Vipin Sondhi, managing director and chief executive officer (CEO), Ashok Leyland, said the Union Budget's allocation of ₹2.83 trillion for agriculture, irrigation, and rural development would help CVs because it would lift the rural economy. The Budget's proposal to spend ₹100 trillion on infrastructure over five years would create demand for CVs.

Rajan Wadhera, president, Siam, and president, (automotive sector), Mahindra & Mahindra, said "sales of vehicles continue to be stressed due to rising costs of vehicle ownership and slower growth in GDP. We are hopeful that the recent announcements of the government on infrastructure and rural economy would support the growth of vehicle sales, especially in commercial vehicles and two-wheelers".

SALES OVER THE YEARS



*Including quadricycle sales

Source: Siam

CBI books Educomp, its directors for defrauding banks of ₹1,955 cr

PRESS TRUST OF INDIA
New Delhi, 11 February

The Central Bureau of Investigation (CBI) has booked Educomp Solutions (ESL), its subsidiary and directors for allegedly defrauding a State Bank of India (SBI)-led consortium of 13 banks to the tune of ₹1,955 crore, and carried out searches at eight locations on Tuesday, officials said.

The agency booked ESL, its managing director Shantanu Prakash; guarantor Jagdish Prakash; its subsidiary Edu Smart Services and directors Vijay Kumar Choudhary and Vinod Kumar Dandona for criminal conspiracy, cheating, forgery and under provisions of the Prevention of Corruption Act, they said.

After filing the FIR, the agency carried out searches at eight locations in Delhi, Dehradun and Gurugram on the premises of ESL, Edu Smart and its directors, the officials said.

The CBI action came on a complaint from seven of the 13 banks, including SBI, which have declared the account as fraud. The banks have alleged that ESL, incorporated in 1994, was in the business of creating digital educational content for schools and vocational courses under the brand names 'Smartclass' and 'Edureach', respectively, they said.

It used to enter tripartite agreements with its own subsidiary, Edu Smart, and schools for providing the content.

ESL used to sell hardware and digital content under its 'Smartclass' business to Edu Smart, which used to sell it to schools with realisation of sales spread over a contract period of five years on quarterly basis, the officials said.

It is alleged that Edu Smart had sought term loans from consortium members by keeping contracted future cash flows from schools as security, which was sanctioned.

The loans raised by Edu Smart were required to be passed on to its creditors that is ESL, the CBI has alleged.

Later, ESL discontinued its business of selling 'Smartclass' through Edu Smart and decided to directly sell to the schools, the officials said.

The banks restructured the Edu Smart debt, closing its term loan accounts and transferring liabilities to ESL, they said. Fresh term loans were disbursed to ESL by the banks, with future receivables of Edu Smart also transferred to it, the officials said.

Due to non-fulfilment of the terms and conditions of the loans, ESL loan accounts became non-performing asset in 2016, they added.

Shantanu Prakash, MD of ESL, has also been booked by the investigating agency

Godfrey Philips lights up amid gloom

Despite market burn, tobacco major posts 13.1% volume growth

AVISHEK RAKSHIT
Kolkata, 11 February

At a time when tobacco majors have been posting muted growth due to tepid consumer demand, Godfrey Philips posted 13.1 per cent volume growth during the first three quarters of the current financial year. This has led to a market share gain of 1 per cent.

In its earnings presentation after the third quarter results, the company's Chief Executive Officer Bhisham Wadhera said, "Godfrey Phillips delivered strong cigarette domestic volume growth of 13.1 per cent during the nine months along with a better product mix and improved realisations. Our domestic cigarette market share also increased from 11.9 per cent to 12.9 per cent."

However, Abneesh Roy, executive vice-president of institutional equities at Edelweiss Securities is of the view that market leader ITC's cigarette volume had registered 2.5-3 per cent growth during April-December 2019. In the highly polarised tobacco market in the country, ITC commands three-fourth market share.

Besides the product mix, the growth in Godfrey Phillips cigarette sales, according to sources, is also led by new launches and its flagship Marlboro brand entering new markets. "Marlboro has been growing faster than other brands. It has also been entering new markets," said Roy.

According to Wadhera, the company opted for geographic expansion into high potential markets of South India by developing local sales and distribution infrastructure to further its core cigarette business.

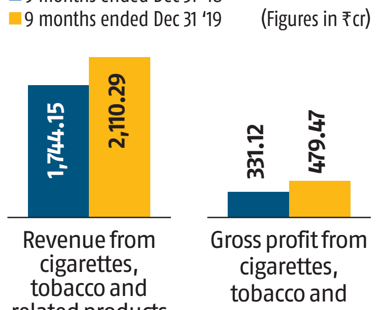
While this flagship company of the $2.8-billion strong Modi Enterprises has a manufacturing and distribution licence for Marlboro in India, it also owns brands like Four Square, Red and White, Cavanders, Tipper, North Pole and others.

In India, the kingsize (100 mm) Marlboro is available in various ranges like Red, Gold, Fuse Beyond, Fine Touch, Marlboro Clove Mix and others.

Four Square, the largest flagship brand franchise of Godfrey Phillips, on the other hand, has a national footprint, with presence in more than 19 states and comes in kingsize mini (69 mm).

During April-December 2019, in terms of revenue, it posted 20.99 per cent increase in its earnings from cigarettes and tobacco at ₹2,110.29 crore, while profitability surged 44.80 per cent at ₹479.47 crore. During this period, gross sales value of cigarettes, which include all taxes, increased by 19.6 per cent as well.

KEY METRICS



Source: Company

ITC hikes cigarette prices by 20% on calamity duty

AVISHEK RAKSHIT
Kolkata, 11 February

Following the hike in the national calamity contingent duty (NCCD) announced in the Union Budget this year, market leader ITC steeply increased cigarette prices between 10 per cent and 20 per cent for some of its brands.

A rise in NCCD escalates taxes on cigarettes. Manufacturers have the option to either pass them on to consumers or absorb the same.

"Prices of a number of brands have been revised," said an ITC spokesperson.

This is the first hike in cigarettes after the Budget.

Sources said while the American Club Cool Fresh Taste saw a minimum hike of 10 per cent at ₹220 for a pack of 20, the price of Navy Cut Filter rose by around 16 per cent at ₹80 for a pack of 10 sticks. Prices of Flake Filter rose by around 14 per cent at ₹80, while prices of Flake Special Filter, Flake Blue Special Filter and Wave Cool Mint rose by 20 per cent.

Other brands which saw price rise were Gold Flake Super Star and Duke Special Filter.

Incidentally, it is one of the steepest price increases ITC took in the past two-three years. Last year, the company increased prices of Bristol, Capstan, and Flake Excel in the range of 7 per cent and 14 per cent, while in 2017, prices rose by 6-7 per cent across brands.

However, in 2016, the company took selective price increases across its cigarettes portfolio when prices rose by up to 13 per cent for Classic and Gold Flake Kings brands to pass on the excise increase; in the year ago, prices went up by 12-21 per cent. The hike this time exceeded the previously anticipated surge of 7-10 per cent, which sector analysts were expecting after NCCD was revised.

Analysts reasoned that on a blended basis, there is likely to be 11 per cent tax hike on average as the dominant 64 mm (kingsize mini) has seen sharper tax hike of 15 per cent, while others like the kingsize and regular have seen tax hike of 9-10 per cent.

According to Abneesh Roy, executive vice-president of institutional equities at Edelweiss Securities, a 7 per cent hike would have led to a 3-4 per cent decline in cigarette volumes.

The previous projection, however, is likely to be revised now. ITC, which commands leadership position in the tobacco space with three-fourth market share, has been raising concerns over the stress on its cigarettes business, prompted by taxation and illicit trade.

Simplus buy shows Infy's bet on inorganic route for growth

Firm may have shed its inhibitions of making acquisitions of slightly bigger size, say experts

DEBASIS MOHAPATRA
Bengaluru, 11 February

Infosys' move to acquire Salesforce consulting firm Simplus is a reflection of its current management's aggressive approach of taking inorganic route to enhance capabilities in future growth areas. According to experts, the company may have shed its inhibitions of making acquisitions of slightly bigger size.

The Bengaluru-headquartered firm late Monday announced acquiring Simplus, a US-headquartered company, for $250 million (around ₹1,750 crore). This acquisition is expected to boost its capabilities in the fastest-growing Cloud segment. This is also the biggest acquisition by the company after Lodestone, which it acquired in 2012 for around $350 million.

"When enterprises are increasingly migrating to Cloud, Infosys' move to acquire Simplus shows its focus on high-growth areas like Cloud. Global firms like Accenture and Cognizant are also heavily investing in Cloud," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting.

EARLIER BUYOUTS

Acquisitions under CEO Salil Parekh

Acquired company	Acquisition cost ($ mn)	Month & year	Geography
Fluido Oy	76	Sept, 2018	Finland
WongDoody	75	Apr, 2018	US
Stater NV	143 (for 75% stake)	Mar, 2019	The Netherlands
Eishtec	NA	Oct, 2019	Ireland
Simplus	250	Feb, 2020	US

Source: Company announcements

Founded in 2014, Simplus is one of the fastest-growing Salesforce platinum partners in the US, with a presence in Australia (Sydney, Melbourne), the UK (London) and in The Philippines (Manila), where it has a large delivery centre. The acquisition is expected to close during the fourth quarter of FY20. While Infosys will spend $200 million acquiring shares of Simplus, the company has committed another $50 million towards employee incentives and retention upon meeting certain performance conditions over three years.

This acquisition, along with that of Fluido, which the company had acquired in September 2018, is expected to strengthen Infosys' Cloud offers. "Simplus has strong presence in Australia, which will definitely supplement Infosys' growth in this key market. Also, Simplus' onshore-offshore model, with delivery centre in Manila put Infosys in good stead," said Jain.

However, some experts said the payout of $250 million seems to be expensive for Salesforce. "On a revenue of $70 million, the acquisition seems to be a bit expensive. So, it has to be seen how much revenue upside this buy out can provide to Infosys," said an analyst. Under current CEO Salil Parekh, Infosys is aggressively pursuing the joint venture route apart from acquiring entities to supplement its revenue growth through inorganic route. Since his appointment in January 2018, Infosys has acquired five companies, including Wongdoddy, Fluido, Stater, and Eishtec.

Qatar Investment closes Mumbai power deal

The Qatar Investment Authority (QIA) completed the acquisition of a 25.1 per cent stake in Adani Electricity Mumbai (AEML) from Adani Transmission (ATL), the latter announced, along with investment in shareholder-subordinated debt in AEML.

These were completed on Monday and the total QIA investment in AEML is ₹3,220 crore ($450 million). Comprising ₹1,210 crore ($170 million) equity and the debt of close to ₹280 million (a little above ₹2,000 crore).

The definitive agreements for the transaction were signed on December 11, 2019, and the requisite approvals came later. AEML recently completed an investment grade $1-billion bond issue, the first by a private integrated utility from India.

It elicited significant interest from international investors, being subscribed 5.9 times.

BS REPORTER

Domestic firms eye defence sector with focus on import substitution

ADITI DIVEKAR
Mumbai, 11 February

Despite a marginal 6 per cent rise in defence allocation for FY21, domestic companies — Jindal Defence and L&T Defence — are actively looking at participating in the defence growth story, currently dominated by imports.

Recently, Larsen & Toubro (L&T) and Europe-based MBDA, a world leader in missile systems, formed a joint venture (JV) to set up a missile integration facility in Tamil Nadu. Delhi-based Jindal Defence, part of O P Jindal Group, also announced its foray into small arms manufacturing in India via a JV with Taurus Armas S A, of Brazil.

"At present, foreign players supply almost 50 per cent of the total requirement of India's defence equipment. The small arms market in India is estimated to be $10-12 billion by 2035. This gives enough opportunity for domestic firms like us (Jindal Defence) to venture into defence manufacturing," Abhyuday Jindal, promoter of Jindal Defence told *Business Standard*.

The ministry of defence has set a goal of $26 billion, including export of $7 billion for the industry by 2025-26 through its Defence Production Policy 2018.

"Due to this, the cumulative anticipated capex spend for domestic industry over the next six years would be about ₹10 trillion. With Make in India initiative kicking in, the indigenisation in defence sector should go up from the 35-40 per cent to 70-75 per cent. So, there is ample scope for domestic players," said J D Patil, director and senior executive vice-president (defence &smart technologies) at L&T (defence business).

L&T's JV will build complete missile systems for the armed forces, exploring prospects under the Buy {Indian – IDDM (Indigenously Designed, Developed and Manufactured)}, Buy (Indian), and Buy & Make (Indian) categories for defence procurement. Meanwhile, new entrant Jindal Defence plans an initial investment of $5 million for its small arms unit in Hisar.

AT A GLANCE

- Defence sector has mid- to long-term potential to be a major contributor to Make in India
- Small arms market in India estimated at $12 billion by 2035
- Anticipated capex spend for domestic industry over next 6 years at ₹10 trillion

The company aims at a private investment in the initial stage and will explore funding opportunities later. Jindal wants to position itself as an import substitution in the long term.

"Our major competition will be imports from global firearms manufacturers. There are a few other Indian private companies in this (small arms) space. However, they lack significant capacities to meet the demand. Our focus will be import substitution," said Jindal.

India ranks among the world's top five countries, with the highest expenditure in defence sector, said experts.

"The sector has a healthy mid- to long-term potential to be a major contributor to 'Make in India' and modernising of armed forces through indigenisation. Given long-term strategic independence, the government has little choice but to refocus and promote building indigenous platforms right from the development of technologies and concepts," said Patil.

Titan acqui-hires start-up to build on in-house technology

SAMREEN AHMAD
Bengaluru, 11 February

Watches-to-jewellery maker Titan has acqui-hired a Hyderabad-based start-up — called HUG Innovations — to build its technology expertise in-house.

This is the first ever acqui-hire by the Bengaluru-headquartered firm, which has set a goal to position itself as the leading smart wearables player in the country.

As part of the deal, the 23-member team of HUG Innovations, including its founder Raj Neravati, will be part of Titan's Hyderabad development centre. They will be working closely with Titan's wearables and PAD (personal adornment devices) team based out of its headquarters in Bengaluru, focusing on smart wearables technologies.

This is the first ever acqui-hire by the Bengaluru-based company

"We will be coming up with 4-5 products every year in the smart wearables segment," said S Ravi Kant, CEO, watches and wearables business, Titan. The company is also open to more acquisitions in future, he said. Till now, Titan used to collaborate with global technology firms and start-ups to acquire technological know-how such as software and cloud storage for its smartwatches.

It had earlier partnered HP and Intel to build technology platforms for its smartwatches 'Juxt' and 'Juxt Pro'.

According to the International Data Corporation, India is the third-largest market for smart wearables after the US and China. In a bid to lead the smartwearables pack, Titan has so far rolled out 12 devices in the price range of ₹800-₹23,000.

These currently account for 10 per cent of Titan's total watches revenue that the company plans to double in a span of three years with new and innovative offerings.

In March, Titan is looking at launching its 13th smartwatch, with features such as 1.2 inch full-colour touchscreen with analogue hands, activity tracking, heart rate monitoring, find phone, camera control, sleep tracking, weather and calendar alerts.

The company is also exploring to come out with smartwatches which would allow users to make payments with gesture control.

Several errors in extradition order: Mallya lawyers in UK

Liquor baron Vijay Mallya (*pictured*) on Tuesday appeared before the Royal Courts of Justice in London for his appeal against extradition to India to face fraud and money laundering charges amounting to ₹9,000 crore, where his lawyers claimed "multiple errors" in a magistrates' court's order.

The 64-year-old former Kingfisher Airlines boss, who remains on bail since his arrest on an extradition warrant in April 2017, avoided the usual scrum of reporters at the court entrance and went in with his lawyers separately. "I'm just here to listen," he said.

Justice Stephen Irwin and Justice Elisabeth Laing were told by Mallya's barrister that Chief Magistrate Emma Arbuthnot's verdict in favour of extradition in 2018 was flawed and also questioned the admissibility of some witness statements submitted by the Indian government.

Clare Montgomery tried to establish that Mallya had no fraudulent intentions when he sought bank loans for Kingfisher Airlines because he is no "fly by night figure but an immensely wealthy man" who was not running any sort of "ponzi scheme" but a reputable airline, which fell into economic misfortune along with other Indian airlines.

PTI

PHOTO: DALIP KUMAR

AS BROOM SWEEPS IT CLEAN...

A success model for Opposition

ADITI PHADNIS
New Delhi, 11 February

The Delhi poll results indicate winds of change blowing in the country," said Nationalist Congress Party (NCP) leader Sharad Pawar. His party's alliance partner and Maharashtra Chief Minister Uddhav Thackeray was frank: "The people of Delhi have chosen '*Jan Ki Baat*' over '*Mann Ki Baat*'. There is a (BJP-led central) government in Delhi with so-called nationalistic views which used the entire machinery and force in the Delhi polls but failed before the broom".

The Aam Aadmi Party (AAP) has taken the two most potent weapons available to any political party and has refashioned them to craft a massive electoral victory. This could well be the new template for the Opposition.

Freebies are one of the two ways of winning people over. In Telangana, the Telangana Rashtra Samithi (TRS), a relatively new party like the AAP, managed to come to power for the second successive term in December 2018, adding 25 seats to its 2014 tally of 63 in a 119-member House, with an increase of 12 percentage points in its vote share. The TRS rode to power on the back of welfare schemes, such as support for weddings of women from poor families (Kalyana Lakshmi/Shaadi Mubarak), support for neonatal health through KCR Kits (Ammavodi), and a programme to assist farmers (Rythu Bandhu). According to the pre-poll data collated by research agency Lokniti-CSDS, there was a high level of awareness among voters about the TRS government's welfare schemes; so it was not just a case of introducing schemes, but going home to home to tell people about them. The TRS has maintained friendly ties with the All India Majlis e Ittehadul Muslimeen (AIMIM), promised 12 per cent reservations to Muslims in education and employment, and opened a number of residential schools for Muslim children.

A similar route to electoral success was sought by Akhilesh Yadav in Uttar Pradesh by emphasising on infrastructure development, providing laptops to students, etc. In Bihar, Nitish Kumar came to power for another term because of education and health reform in 2006 – cash to girls for bicycles, uniforms to school-going students, which increased enrolments in the first year itself by over 30 per cent (academic studies show that leakages from the scheme were below 5 per cent), subsidies for pathology services, and an overhaul of state hospitals with monitoring via digital oversight.

So welfare by state governments plays a key role in their re-election. Not all of them need to be freebies, many are just policy tone-ups to make them effective and efficient. The AAP mastered this via its education and health experiments.

But equally, the AAP offered an alternative route to nationalism and religiosity. While the Congress — in Madhya Pradesh and elsewhere — was agonising about the morality and appropriateness of soft Hindutva, Arvind Kejriwal embraced Hanuman and Ganesh — the two gods of the streets — unapologetically. He stayed away from issues like Shaheen Bagh, but the minorities forgave him. The AAP candidate from Okhla, Amanutallah Khan, won by the largest margin in the Assembly election. At his election rally, Kejriwal's slogan was "*Bharat Mata ki Jai*", which he claimed from the BJP.

Former finance minister P Chidambaram lauded the people of Delhi for defeating the "polarising" agenda of the BJP without commenting on the reasons for his party's loss. AICC Delhi in-charge P C Chacko said the message of the Delhi polls was that the "most toxic campaign" unleashed by Prime Minister Narendra Modi and Union Home Minister Amit Shah were defeated by the people of the national capital. But the AAP adopted nationalism — and adapted it. Delhi showed that it liked the adaptation. Maybe this could bring the Opposition together.

"LEADERS PLAYING ON FAITH THROUGH HATE SPEECH & DIVISIVE POLITICS SHOULD TAKE A CUE, AS ONLY THOSE WHO DELIVER ON THEIR PROMISES ARE REWARDED"

MAMATA BANERJEE, West Bengal CM

"THE PEOPLE OF DELHI HAVE CHOSEN *JAN KI BAAT* OVER *MANN KI BAAT*"

UDDHAV THACKERAY, Maharashtra CM

AAP's protective shield and BJP's three messages

ABHISHEK WAGHMARE
New Delhi, 11 February

The much-expected victory of the Aam Aadmi Party (AAP) has a strong message from the party and three key takeaways from the Bharatiya Janata Party (BJP) camp, which neither Kejriwal's outfit nor other regional parties can afford to overlook.

An analysis of results data provided by the Election Commission and Trivedi Centre for Political Data at Ashoka University shows that the BJP increased its popularity — read vote share — despite the debacle. Second, the relative popularity — loss of votes compared to 2015 — of the AAP took a hit despite their victory. Finally, regional parties about to face polls soon, such as the Rashtriya Janata Dal and the Trinamool Congress, are likely to face tighter contests than they expect.

The AAP's message was stronger: It built its voter protective shield so tough that the BJP's dent on the AAP's support base was minuscule. Figures in the analysis are rounded off, and could vary from actuals to some extent as final results were not available at the time of press (8.30 pm).

At the outset, the BJP ate into the vote base of the Congress, and not the AAP, which maintained its vote share at close to 54 per cent. The BJP's vote share increased by 6 percentage points, from 32.2 per cent to 38.5 per cent in 2020. The Congress, from a 15-year rule in Delhi till 2013, has come down to a situation where only 5 per cent of Delhi's electorate prefers it to lead them.

It mattered only in a few seats, such as Ghonda, where the BJP gained nearly 29,000 votes, and the Congress and the AAP lost 18,000 and 8,000 votes, respectively, resulting in the BJP's victory.

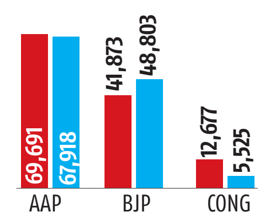
But in most cases, the AAP's shield prevented this. For example, in Vikaspuri, the BJP gained 22,000 votes, while the AAP lost 24,000. Yet, the AAP's Mahinder Yadav clocked a victory. In Badarpur, the BJP gained 23,000 and the AAP lost a similar number of voters. Yet, Ram Singh Netaji won.

A deeper look into constituency level results gives out a second takeaway: The BJP's gulp of the Congress' votes reduced the victory margin of AAP candidates by an average 30 per cent. This message is important for political parties in states with intense electoral competition.

Finally, the results reinforce the BJP's achievement of a higher vote share when it fights for power as an anti-incumbent (for example, Karnataka), compared to the performance of Opposition parties when they fight against incumbent BJP (for example, Rajasthan, Madhya Pradesh).

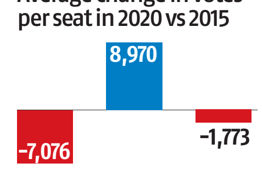
CONGRESS BASE LENT SUPPORT TO BJP

Average votes won per seat ■ 2015 ■ 2020



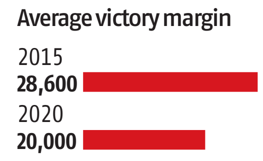
BJP ONLY NIBBLED AAP'S VOTE

Average change in votes per seat in 2020 vs 2015



AAP VICTORIOUS, WITH LESS VOTES

Average victory margin



Source: Saloni Bhogale, Sudheendra Hangal, Francesca Refsum Jensenius, Mohit Kumar, Chinmay Narayan, Basim U Nissa, and Gilles Verniers. 2019. "TCPD Indian Elections Data v1", Trivedi Centre for Political Data, Ashoka University; ECI; provisional data

HEAVYWEIGHTS

WINNERS

ARVIND KEJRIWAL
New Delhi .... AAP
Won by **21,697**

MANISH SISODIA
Patparganj .... AAP
Won by **3,207**

VIJENDER GUPTA
Rohini .... BJP
Won by **12,648**

ATISHI
Kalkaji .... AAP
Won by **11,393**

RAGHAV CHADHA
Rajinder Nagar .... AAP
Won by **20,058**

AMANATULLAH KHAN
Okhla .... AAP
Won by **71,827**

LOSERS

TAJINDER PAL SINGH BAGGA
Hari Nagar .... BJP
Lost by **20,131**

ALKA LAMBA
Chandni Chowk .... Cong
Lost by **47,010**

KAPIL MISHRA
Model Town .... BJP
Lost by **11,133**

HAROON YUSUF
Ballimaran .... Cong
Lost by **60,842**

VOICES

"CONGRATULATIONS TO AAP AND SHRI ARVIND KEJRIWAL JI FOR THE VICTORY IN THE DELHI ASSEMBLY ELECTIONS. WISHING THEM THE VERY BEST IN FULFILLING THE ASPIRATIONS OF THE PEOPLE OF DELHI"

NARENDRA MODI,
Prime Minister

"THE PEOPLE OF DELHI, WHO ARE FROM ALL PARTS OF INDIA, HAVE DEFEATED THE POLARISING, DIVISIVE AND DANGEROUS AGENDA OF THE BJP"

P CHIDAMBARAM,
Senior Congress leader

"WHILE COMMON MEN, WOMEN AND STUDENTS HAVE HAD THE COURAGE TO SUPPORT SUCH WORTHY CHANGE AGENTS, THE RICH AND FAMOUS LIKE US HAVE UNFORTUNATELY STAYED AWAY..... WONDER WHEN WE WILL PUT OUR SKIN IN THE GAME FOR A BETTER INDIA FOR EVERYONE..."

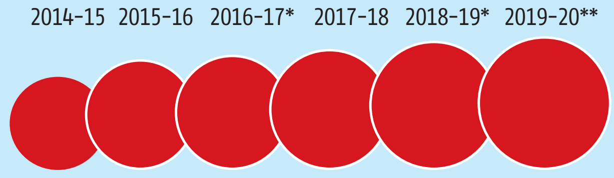
RAJIV BAJAJ,
Managing director, Bajaj Auto

"MY HEARTIEST FELICITATIONS TO ARVIND KEJRIWAL AND AAM AADMI PARTY FOR THIS STUPENDOUS VICTORY WHICH WAS WON ON A STRONG PLATFORM OF INCLUSIVE DEVELOPMENT"

KIRAN MAZUMDAR-SHAW
CMD, Biocon

A tightrope walk on fiscal balance

The AAP government has presented revenue-surplus Budget successively. Though it has been incurring fiscal deficit since 2016-17 (except for 2017-18), it has been under control at sub-1 per cent of its state gross domestic product. The new Arvind Kejriwal government has to keep in mind that revenue and fiscal balances of the government do not deteriorate much if it expands its freebies INDIVJAL DHASMANA



	2014-15	2015-16	2016-17*	2017-18	2018-19*	2019-20**
TOTAL RECEIPTS in ₹ crore	**31,576.0**	**37,323.4**	**40,083.0**	**41,264.0**	**51,674.5**	**55,553.0**
Own tax rev	26,603.9	30,225.16	32,430	35,717.02	38,400	42,500
Expenditure	30,940.1	35,195.52	41,200	40,926.85	502,00	60,000
Revenue exp	23,509.49	26,432.56	32,076.43	33,754.02	39,893.9	44,781.31
Capex	7,430.61	8,852.96	9,123.57	7,172.83	10,306.1	15,218.69
Revenue balance	6,075.09	8,656.29	4,845.63	4,913.25	4,930.58	5,235.69
As % of GSDP	*1.3*	*1.6*	*0.78*	*0.72*	*0.63****	*NA*
Fiscal balance	218.82	1,321.92	-2,462.31	113.27	-689.16	-5,901.9
As % of GSDP	*0.04*	*0.24*	*0.39*	*0.02*	*0.09****	*NA*

Note: * Revised Estimates, ** Budget Estimates, *** Based on Delhi Economic Survey
Source: Delhi Budgets, RBI

SHAHEEN BAGH, JAMIA CELEBRATE

Residents of Shaheen Bagh, the epicentre of the anti-CAA protests, celebrated the stupendous success of the AAP in the Delhi elections as many offered free food and biryani to mark the party's victory. Amanatullah Khan *(pictured)* defeated the BJP's Braham Singh by over 71,000 votes. PHOTO: PTI

8 of 9 TURNCOATS FIELDED BY AAP WIN

63 CONGRESS CANDIDATES LOSE DEPOSITS

24X7 water, midnight markets: Many promises to fulfil

RUCHIKA CHITRAVANSHI
New Delhi, 11 February

The Aam Aadmi Party (AAP), which returned to power in Delhi for a third consecutive term, has its task cut out for the next five years — from providing 24x7 piped drinking water and round-the-clock power supply and bustling markets to cleaning the Yamuna, appointing *mohalla* marshalls, and installing CCTV cameras for the safety of women.

The AAP in its manifesto had laid out 10 "guarantees" by party chief Arvind Kejriwal if elected to power.

Some of them would build upon the work already done in the last five years, such as promise of underground cable to bring electricity to every household, world-class education facility for every child, affordable health care, and reducing pollution to a third of the current levels.

The party has lined up initiatives to help the trading and business community of Delhi. The party will go for some low-hanging fruits, such as providing legal protection to street hawkers and vendors. "We will issue the certificate of vending within six months and set up international quality kiosks to prevent harassment of street vendors at the hands of the MCD and the Delhi Police," the party stated in its manifesto

Delhi govt schools after introducing the happiness and entrepreneurship curriculum will bring in a *deshbhakti* (patriotism) curriculum PHOTO: PTI

However, the increased footfall in Delhi has pushed the carrying capacity of the city's infrastructure to its limits and this will pose to be a big challenge for Kejriwal. "In a zeal to do good some of the unseen issues have not been tackled by them, such as lack of drainage and sewage facilities in unauthorised areas," a former bureaucrat in the Delhi government said.

The AAP plans to provide basic amenities, such as the sewage system to unauthorised colonies and pucca housing for slum dwellers of Delhi, in the next five years. "It will not be easy...There is no space in such areas to even put a dustbin sometimes...They have the money to do it but implementation and getting the support of the municipal corporation and the Jal Board will be crucial, too," the former bureaucrat added.

The AAP plans to provide basic amenities, such as the sewage system to unauthorised colonies and pucca housing for slum dwellers of Delhi, in the next 5 years

Kejriwal, who once said that the biggest gift of the BJP to Delhi was the waste mountain at Ghazipur, which could even exceed the height of Taj Mahal, has promised to make Delhi garbage and debris free.

Delhi government schools after introducing the happiness and entrepreneurship curriculum will bring in a *deshbhakti* (patriotism) curriculum.

As far as building infrastructure goes the AAP plans to extend Delhi's metro network to 500 km and a pilot of redesigning 40km of road within a year. "We will allocate adequate funds for infrastructure development and upgrading market and industrial areas."

The Delhi government under the AAP will carry out a comprehensive review and rationalisation of circle rates across Delhi with actual market prices to protect the interests of the property owners.

The party will continue to push for its demand for full statehood to achieve "long-term solutions for issues like MCD-led sealing, deteriorating law and order, non-provision of land for building new schools, colleges, clinics, hospitals."

Lower duties for agri goods on cards as US confirms Trump visit

US President to visit Ahmedabad and New Delhi starting Feb 24; both sides likely to sign trade deal

SUBHAYAN CHAKRABORTY
New Delhi, 11 February

As the White House has confirmed US President Donald Trump's two-day maiden visit to India starting February 24, the spotlight will be on soothing fractured trade ties with the country's largest export destination.

A statement released by the White House late on Monday night said Trump, along with wife Melania, will visit Ahmedabad, apart from New Delhi. Ahmedabad made the cut due to the city being in Prime Minister Narendra Modi's home state and because it played "an important role in Mahatma Gandhi's life and the Indian independence movement".

While Modi will be looking to cement defence ties through a deal to purchase an Integrated Air Defence Weapon System, the government hopes to give an assurance to reduce duties on US agricultural products as well as concessions on medical devices, officials said.

Eyes on trade

On foreign policy, Trump has followed his predecessor in hailing India as a strategic partner in the Indo-Pacific region and creating an allied front with New Delhi to counter China's growing influence across the region. It has addressed concerns elsewhere, by waiving sanctions from the Chabahar port in Iran. But in a departure from tradition, he has mounted an attack against India on trade policy and railed against high import duties and low market access for US goods. In 2019, the President started calling India a "tariff king", complaining against high duties faced by Harley-Davidson motorcycles.

While Modi had called Trump to settle the matter and reduce duties, his ensuing trip to the US in September 2019 did not lead to a trade deal, despite both sides working on it. But Trump had promised a trade deal with India "very soon". India's merchandise export to the US have risen for the past four years, registering $52.4 billion in FY19, up from $47.8 billion in FY18. On the other hand, import growth had been pronounced. In-bound shipment jumped to $35.5 billion from $26.6 billion in FY18.

Betting on agri

While both sides continue to work on a "comprehensive trade package", American trade officials have expressed unhappiness with Delhi's decision to saddle medical device import with an additional health cess. India has said it won't roll back the tax, but sources say the government is still considering allowing a trade margin policy for specific high-value items like coronary stents.

TRADE TALKS

- Trump has hailed India as a strategic partner in the Indo-Pacific region
- Both sides plan to sign a trade deal, but key issues like higher duty on US medical goods are yet to be resolved
- The government is likely to offer a rollback of duties on 29 US agri goods
- Talks on market access issues for automobiles, engineering, and tech goods may continue
- India hopes to secure another commitment from the US to source military hardware

During his Washington DC visit in November, Commerce and Industry Minister Piyush Goyal had met Scott Walker, president of AdvaMed, the American medical device trade association. AdvaMed, considered close to Trump's political camp, has repeatedly lobbied with the US to push India to dismantle its price-cap regime for crucial medical devices. Instead, India has offered to cut duties step by step on high-value US agri imports that were among 29 key items to see up to a 50 per cent duty hike last year.

While India is under pressure from farm lobbies to restrict market access these products, it hopes to provide an olive branch to the Americans on the issue.

"Discussions on other American demands — lower duties for industrial components, engineering products, and information technology goods like smartwatches and iPhones — are lengthy and not expected to complete by the time of Trump's visit," an official said.

Higher taxes on agri goods were estimated to rake in $240 million in additional taxes. India has said the higher taxes were in response to the US imposing 25 per cent more levy on steel, and 10 per cent on aluminium products. In return, the US has offered to step back from its aggressive posturing on 'reciprocal taxes'.

India is a developed economy, ineligible for GSP benefits: US

SUBHAYAN CHAKRABORTY
New Delhi, 11 February

The United States Trade Representative's (USTR's) office has classified India as a developed economy, ineligible for benefits given by Washington DC to developing countries. This is expected to stop all chances of India reclaiming its benefits under the US' Generalized System of Preferences (GSP) scheme.

The GSP is America's oldest preferential trade scheme, which offered Indian exporters tariff-free access to the US until June, when all benefits were suspended. The USTR considers a country's per capita gross national income (GNI) and share of world trade to designate its level of economic development.

On the criteria of a developing country having less than 0.5 per cent share of global trade, India crossed the limit way back, according to the government's estimate. As of 2017, India's share in global trade was 2.1 per cent for exports and 2.6 per cent for imports. The USTR has also argued that since India, along with nations like Argentina, Brazil, Indonesia, and South Africa, is part of the G20 bloc, they can be classified as being developed despite having a per capita GNI below $12,375, according to the World Bank data.

While Commerce and Industry Minister Piyush Goyal has said India does not need development assistances like GSP hitherto provided by other nations and should be able to become competitive on its own, the issue has continued to be part of trade talks between India and the US. On the other hand, traders have pointed out Indian export remained under pressure due to increasing competition from low-cost rivals, and that surrendering GSP claims would mean handing away market share.

In 2018, the US launched an eligibility review of India's compliance with GSP market access criteria. It concluded the country had implemented a wide array of trade barriers that create serious negative effects on commerce. Subsequently, President Donald Trump signed an executive order in November that ended duty-free status for 50 items.

India is the largest beneficiary nation under the GSP, with total benefits from tariff exemptions amounting to $260 million in 2018, according to the data from the USTR's office.

Q3 SCORECARD

IDBI Bank back in black on dip in NPA provisions

ABHIJIT LELE
Mumbai, 11 February

IDBI Bank's profit before tax (PBT) stood at ₹755.89 crore in the third quarter (Q3FY20), against a loss before tax of ₹5,805 crore in the year-ago period, because of a rise in net interest income and a dip in provisions for bad loans.

The Mumbai-based lender posted a net loss at ₹5,763 crore in the quarter, against a net loss of ₹4,185 crore in Q3FY19. The bank exercised the option of lower tax rate and took a one-time hit of ₹6,273 crore in Q3.

The bank, a subsidiary of LIC, has been under the Reserve Bank of India's (RBI's) prompt corrective action (PCA) regime due to weak asset quality and profitability. It expects to exit the regime by the end of this fiscal year.

The bank in a statement said its net interest income saw an uptick of 13 per cent at ₹1,532 crore in Q3FY20, against ₹1,357 crore in the same quarter last fiscal year. Net interest margin improved to 2.27 per cent in the quarter, from 1.88 per cent in Q3FY19.

The stock closed 2.1% higher at ₹35 on the BSE on Tuesday

Its advances shrank to ₹1.2 trillion in December 2019, from ₹1.5 trillion a year ago. The share of retail loans in total advances has improved to 55 per cent, from 48 per cent a year ago. The corporate loans saw sharing going down to 45 per cent by December 2019, from 52 per cent a year ago.

The provisions for bad loans (NPAs) declined to ₹440 crore in Q3, against ₹5, 074 crore in Q3FY19. The provision coverage ratio, including technical write-offs and NPAs, was 92.4 per cent in December 2019, against 75.2 per cent as of December 31, 2018. The bank gave a guidance of 10 per cent growth in credit for FY21.

Allahabad Bank's loss before tax widens

NAMRATA ACHARYA
Kolkata, 11 February

Higher provisions on account of agriculture loans dragged Allahabad Bank's loss before tax to ₹1,986 crore for the December quarter of FY20, against ₹733 crore in the same period last fiscal year. The Reserve Bank of India had asked the bank to revisit restructured agriculture accounts, which led to higher recognition of non-performing assets (NPAs) in the sector. The bank has been doing this for the past two quarters, said K Ramachandram, executive director of Allahabad Bank.

"We studied all the agriculture accounts in branches. Wherever we found aberrations, we recognised it as NPA," he said. In Q3, the quantum of agri NPA was close to ₹2,500 crore.

The bank's provision for NPAs increased to nearly ₹3,002 crore in Q3, against ₹1,900 crore in the same period last fiscal year.

Nalco reports steepest quarterly pre-tax loss

JAYAJIT DASH
Bhubaneswar, 11 February

National Aluminium Company (Nalco) on Tuesday reported a loss before tax of ₹53.2 crore for the December quarter, against a profit before tax (PBT) of ₹470 crore in the year-ago period, because of softening international alumina prices and a spike in costs of critical inputs.

Nalco's loss before tax in Q2 of this fiscal year was ₹47.1 crore. Net loss (after taxes) stood at ₹33.9 crore in the third quarter of FY20 — the company's steepest since it started commercial operations. In the same period of FY19, the Navratna company had recorded ₹301.7 crore net profit, riding on buoyant alumina prices. Alumina prices in FY19 had peaked to multi-year highs of over $600 per tonne in the aftermath of the US treasury levying sanctions on United Company RUSAL, the second-largest aluminium maker outside of China.

Mother Dairy skips to a digital beat

The dairy major goes for a brand refresh with new packaging and sharper digital tools, looks to set itself apart from clutter in the dairy market

VINAY UMARJI
Ahmedabad, 11 February

The campaign narrative stays the same across media, but the tone varies between print and digital ads

Mother Dairy is rewriting the brand rulebooks to talk to an audience that is younger, premium-paying and more diverse than its traditional stronghold of milk-guzzling North Indian states. The brand is positioning itself for a national audience and looking to wear the mantle of a millennial dairy label (despite its legacy of 45-odd years) by infusing quirky humour and agility into its digital persona, thereby differentiating itself from rivals Amul (Gujarat Cooperative Milk Marketing Federation) and Nestle among others.

Sanjay Sharma, business head, value-added dairy products, Mother Dairy Fruit & Vegetable, says, "Our focus on digital media has increased significantly. While we have one of the leading media agencies to handle traditional media, there is an exclusive agency only to meet the digital requirements." The campaign, '*Rishton Ka Swad Badhaye* (prolong the taste of relationships)' relies heavily on digital (alongside a mix of print and outdoor), he adds.

The campaign revolves around food and time spent with family and friends, positioning the brand as an integral part of both. Sharma explains, "It is more than just what satisfies our hunger. No matter what choices we make, food is powerful because it invokes relationships and emotions." The message will be relayed across all media and while print and TV speak to the traditional and national audience, digital media is expected to deliver the brand to its target niche, within the new, urban geographies that it hopes to explore.

According to Sharma, marketing budgets, especially around digital, have increased in the past few years to stand at 3-5 per cent of its dairy product revenues. Moreover, the salience of spends on digital media in its overall media mix has also increased significantly. The company's overall turnover stood at over ₹9,500 crore in FY19, of which, the value-added dairy products business contributed over 15 per cent.

"Digital is about 10-15 per cent of our overall marketing mix. Our share of investment on digital platforms will gradually increase as our target consumers consume a lot of digital media. In recent years, we have engaged our consumers by curating digital-only campaigns for our dairy products with the basic thought being, make each creative relatable and strike conversations," Sharma adds.

The new design remixes the brand's old colours to create a fresh look and uses a chat box as a label

Experts point out, Mother Dairy has been able to wrap itself around the unique needs of social media branding quite effectively. Its posts, memes and campaigns are topical and funny, something that Amul has mastered on offline (OOH) media with its pithy one-liners around current affairs.

Mother Dairy campaigns are high on engagement and shared widely, which unfetters the brand from its North Indian moorings, experts point out. And by finessing the narrative on digital media, the brand is setting itself apart from Amul and also Nestle, which has focused its messaging around health and nutrition in recent times.

"Mother Dairy is a strong old brand but has remained largely regional. The current campaign does well to build on its positioning and digital media is a welcome move given that it now occupies a larger share of consumer attention. However, the brand will have to find the right mix in order to deepen its reach in other regions," says Harish Bijoor, CEO of Harish Bijoor Consults.

By its own admission, North India, including the Delhi NCR region, is the strongest market for Mother Dairy, apart from particular markets across the eastern and western parts of the country and a limited presence in the southern region.

"However, we are focussed towards gradually building a national footprint. In the newer markets, we are more of a challenger brand and hence we have disproportionate investments for branding and marketing in these markets," says Sharma.

Its campaigns have also been digital media-friendly experts said, the campaigns being easily adaptable to multiple events and occasions. An ad campaign must be able to relate with equal ease for instance, to Republic Day and Holi and lead conversations around these moments on social media, said experts and that is what Mother Dairy has been doing. The current campaign is a good example of malleable messaging, as it can be extended to multiple scenarios, believes Robinson Varghese, founder-director of Left & Right Communications, a company that has worked with other homegrown dairy brands.

FROM PAGE 1

'Sick' pharma PSU...

HAL sent a proposal to the Department of Pharmaceuticals (DoP) a few days back, outlining the need to refurbish its plants and machinery after which it could manufacture these APIs and intermediates and also the formulations based on these APIs, said sources.

A senior government official confirmed that such a proposal had come and that the Centre was exploring all possible options to reduce dependence on China. "This can be achieved either through strengthening the local industry (through anti-dumping duties and other means) or establishing bulk drug parks, etc. We are also exploring the HAL proposal," the official added.

If an in-principle approval is given, then HAL can start work on the project. It would take four to six months to upgrade the manufacturing infrastructure. However, it can offer a permanent solution to substitute imports of key APIs from China, besides a revival route for HAL.

"If such a plan is approved, this can permanently solve the problem of India's dependence on China for these key APIs," a source said. The source added that initially, the production could be sufficient to meet about 30-40 per cent of India's requirement of fermentation-based APIs. This can be eventually scaled up to over 50 per cent of the country's overall requirement of these bulk drugs and intermediates. According to rough estimates, India's requirement of fermentation-based APIs is around 2,000 tonnes per annum. HAL can make up to 1,200 tonnes per annum once it achieves full production capacity at its Pune plant. The Centre, however, has to approve the investment required to upgrade HAL's infrastructure. Sources claim that an investment of about ₹50 crore per product is required and around 12 such key products can be made at HAL.

Sources in the bulk drug industry say it can be a crucial move for the country and perhaps one of the few options left before the government to ensure India is not dependent on China for essential commodities such as medicines. "The local bulk drug makers can also make fermentation-based APIs. However, there is a glitch. One, these units would need at least 3-5 months before they can tweak their existing portfolios and start making these products. Secondly, once the current crisis is over, there is no assured market for them," said a bulk drug unit owner in Gujarat.

He felt that in case the government wanted indigenous manufacturing of key raw materials, it had to take steps like imposing anti-dumping duties to ensure cheaper Chinese products did not flood the market. Chinese imports are at least 30 per cent cheaper compared to Indian production. The Indian bulk drug industry shifted to making high-margin complex APIs as they had constraints on expanding their capacities here owing to stringent pollution norms. Low-value products thus started getting imported from China.

Global experts, too, have pointed out the huge opportunity this crisis has created for the Indian industry. Former USFDA chief Scott Gottlieb had tweeted a couple of days back that there was opportunity to work now to make up the lost China supply. "There's idle manufacturing capacity that can be brought online. Regulators can work closely with industry. India, for example, has about 1,500 plants that make APIs and are running at 40 per cent of their capacity," he had said on the microblogging site.

The DoP has already proposed four bulk drug parks in Andhra Pradesh, Telangana, Himachal Pradesh, and Assam through the special purpose vehicle route. The industry, however, highlighted that unless steps were taken to ensure viability, local units were unlikely to switch to making low value APIs. HAL, on the other hand, is on the verge of shutting down. In 2016, the Cabinet had decided for strategic sale of the PSU after meeting its liabilities from the proceeds of sale of surplus land it owned. There have not been many takers and it is estimated that HAL's liabilities are to the tune of ₹800 crore or so.

Signs of...

"Gross GST collection in January was ₹1.10 trillion. Gross GST revenue has surpassed the ₹1-trillion mark more than six times in FY20," Sitharaman said. She said the government's focus was on four engines of growth, which included private investment, exports, private, and public consumption.

Sitharaman said the Remission of Duties or Taxes on Export Product (RoDTEP) scheme would replace the existing Merchandise Exports from India Scheme (MEIS), which is considered as non-compliant to global trade rules. "I am making it plain that RoDTEP, which is now coming in, will more than adequately compensate and incentivise exporters than all the existing schemes put together," she added.

The FM said that in order to boost credit to export sectors, the RBI had enhanced the sanctioned limit to the eligible under priority lending norms. "The limit has been raised from ₹25 crore to ₹40 crore per borrower. Furthermore, the existing criterion of units having a turnover of up to ₹100 crore has been totally removed. So, it is applicable to anybody who wants to approach and take this priority sector lending," she said.

Remittances...

Further, this would also hit working capital for businesses till the time credit is not claimed. The LRS, which allows every individual to send up to $250,000 abroad annually, has been under central agencies' lens since 2018. The probe agencies have detected a significant increase in the outflow of Indian money, especially to Thailand, Singapore, Hong Kong, and Dubai.

According to estimates by probe agencies, these countries received ₹20,000-30,000 crore in 2018. Thailand itself recorded ₹5,000 crore sent by Indians in 2018.

The probe agencies last year conveyed their concern on this to the Ministry of Finance and the RBI in 2019. Sources said federal agencies had sought immediate scrutiny in the matter and also asked for tightening the LRS and other legitimate routes of such kind.

In order to circumvent regulatory attention, forex dealers create fake invoices under the LRS. There are possibilities that one person could have more than five accounts using the route to send money, another official said, explaining why the records with banks never reflected such dubious transactions. Though the person taking this route is bound to give undertakings stating the purpose of remitting money, there are cases where the identity of the person is hidden, or, in some cases, the explanation given on the forex dealing is not clear. The RBI has laid down guidelines on remittances of funds. There are separate guidelines for residents and non-residents.

Delhi presses...

They had instead focused on governance issues, particularly related to better schools and health facilities such as 'mohalla' clinics, delivery of subsidised power, water supply and free public transport for women.

The AAP won 62 seats in the 70-member Assembly at the time of going to print. It had won 67 seats in the previous Assembly polls in 2015. The party's vote share of 53.58 per cent this time was only marginally lower when compared to 54.3 per cent in 2015.

The BJP won 8 seats. In 2015, the BJP could win only 3 seats. However, the party improved its vote share significantly from 32.1 per cent in 2015 to 38.5 per cent now.

The BJP had last won a Delhi Assembly poll in 1993 — which was also the first to be held after Delhi was granted partial statehood that year. Despite its successes in the 2014 and 2019 Lok Sabha polls, where it had won all seven seats in Delhi, the party has struggled at the Assembly level.

The Congress, which under Sheila Dikshit, ruled Delhi from 1998 to 2013, continued to fall into irrelevance in the national capital. For a second successive Assembly election, it could not win even a single seat. Its vote share dropped from 9.6 per cent in 2015 to 4.26 per cent. Only three Congress candidates could secure their deposits.

BS SUDOKU # 2971

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SOLUTION TO #2970

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Very easy: ★

Solution tomorrow

HOW TO PLAY

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

Why does everyone want a content firm?

When getting into content becomes a euphemism for diversifying...

MEDIASCOPE

VANITA KOHLI-KHANDEKAR

This feels like a silly season. News anchors and politicians are labelling an entire city as anti-national for not voting for a party of their choice. Uncles and aunties are advocating hatred even as their children point out the benefits of peace and diversity to them. So here is ₹1,67,400 crore media and entertainment industry's contribution to the general silliness sweeping this country.

Everyone from news publishers to entertainment companies, food aggregators to e-commerce giants wants to be "content firms". The latest to join the bandwagon is ₹635 crore Entertainment Network India (ENIL), a part of the estimated ₹10,000 crore Times Group. ENIL operates India's largest radio network, Radio Mirchi, and gets about 67 per cent of its revenues from radio — a word it will drop from its name in the coming weeks. It made 25 hours of content for its sibling MX Player among other brands. These are 10-minute episodes in various Indian languages such as Gujarati and Tamil. By 2024 Mirchi expects to get roughly half its revenues from non-radio businesses, including selling "content".

For more than 10 years, I have heard media firms across the world talking about how they are becoming "content firms". But the pace has now accelerated — everybody is "into content". To know why, a trip down memory lane might be useful.

From the late nineties to the early part of the millennium, the pressure that the internet puts, first on music, then newspaper, TV and film businesses, meant that almost all of them had to signal that they were medium-agnostic. For instance, newspaper firms for years have referred to themselves as "content firms" even while a bulk of their top line and profits continue to come from the physical print product. The "content" is usually well-researched journalism that gets top dollars on paper and is then used to drive audiences and revenues across conferences, podcasts or online. By saying that they are content firms, most were disassociating from the negative sentiment surrounding print, a shrinking medium in the West.

That is exactly why TV and film firms did it. In the traditional trajectory of growth, almost all media companies would attempt three-four different segments of the business. Newspapers got into radio, local TV stations and the internet. Television firms into content production, DTH or cable. Film studios into TV or licensed merchandising a la Disney. It was called diversification. That is what ENIL or Disney or Sony are doing. ENIL for instance has a staff of 1,100 people in 63 Indian cities that it will leverage to sell ads for its YouTube channels and events, sell solutions and create content.

However, diversification is not a fashionable word, so how does a firm signify that it is growth and future-oriented. Everything then becomes content — a TV show, a film, a piece of music, an essay, a book or an article, cat videos, hairstyle tips or those on how to make rotis. The word "content" dehumanises and strips the magic of watching a film or listening to song, but its meaning is clear. It is the glue that brings in audiences.

That explains why media and non-media firms are getting into "content". The way to differentiate them is by understanding their reasons.

Some, such as Zomato or Flipkart are doing it to get people to spend more time and money on their services. Google, Disney, Viacom18 or Zee are simply doing what they do on TV in another medium. ENIL (and many radio firms) are battling the relevance of radio especially in a market where a lot of new phones do not come with an FM tuner. The myriad reasons all boil down to scores of telecom, technology, media and even retail firms, all looking for "audiences".

Many will of course fall by the wayside. The test to identify the ones that could make it is whether they have an element of direct-to-consumer in their business. Unlike television firms, which have to sell their signals to cable and DTH operators and then monetise the reach with advertisers, film studios have to get viewers directly and get them to spend money to buy a ticket. Their ability to tell stories is better. Notice that the first line of successful content on many streaming services comes from film studios.

The transformation has just begun. The silly season will continue, for a bit.

http://twitter.com/vanitakohlik

CHINESE WHISPERS

Birthday gift for Mrs Kejriwal

As the Aam Aadmi Party (AAP) appeared on course to register a huge win in Delhi on Tuesday, Chief Minister Arvind Kejriwal, who is also AAP head, asked volunteers to desist from bursting firecrackers during the flush of victory, so as not to increase air pollution. Party volunteers grooved to the party anthem "Lage raho Kejriwal" and hugged each other and maintained they would abide by the direction of the boss. It being a Tuesday — Kejriwal had said during the campaign he was a devotee of Lord Hanuman — the Delhi chief minister, his family, and other party leaders visited the Hanuman Temple in the evening. He also announced the day was special not just because it was Lord Hanuman's day but also because it was the birthday of his wife, Sunita. The family had a small celebration earlier in the day.

AAP's rising star

The shape of the next Delhi Cabinet is being speculated in the Aam Aadmi Party (AAP). According to sources, AAP's rising star Raghav Chadha, who won from the Rajinder Nagar Assembly seat, could get a look-in. At 31, Chadha, along with 38-year-old Atishi Marlena, is AAP's young face. Chadha is a chartered accountant and could get the finance ministry. Currently, Deputy Chief Minister Manish Sisodia handles the portfolio. Chadha was first signed on as an advisor to the deputy chief minister to assist him in preparing the 2016 state Budget. His appointment was terminated retrospectively by the Minister for Home Affairs in April 2018. A year ago he was voted into the party's national executive.

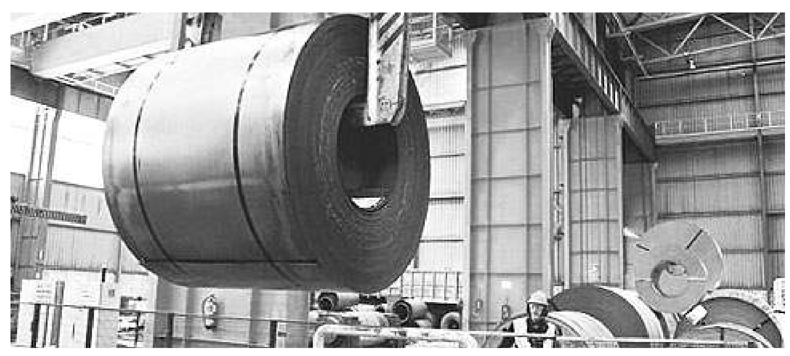
Congress' half-happy moment

The Congress and its supporters did not know whether to be happy or sad about the Delhi Assembly poll verdict. Its leaders were happy that their principal enemy, the Bharatiya Janata Party (BJP), was decimated. They were sad the Congress could not win a single seat, and also lost 5 per cent vote share. Congress leaders were also frequently asked the question if the party did a tank job, which they vehemently denied. P C Chacko, who is in charge of Delhi affairs of the party, said the Congress was "happy" that the BJP's "toxic" election campaign was "defeated" by the people. The Congress usually holds its official press conference at 4 pm, but on Tuesday it was at 1 pm. Congress leaders like P Chidambaram hailed AAP's performance and said the people of Delhi had rejected the "polarising, divisive, and dangerous" agenda of the BJP.

Coronavirus could kill steel's fragile recovery

Manufacturers globally are staring at slowdown as China halts construction activity. India's infrastructure push can keep demand humming

KUNAL BOSE



VIRAL IMPACT

In 2003, SARS outbreak slowed construction activity in China	Growth slowed by 2.3 per cent in Q2 of 2003	Construction activity accounts for two-third of China's steel demand	World Steel Association expects demand to grow by 7 per cent in India in 2020

As steel production in China in 2019 was up by an impressive, but somewhat unexpected 8.3 per cent to 996.3 million tonnes (mt), the country's share of the world output of 1.87 billion tonnes (bt) rose to 53.9 per cent from 50.9 per cent in 2018. In aluminium and copper too, the world's second largest economy has a predominantly big share of global production and consumption. What is more, with the country being aggressively engaged in infrastructure building and construction activities with stimulus often provided by Beijing, most of its metal production is consumed locally. Therefore, any major disruption in factory and other economic activities due to coronavirus will hit the local metal producers as it will unavoidably have a knock-on effect on markets outside China.

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

No wonder then, with president Xi Jinping having declared a "people's war" against the deadly coronavirus, a new pneumonia-causing virus, whose impact is also felt outside China, the metals market is in jitters with steel, aluminium and copper and also the principal raw materials that go into their making recording fall in prices. China has the largest share of the global seaborne trade in iron ore, bauxite and copper concentrate to feed its oversized metal industries. Restricted port operations and truck and rail movements in China could not, but shave raw material prices.

The principal concern for steel makers globally is the fast spread of coronavirus globally has the potential to throttle the nascent recovery in steel demand and prices since November 2019. Last year was nightmarish for the industry, which had to contend with slumping demand for steel from automobile sector in particular and bear the brunt of trade skirmishes between the world's two largest economies.

ArcelorMittal, the world's largest steel maker with its 2019 crude steel production at 89.8 mt against 92.5 mt in 2018 might have downplayed the impact of coronavirus by saying the disease "will likely have a short-term negative demand impact in that country (China) and to a lesser degree elsewhere." In a conference call following the announcement of 2019 results, Aditya Mittal, chief financial officer of ArcelorMittal, spoke of a weak first quarter as a result of coronavirus-related health crisis followed by a rebound in the second half. Therefore, the "overall impact will be muted," said Mittal.

Several hundred people dying and thousands contracting the virus leading the authorities to virtually put a ban on long-distance travel by road and rail have, however, led China-focussed consultancies to wait and watch how quickly and effectively the Chinese machinery is able to combat the coronavirus before they give estimates of its impact on steel production and demand. Whatever these may be, the consensus among China watchers is that coronavirus will harm the steel and other metal industries in a much bigger way than the 2003 outbreak of severe acute respiratory syndrome (SARS). For one thing during the SARS outbreak, 349 people died in mainland China. Coronavirus had already claimed a few hundred more lives than SARS. The Chinese steel, aluminium and copper industries have grown enormously in size along with building up of downstream units since 2003. Therefore, coronavirus has the potential to inflict greater damage to the economy than was the case during SARS crisis.

This has led Edinburgh-based mining and metals consultancy Wood Mackenzie (WoodMac) to say that the new virus outbreak will take a greater toll of the economy and markets than what happened a decade-and-a-half ago. WoodMac says in a report: "During the SARS outbreak, construction activities slowed due to shortage of workers and a slump in consumer demand. SARS led to China's economic growth slowing in the second quarter of 2003, by around 2.2 per cent quarter-on-quarter." Wiser by the experience of handling the 2003 crisis, the Chinese authorities have put a transport ban virtually keeping people quarantined. In a precautionary move, the weeklong Chinese Lunar New Year leave was not only extended a couple of times, but workers when they are able to return to places of work will be required to go through a quarantine period of anything up to 20 days.

Emergency steps to cap the spread of the virus will inevitably result in postponement of start of construction projects, a sector roughly accounting for two-thirds of China's steel use. This will have an immediate impact on the demand for the metal and raw materials that go into its making. In August 2019, iron ore prices got a leg-up on reduced supply following tailings dam collapse at Vale's mine at Brumadinho in Brazil and then subsequently by steel production in China rising at rates higher than what analysts did forecast. But now gripped by fear of the impact that the new killer virus will have on demand, traders have brought iron ore prices down by around 12 per cent.

With 30 Chinese provinces introducing the highest level of health emergency curbing demand for all commodities, the prices of steel products, base metals such as copper and aluminium, crude and edible oil have all shed ground. To give two examples, copper on London Metal Exchange is performing at its worst since 2005 and Malaysian palm oil lost the most since 2008; however, India's boycott remains a contributing factor. An Indian shipping industry official says: "So large is China's seaborne trade, any setback there will have a negative impact on already low freight rates. This is the lean period for shipping and the breakout of coronavirus coincided with it. But in case economic activities in China don't return to normal soon, then that would have a crippling impact on the already stressed shipping industry."

Though early in the day, from Goldman Sachs to S&P Global Ratings to Citi, all have cut growth forecast for China for the first quarter of 2020 and also the full year, Nomura now pegs the first quarter growth at 3.8 per cent compared with 6 per cent in the fourth quarter of 2019. In this context, the global steel outlook released by World Steel Association (WSA) last October that projected the demand in 2020 rising by 1.7 per cent largely supported by one per cent growth in China on a base of 900.1 mt calls for a review. Hopefully, the industry in India will not suffer collateral damage from coronavirus. WSA says India, which is the world's second largest producer and user of steel, will have a finished steel demand growth of 7 per cent to 108.7 mt in 2020 on the back of a 5 per cent rise to 101.6 mt last year. The country's focus on infrastructure development and affordable housing will allow steel demand to grow at a rate higher than the projected 2020 GDP growth rate. Margins of Indian steel producers will, however, continue to remain under pressure.

INSIGHT

Beijing's dangerous groupthink epidemic

The virus spreading across China carries lessons for us all

RAHUL JACOB

The eruption of anger on China's social media platforms after the death late last week of Li Wenliang, a doctor in Wuhan who raised the alarm about the outbreak of a mysterious pneumonia-like virus witnessed at the city's hospitals several weeks before the local and national government declared an emergency on January 22, has been so unrestrained that it appeared as if Communist censors have gone on strike. There have been images of the brave doctor wearing a respirator in the last days of his life, but also remarkably copies of his "confession" to the police who prosecuted him for rumour-mongering and "illegal behaviour". China's Supreme Court, usually the imprimatur of such a Kafkaesque upending of the principles of justice, was sufficiently outraged to exonerate Li before he died.

What has played out recently on the Chinese equivalents of Twitter and Facebook amounts, by Communist China's standards, to an online mutiny. There have been repeated references to the official cover-up after the Chernobyl disaster in 1986 in the former Soviet Union and not so veiled references to the absence of President Xi Jinping who had until Monday been seen only sporadically at public events. Chinese have shared online the rousing anthem, "Do you hear the people sing?" from Les Miserables. The song is a favourite of protest movements, but notably has been sung by protesters in Hong Kong at demonstrations against China and the local government over the past six months, which made its appearance online in China doubly shocking.

Well before the outbreak of the coronavirus claimed more than 1,000 fatalities and infected upwards of 40,000, China had unflattering past form in suppressing news of unfolding health catastrophes, thus making them infinitely worse. The SARS outbreak in China was not publicly acknowledged for a couple of months before an infected visitor from mainland China carried the virus to a hotel in Hong Kong in early 2003. Only then was the source of the virus and the high fatalities in China revealed. Last year, early reports of swine flu were also suppressed until it had become an epidemic large enough to push up China's inflation rate. In 2008, the Communist government similarly suppressed a scandal involving the adulteration of infant milk powder with melamine, the substance used to make plastic products, which led to several thousand babies developing kidney stones. The government allegedly did so to ensure the success of the Beijing Olympics in August 2008. Some 300,000 infants suffered as a result, with more than 50,000 requiring hospitalisation. One of my first stories as South China correspondent for the Financial Times in 2010 involved a plea for leniency by Hong Kong legislators after a harsh court sentence imposed on the father who led the group of parents seeking justice for their children and help with high medical costs. Zhao Lianhai was initially sentenced to more than three years in prison by a Beijing court for "trouble-making". I struggled to write that article not just out of empathy, but because the logic of Chinese courts is difficult to explain except as a form of virulent groupthink.

In macrocosm, these incidents — 10 and 15 years apart — reveal a great deal about the sickness that infects the Communist China's leadership — rather than the building of hospitals and bridges in record time. Each is the product of a top-down system that is not merely hierarchical and characterised by kowtowing to the powerful in the way that India's often is, but also infused with fear. The Wuhan mayor who delayed declaring the health emergency for weeks is reported to have been awaiting Beijing's views on what to do. Beijing in turn alerted the World Health Organization several days before it publicly declared a national emergency. It took until Monday, February 10, for President Xi Jinping to publicly visit a Beijing neighbourhood and do a video call with Wuhan, prompting China's *People's Daily* to devote its entire front page to this in palpable relief. Until then, Xi had relied on Premier Li Keqiang to visit Wuhan, the epicentre of the virus. The logic can only be that the omnipotent Xi wanted to distance himself from the health catastrophe. Ironically, February 25 will mark two years since the Communist Party Congress amended China's constitution and abolished term limits, anointing Xi dictator for life.

Circa 2020, overcentralisation of decision-making and the resultant collateral damage is an aspect of state power witnessed in Washington DC, New Delhi and London, but arguably it is in Xi's China that its costs are most visible. In a searing essay widely circulated this week, Xu Zhangrun, a professor at Tsinghua University, writes, "Ours is a system in which The Ultimate Arbiter (an imperial honorific repurposed by official media for Xi Jinping) monopolises power. It results in "organisational discombobulation" that has enabled a dangerous "systemic impotence". The virus spreading across China and the world thus carries lessons for us all.

LETTERS

Rights & responsibilities

This refers to the article "SC says Shaheen Bagh protesters cannot block roads, next hearing on Feb 17" (February 10). The reported observations of the Supreme Court stating that the anti-CAA protesters at Delhi's Shaheen Bagh cannot block public roads and create inconvenience for others must serve as an eye-opener for various hidden political forces that may be calling the shots. While the apex court has issued notices to the Centre, the Delhi government and the police on pleas seeking removal of protesters from Shaheen Bagh, the situation at ground zero amply indicates that there may be something more than truly meets the eye.

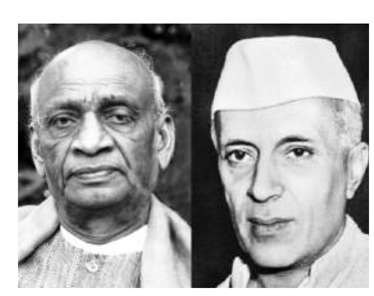
What else could explain the fact that after a four-month-old child met with an untimely death his protesting psrents attributed it to "supreme" sacrifice? No wonder, the apex court has also questioned the rationale behind his "participation" in the ongoing protests at Shaheen Bagh in Delhi. Reasonably speaking, his parents too should be asked to explain their action. However, let us hope that the protesters get some wise counsel and voluntarily withdraw their anti-CAA protest from Shaheen Bagh well in time. Mind you, our rights and responsibilities go hand in hand.

SK Gupta Delhi

Darling of Indian masses

This refers to the editorial "A weapon called Nehru" (February 8). The article comments on a view that Jawaharlal Nehru never deserved to be given the charge of India in 1947 and that he denied Sardar Patel the position of the first prime minister by manipulating Gandhi and Lord Mountbatten.

Those holding this view don't appear to know that Gandhi, apart from being a Mahatma, was known to be



one of the shrewdest politicians India ever had. More than one British viceroys of India, with whom he carried negotiations, held this view of him. To say that he could be manipulated is a fantasy, if not outright stupidity.

Gandhi had chosen Nehru over other outstanding leaders to lead the post-Independence India not due to any manipulation, but he had taken into account the widely-held view that Nehru, more than any other leader then, was a pan-India personality without any regional leaning and a person with international reputation. He had been the darling of the Indian masses for over two decades. His sway over them was unparalleled — they would gather in large numbers, just to have his *darshan*.

Patel, great in his own way, was not a leader of the masses. His work was essentially behind the curtains. He was not accepted by Bengal because of the hostility between him and Subhas Chandra Bose and his family (there was a patch up only a few weeks before Independence when he and Netaji's elder brother Sarat Chandra Bose embraced each other in public view). He was hardly known in south India, while in the west, he was caught in a race between Gujaratis and Marathis.

Patel's greatness became apparent only after Independence as Nehru's deputy because of his monumental work in erasing over 500 princely states from the map of India and unifying the country as never before in its long history. By this act, he brought one-third of India out of the medieval into the modern age.

The aforesaid are some of the factors due to which Nehru and not Patel was made to lead India after the advent of freedom. These apart, Patel was 72 years old at the time of Independence and had a major heart ailment soon after.

As regards Mountbatten, he came into picture only in March 1947. At the time, Nehru was already a tall leader and the senior most member of India's interim government and didn't have to manipulate Mountbatten to advance his position.

RC Mody New Delhi

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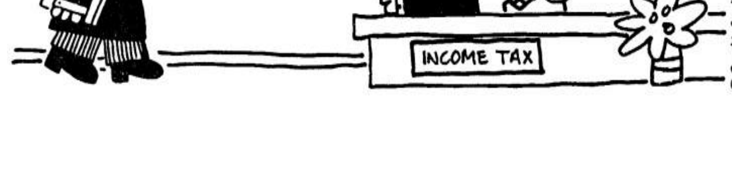
HAMBONE



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AAP's hat-trick

Assembly polls are about local issues, not nationalist narrative

During his hectic campaign for the Delhi elections, Union Home Minister Amit Shah repeatedly said the capital's voters should press the "lotus" button on the electronic voting machine so hard that the "current" was felt in Shaheen Bagh, where thousands of people had been protesting against the Citizenship Amendment Act. After the resounding victory of the Aam Aadmi Party (AAP) on Tuesday, the "current" is surely being felt by the top leadership of the Bharatiya Janata Party (BJP). The party's campaign, which worryingly crossed many lines, failed miserably to go the distance, though it improved its vote share by about 6 percentage points. Meanwhile, the Congress, which ruled the city-state for 15 long years till 2013, was further pushed into irrelevance with less than 5 per cent voters endorsing the party.

Although the final result was in line with what several exit and opinion polls had predicted, the outcome sends out a strong signal once again that voters are now clearly differentiating between local and national elections. Local issues have become far more important in Assembly elections — this is evident from the fact that AAP campaigned on the developmental work of the past five years, especially in the area of education and health. The provision of free power and water up to an extent, and free bus rides for women also seem to have benefited AAP, though the subsidy-dominated governance model is not exactly the best way forward. While Delhi Chief Minister Arvind Kejriwal narrowed down politics to governance questions and a clever, selective visit to the Hanuman temple, the BJP's campaign was limited to raising emotive and discordant slogans. It launched a blistering attack on Mr Kejriwal by calling him a "terrorist"; one Union minister led party workers in calling for the shooting of "traitors", while a BJP Member of Parliament equated the protesters with rapists and looters. In fact, Assembly election results in state after state in recent times show that the shrill nationalist narrative has not worked to the BJP's advantage. While the BJP seems to be in a better position in Bihar, which heads for the polls later this year, the real test for the party would be in West Bengal, where it will again face a tough incumbent and does not have a strong local leadership. The possibility of polarisation is also high in that state.

On balance, while the Delhi verdict has lessons for the BJP, the biggest loser perhaps is the Congress. The party could not open its account for the second straight time and also witnessed its meagre vote share getting eroded further. The fact that an overwhelming majority of the Congress candidates lost their deposits speaks volumes for the decline of the grand old party. The BJP's loss cannot be a consolation for the Congress in a state where it had a strong base until a few years ago. The blame for its decline clearly rests with the top leadership. Unless the Congress reinvents itself quickly and decides to work with other Opposition parties to build a counter-narrative, the BJP will remain the central pole of India's national electoral politics.

Base effect

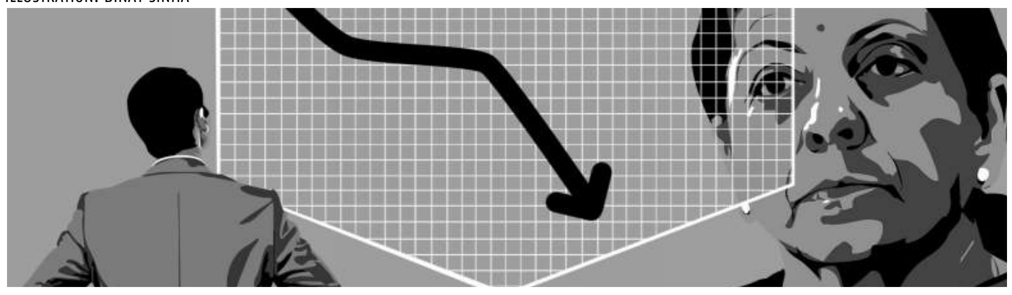
Q3 headline profits look impressive but worries remain

India Inc registered strong gains in profit in the third quarter of 2019-20. While the conventional wisdom would point to the cut in corporate tax rates and low crude oil prices, a closer look at the data indicates that a lower base in the year-ago quarter had a more important role to play. An analysis of the results of 1,139 listed companies reveals a lopsided pattern. Overall, this sample registered a massive 43.9 per cent growth rate in pre-tax profit and 63.6 per cent year-on-year rise in profit after tax despite registering a mere 2.2 per cent rise in net sales. The difference between pre-tax profit and net profit is largely due to the tax cuts, which became effective in the September 2019 quarter, and that is visible in the aggregate tax payout, which remained at the same level despite the significant jump in profit.

Almost all the profitability gains were contributed by Tata Motors, banks, and refineries. Banks, especially the corporate lenders, had a subdued December 2018 quarter, which had resulted in losses or a drop in profit. In the December 2019 quarter, the situation improved as losses reduced and banks got the benefit of lower tax rates. Tata Motors was a big outlier. The company had reported a pre-tax loss of over ₹29,000 crore, and turned around with a profit before tax of ₹1,350 crore in the December 2019 quarter. If Tata Motors is removed from the sample, the rise in pre-tax profit and net profit is 16.2 per cent and 20.9 per cent, respectively. If banks are also excluded, pre-tax profit would decline by 0.6 per cent and net profit growth would be 5.6 per cent. Removing refineries from the sample leads to a pre-tax profit decline of 4.3 per cent and net profit growth of just 1.25 per cent. The operating margin for the sample excluding finance, refineries, and Tata Motors was flat at 20.8 per cent in the December 2019 quarter, compared to the year-ago period.

The higher profitability of refineries is no surprise, given lower crude oil and natural gas prices. Lower fuel prices also helped InterGlobe Aviation (IndiGo) boost its pre-tax profit 2.9 times and those of fertiliser companies by 2.4 times. The improved performance of the banking sector is heartening, but concerns remain. The takeover of Essar Steel removed an overhang of ₹42,000 crore in non-performing assets from the debtors' balance sheets but this is a one-off. If more resolutions are completed in bankruptcy courts, banks would benefit. What was worrying is that consumption demand remained sluggish and companies didn't seem to have adequate pricing power — the top line of FMCG (fast-moving consumer goods) companies grew 5.5 per cent while pre-tax profit was up 6.5 per cent, which was mainly due to lower expenditure. The story in automobiles and consumer durables was worse. The lack of a rebound in construction, cement, and steel indicates investment, including infrastructure investment, is also a dampener. The economy continues to remain stuck in second gear.

ILLUSTRATION: BINAY SINHA



Some thoughts on the Budget

The four key features of the Budget: Context, transparency, expansionary and protectionist

Ten days after the presentation of the Union Budget ,everything worth saying has already been said or voiced in the media. So here I shall limit myself to sharing my thoughts on just four subjects.

Budget speech and its context

All Budget speeches are made in particular economic contexts. Their effectiveness and success depend not just on the substantive content of the announcements made, but also on conveying credibly the finance minister's grasp of the prevailing context and outlining the government's economic and financial policies to promote the best possible economic development path in the years ahead. The economic context for the present Budget included the sharp slowdown of economic growth over the past two years, the worst unemployment/ underemployment situation in nearly 50 years, seven years of stagnant exports, declining investment rates, a stressed financial system and major problems in key sectors. In other words, a near crisis in the economic situation.

A PIECE OF MY MIND

SHANKAR ACHARYA

A striking disappointment about the speech was that none of this was recognised in the opening pages. Perhaps, the finance minister wanted to avoid any sense of negativity. But the result was to convey an aura of denial, which reduced the effectiveness of the speech. A far better approach might have run as follows: First, frankly recognise the gravity of the economic challenges; then point to the several pre-budget steps already announced in September and October, including the major reduction and restructuring of corporate taxation; go on to explain how the Budget proposals would further improve matters; and indicate that other measures and reforms would be forthcoming to ensure a strong recovery in investment, growth, employment and exports.

Transparency and realism

A fundamental purpose of any Budget is to present an honest accounting of the past year and realistic projections for the year ahead. Unfortunately, "fudgeting" has become a common practice in quite a few Indian budgets (across different governments) in the 21st century, including in the last three years. To the credit of Finance Minister Nirmala Sitharaman, in this Budget, she has taken significant steps to improve transparency by presenting a statement on the vexed issue of extra-budgetary spending/borrowing (see Annex V of speech Part A and Statement 27 of the Expenditure Profile). That shows a total of about 0.85 per cent of GDP of such expenditures/borrowing in both 2019-20 RE and 2020-21 BE, excluding the footnoted reference to amounts for public sector bank capitalisation. Much of this is for financing the food subsidy through the Food Corporation of India. If added to the "shown" fiscal deficits (FD) for these years, it would raise the ratios to 4.6 and 4.4 per cent, respectively.

While this improvement in transparency is welcome, it increases the appetite for more. Why are similar transactions through the NHAI and NABARD not included? If one uses the correct yardstick of whatever adds to the stock of government debt should be included in the FD flows, why are the amounts for public sector bank capitalisation left out? Including these, would increase the FD ratios above 5 per cent in all the years from 2017-18 onwards. More fundamentally, since these higher numbers are closer to the actual fiscal deficits, why are they not presented instead of the understated amounts of 3.8 and 3.3 per cent?

It is heartening that the recent report of the 15th Finance Commission clearly criticises recourse to off-budget borrowings and expenditures and calls for their "elimination in a time-bound manner". It also calls for "an overarching legal fiscal framework that defines ...the budgeting, accounting, internal control and audit standards to be followed at all levels of government". Very necessary and very welcome.

Budget: expansionary or contractionary?

There has been much commentary complaining about insufficient fiscal stimulus from the Budget. Some have called it contractionary. I find this inexplicable. How can a central government Budget proposing FD of about 5 per cent or more of GDP be contractionary? Together with about 3 per cent in the states, that means a combined FD of about 8 per cent and a public sector borrowing requirement (PSBR) of 9-10 per cent of GDP!

If one is referring to the change in FD level between 2019-20 and 2020-21, there isn't one, once one adjusts for extra-budgetary borrowings/expenditure. Indeed, if one classifies disinvestment receipts below the line (as one should according to accepted international standards), then even the direction of change is expansionary, since a three times higher figure has to be added to the FD in 2020-21 compared to 2019-20.

So the finance minister has to be commended for not giving us even higher FD plans to propitiate the stimulus-*wallahs*. That would have been quite unwise in the current context of high fiscal deficits, a 70 per cent government debt-to-GDP ratio and low growth of nominal GDP.

Protectionist customs duties and procedures

The biggest weakness of this Budget is its continuing lurch towards protectionism. This is the fourth Budget in a row, beginning with Arun Jaitley's February 2018 Budget and including Piyush Goyal's Interim Budget of February 2019, that has raised customs duties across a wide array of products. This year the products include a number of household goods and appliances, electrical consumer appliances, footwear, furniture, toys, certain machinery items, certain medical equipment, components of mobile phones, e-vehicles of various categories and walnuts. Furthermore, the provisions for anti-dumping duties and safeguard duties are also being tightened, as are rules of origin under extant free trade agreements, all of which promise bigger bureaucratic hurdles for imports.

For 25 years since 1991, successive Indian governments reformed our trade policies in favour of greater openness and engagement with world trade. Customs duties were greatly reduced and quantitative restrictions largely eliminated. As a result, our foreign trade — both exports and imports — expanded robustly, providing a significant boost to our economic growth and employment. Since 2017, we have reversed policy and retreated from engaging with the world economy. Our ministers and senior officials do not seem to appreciate that higher duties and restrictions on imports hurt our capacity to grow exports. No sizable, non-oil country has sustained high export growth while imposing significant duties and restrictions on imports. And no such country has sustained high overall economic growth without high export growth. We ourselves grew fastest when our exports expanded robustly (1992-97 and 2003-2012).

If we cannot learn from our own recent economic history, we condemn ourselves to slow economic development.

The writer is honorary professor at ICRIER and former chief economic adviser to the Government of India. Views are personal.

Escaping from the escape clause

While presenting her second Union Budget on February 1, Finance Minister Nirmala Sitharaman justified the slippage of 0.5 percentage point in fiscal deficit on the ground that the deviation was consistent with the escape clause provisions in the Fiscal Responsibility and Budget Management (FRBM) Act. Instead of the promised fiscal deficit of 3.3 per cent of gross domestic product (GDP) in 2019-20, she presented a revised estimate of 3.8 per cent, and instead of the earlier fiscal deficit projection of 3 per cent for 2020-21, she proposed a deficit of 3.5 per cent of GDP.

Understanding the circumstances under which the finance minister chose to use the escape clause under the FRBM Act will be a useful exercise. Equally important and instructive will be an assessment of what the use of such a provision might mean for the government's fiscal consolidation road map.

NEW DELHI DIARY

A K BHATTACHARYA

The FRBM Act was legislated in 2003 to impose fiscal discipline on government finances. Among other things, it mandated the government to adhere to a path of fiscal consolidation to reduce the fiscal deficit to 3 per cent of GDP. The law came against the backdrop of fiscal profligacy. In each of the six years prior to the FRBM Act's legislation, the fiscal deficit had stayed well above 5 per cent of GDP and in one of the years it had even crossed the 6 per cent mark.

The new law made a difference, but only in the first few years. The government's fiscal deficit declined steadily from 4.3 per cent in 2003-04 to 2.5 per cent of GDP in 2007-08. However, all fiscal caution was thrown to the wind and the deficit stayed at elevated levels of between 4.5 and 6.5 per cent of GDP from 2008-09 to 2013-14. Subsequently, fiscal consolidation efforts were steady with the gradual reduction in the deficit from 4.1 per cent in 2014-15 to 3.5 per cent in 2017-18.

It was in February 2018 that, based on some of the recommendations of an expert group, the government amended the FRBM Act to tighten its provisions and introduce an escape clause. Significantly, the amended law targeted not just the fiscal deficit, but also the debt of the government. On debt, it stipulated that the general government debt (including those at the Centre and the states) should not exceed 60 per cent of GDP and the Centre's debt should be kept below 40 per cent of GDP by 2024-25.

On deficit, the amended FRBM Act bound the Centre to take steps to limit the fiscal deficit up to 3 per cent of GDP by the end of 2020-21. The escape clause provided that the fiscal deficit could be exceeded by half a percentage point in a year on any of the following grounds: National security, act of war, national calamity, collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications and a decline in real output growth of a quarter by at least three percentage points below its average of the previous four quarters.

Interestingly, the amended FRBM Act also provided for a reduction in the fiscal deficit target by 0.25 percentage point of GDP in a year, if GDP growth in a quarter increased by three percentage points over the average of the previous four quarters. In the case of either an upward or downward revision in the deficit, the government was required to make a statement explaining the reasons and outlining the path of return to annual prescribed targets before both the houses of Parliament.

What did Ms Sitharaman do while seeking recourse to the escape clause under the FRBM Act? She justified her move by stating that the law provided for "a trigger mechanism for a deviation from the estimated fiscal deficit on account of structural reforms in the economy with unanticipated fiscal implications." Which structural reform was the finance minister referring to? All that she mentioned in her speech, while referring to the deviation in the deficit target, was that the government had undertaken significant tax reforms for boosting investments and that the expected tax buoyancy would take time.

It is most likely that this was a reference to the sharp cut in corporation tax rates, which she had announced in September 2019 and as a result of which the revenue foregone amount was estimated at about ₹1.45 trillion in 2019-20. But the revenue foregone amount was clearly an overestimate. The statement on fiscal policy, tabled in Parliament, presents a slightly different picture on the likely fiscal impact of the corporation tax rate cut. It estimates that a stimulus of ₹1 trillion (0.5 per cent of GDP) has been provided by way of lowering the corporation tax rates.

Elsewhere, the statement mentions a series of steps that the government took like the corporation tax rate cut, an increase in the minimum support price of agricultural crops, policy initiatives for textiles and electric vehicles, incentives for start-ups, measures for non-banking financial companies, relaxation of external commercial borrowing norms for affordable housing, merger of 10 public sector banks and streamlining of labour laws. But it does not identify any one of them as a structural reform, though it does point out that some of these steps would have fiscal implications with a spill-over effect in the next financial year as well.

The government would have done well to have mentioned clearly the specific structural reforms that were responsible for the deviation from the fiscal deficit target by half a percentage point. This was necessary as the escape clause clearly states that such deviation will be allowed as a result of structural reform with unanticipated fiscal implications. It is not clear, either from the finance minister's speech or the fiscal policy statement, why fiscal policy implications of a corporation tax rate cut or of any others measures were unanticipated.

The finance minister's Budget speech is equally unclear on the question of the other target under the FRBM Act — the target of reducing the Centre's debt. Referring to the Centre's debt, Ms Sitharaman said: "The Central Government debt that has been the bane of our economy got reduced, in March 2019, to 48.7 per cent of GDP from a level of 52.2 per cent in March 2014."

However, the fiscal policy statement shows that the Union government's total debt has risen from 48.7 per cent of GDP in 2018-19 to 50.3 per cent in 2019-20. And for 2020-21, this is expected to stay at 50.1 per cent of GDP. The government expects that with increased revenue collections, borrowings would reduce and the government's debt would reach 48 per cent in 2021-22 and to 45.5 per cent of GDP in 2022-23. Remember that the target is to reach 40 per cent by 2024-25, unless the law is again amended to introduce another escape clause!

Partition: The real enemy

BOOK REVIEW

T C A SRINIVASA RAGHAVAN

Professionally, M J Akbar dominated Indian print journalism for four decades, from his late 20s till a few years ago. As if editing publications with great distinction and writing in a most attractive way were not enough he also wrote 10 books.

One of them was a biography of India's first prime minister, Jawaharlal Nehru. That was in 1988. Soon thereafter, though not because of the book, he became a Congress MP from Bihar. But that phase of his political career didn't last long and he soon returned to writing and editing.

Times change. Views change. Some years ago, he joined the Bharatiya Janata Party. He even became a junior minister. He is still an MP.

The Nehru book, many said when it was published, was unduly adulatory. In this book, Mr Akbar finds Nehru to be quite imperfect. That said, this book is not about Nehru but about Gandhiji. Nehru merely appears as someone who didn't know what he was doing.

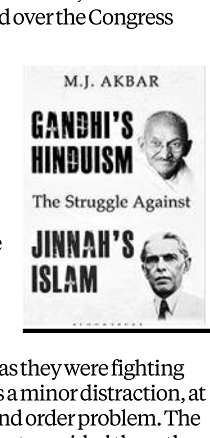
But did Gandhiji? Indeed, did anyone in the years between 1939, when the Second World War started, and 1947, when the British slunk off from India, their imperial tail between their now shortened legs?

1945, thus, saw a happy convergence of British and Congress interests, except that the British, who held the upper hand, encouraged Mohammed Ali Jinnah to demand a separate country for India's Muslims. They saw Pakistan as a captive military base to protect their oil interests in West Asia. So it wasn't so much Gandhiji's Hinduism against Jinnah's Islam as the British for Jinnah, Islam or not.

Perfidious Albion: The British managed to muddy the waters so much that the Congress, now minus Gandhiji for all practical purposes, forgot that it was they, the British, and not Jinnah, who was the real enemy. So it refused to accommodate him. The result, eventually, was partition. Only the British, and later the US, gained from it. Everyone else lost.

Mr Akbar tells this story with his usual diligence about facts and facets and his customary lucidity. But I think he lets the British off all too easily.

There's another aspect that he neglects. The truth, as the Oxford professor, Judith Brown showed in her classic book *Gandhi* in 1990, is that after 1939 Gandhiji's hold over the Congress weakened to a point where, when he called for a *satyagraha* in 1940, the party more or less ignored him because its leaders had moved on. The British, of course, knew this and acted accordingly.



GANDHI'S HINDUISM: The Struggle Against Jinnah's Islam
Author: M J Akbar
Publisher: Bloomsbury
Price: ₹700

From their point of view, busy as they were fighting off Hitler, India was a minor distraction, at worst a major law and order problem. The Quit India movement provided them the excuse to lock up everyone except Jinnah, who prospered.

A mass of detail: When the main story has been told a thousand times, as this one has, it's time to look for details. Mr Akbar does that superbly. His list of references is indicative of due diligence.

Indeed, truth be told, the degree of detail can become a little overwhelming. But you have to hand it to him for putting it all together.

But I have always believed that for every detail there is an equal and opposite detail. If that's not bad enough, there's always a tiny but significant detail that surfaces much later.

And then, there's the verbal impetus to actions: Who did what in response to a hint or a request or an order? Mostly we never get to know. For example, why did Gandhiji write to Churchill in July 1944? Mr Akbar has written about that letter in some detail. He says Gandhiji received no response.

But that's not surprising. By then Churchill was not just unwell, he was also busy with the successful invasion of Europe and working out the post-war arrangements for it. India and the naked *fakir* were farthest from his mind.

Mr Akbar also says in 1943 Jinnah, too, was very unwell and, perhaps thinking he might be about to die, went on a massive shopping spree buying all sorts of things and renovating his several houses in Bombay and Delhi. We learn that he had seven flats in London and charged ₹1,500 a day for his services. We are also told of Churchill asking if Gandhiji consumed glucose during his fasts. He was assured that this was not so.

Then there's Jinnah the Muslim who didn't know that August 14, 1947, his Pakistan's Independence day, fell during Ramzan. As a result, the celebratory lunch had to be postponed till dinner. Mr Akbar leavens his narrative throughout with this yeast. The result is a delicious cake to be nibbled at rather than gobbled. So, bon appetit.

Economic growth set to revive, says Sanjeev Sanyal

REUTERS
11 February

Indian economic growth is poised to bounce back after slipping to a more than six-year low of 4.5 per cent in the July-September quarter as the government has taken measures to prop up investments and consumer demand, a top government adviser said. "Corporate tax reductions, the Insolvency and Bankruptcy Code and the banking sector reforms have helped and will help propel growth further," Sanjeev Sanyal (*pictured*), principal economic adviser at the finance ministry, said.

The Insolvency and Bankruptcy Code, introduced in May 2016, has helped banks to recover billions of dollars stuck in outstanding corporate loans and offer loans to new borrowers.

Sanyal said economic growth was set to accelerate to 6 per cent in the financial year beginning in April, compared with estimated growth of 5.0% in the current one.

But many private economists are less optimistic, saying the current downturn may continue for the next few quarters due to a dip in private investments and tepid consumer demand.

Nomura said Asia's third-largest economy will see a subpar recovery, and forecast 4.7 per cent GDP growth for the current fiscal year and 5.7 per cent for the next fiscal year.

Sanyal dismissed the conservative estimates and said his numbers took into account early signs of recovery in manufacturing and a pick-up in consumer demand.

He said the government expected that average consumer price inflation would fall to 4 per cent in the next financial year beginning April, after a recent spike driven largely by food prices.

Deposits: Another pain point for YES Bank

SUVASHREE GHOSH & ANTO ANTONY
Mumbai, 11 February

When a former YES Bank executive started selling his stake in September, the lender's top managers watched for any sign that the resulting drop in share price would trigger a rush to withdraw deposits.

The stock sales came as customers of a regional lender — Punjab & Maharashtra Co-operative Bank — were lining up outside its branches to withdraw their money following an alleged management fraud. Rampant speculation online about broader contagion forced the central bank to issue rare statements assuring the public of the safety of the financial system.

YES Bank's loss of mom-and-pop deposits in September was manageable in the end, though it pointed to a risk for the lender whose peers HDFC Bank and ICICI Bank drew more savings from customers during that period. India's fourth-largest private lender has had a tumultuous 2019 with a new chief executive unable to raise the capital needed to bolster ratios that stand just above a regulatory minimum and quell analyst questions about its stability.

"It is now a vicious circle where a lack of capital is increasing concerns on the bank's bad loans, creating uncertainty among investors and depositors, which is adding to the withdrawal of low cost and retail term deposits," said Ravikant Anand Bhat, an analyst at IndiaNivesh Securities.

The lender's share price tanked 74 per cent last year as soured debt mounted given its exposure to shadow banks entangled in a prolonged crunch in the local credit market. The plunge has continued this year, with shares dropping another 21 per cent even as a benchmark index remained little changed.

The bank is due to report results for the December quarter, which will show whether deposits eroded further in the last three months of 2019. Bhat expects total deposits to decline another 20 per cent, after they dropped 7.3 per cent from June to ₹2.1 trillion ($29 billion) as of September 30.

The lender issued a statement last month assuring customers about its liquidity and stability and said it is making every effort "to financially strengthen the bank further."

Chief Executive Officer Ravneet Gill said in October that the lender was shedding high-cost wholesale deposits in favour of trying to retain cheaper and more stable retail funds. In the September quarter, it saw outflows from both buckets at the same time as its loan book also contracted.

Last June, Gill said he planned to raise $1.2 billion over 18 months. The lender raised about $275 million through a share sale to institutional investors in August, but hasn't managed to tap investors for a follow-on preferential offering since then.

The bank's board in November disclosed the names of several potential investors, though it has since rejected most of those. It's now looking to raise capital through other routes including another institutional share sale, for which it got shareholders' approval last week.

Moody's Investors Service cut YES Bank's credit ratings in December and last month placed them under review. The credit assessor said the review of the lender's deposit rating reflects that its "standalone viability is getting increasingly challenged by its slowness in raising new capital."

The Moody's team led by Senior Credit Officer Alka Anbarasu said faith in the lender would be restored by a fresh cash injection or a "regulatory led resolution," as authorities seek to ensure stability in the banking system and protect depositors and creditors.

One sign of official concern about the stability of deposits in the wider banking system came in a February 1 Budget speech by Finance Minister Nirmala Sitharaman, who announced that insurance cover for individual bank deposits would rise five-fold to ₹5 lakh. The minister assured lawmakers that savers' money is safe in banks. The measure is effective from February 4 and would benefit 92 per cent of Indian deposit accounts and about 28 per cent of all deposits by value, according to Citigroup.

Depositors had swarmed PMC's branches last year after the Reserve Bank of India took the rare step of limiting withdrawals following reports that an insolvent developer had accounted for 73 per cent of the regional lender's total loan book. However, the RBI has since relaxed its caps on withdrawals from PMC, easing fears among depositors.

Still, S&P Global Ratings has warned that the credit profile of Indian lenders could deteriorate sharply in the event of "outsized exposure to weak entities, huge market or operational losses, or significant deposit withdrawals if the depositors lost confidence in the bank." S&P doesn't rate Yes Bank.

Other large private-sector banks continue to add deposits, according to the results published so far for the December quarter. HDFC Bank, ICICI Bank and Axis Bank. saw low-cost retail deposits rise between 14 per cent and 22 per cent.

For Yes Bank, the threat to its deposit base is likely to recede if it can bolster its capital ratios, IndiaNivesh's Bhat said.

Risk buffers

Even without a cash infusion, Yes Bank can manage its capital needs by restricting further lending. "The approach won't, however, address concerns among investors and depositors as without stronger risk buffers it can't absorb any sudden rise in bad loans," said Diksha Gera, Bloomberg Intelligence's Singapore-based banking analyst.

Yes Bank's total exposure to shadow lenders and developers — both caught up in a funding crunch since late 2018 — was 11.5 per cent as of September end, filings show. A Credit Suisse Group AG note in April marked Yes Bank out as the lender with the largest proportion of outstanding loans to large stressed borrowers, including Anil Ambani group companies, Essel Group, Dewan Housing Finance Corp. and Infrastructure Leasing & Financial Services.

BLOOMBERG

Moody's revises outlook on IndusInd Bank

ABHIJIT LELE
Mumbai, 11 February

Moody's has revised the outlook on IndusInd Bank's instrument to "negative" from "stable". This is to account for the risk of further asset quality deterioration.

However, it affirmed ratings on foreign and domestic currency deposits, on the back of a strong capital base.

Over the last few quarters, the lender has seen deterioration in its asset quality, particularly in the corporate segment. The major reason for crystallisation of non-performing loans (NPLs) was the tightening of refinancing conditions for borrowers, Moody's said in a statement.

In particular, the bank has a relatively higher exposure to real estate, as compared to other banks (8 per cent of its loan book as of December 31).

Virus outbreak credit-negative for APAC ports, says rating firm

ADITI DIVEKAR
Mumbai, 11 February

The outbreak of coronavirus in China is credit-negative for Asia-Pacific's (APAC's) port operators, given that it has disrupted domestic and global supply chains and has lowered discretionary consumer spending. This will lead to reduced throughput growth of APAC's ports in 2020.

"We expect the coronavirus outbreak to have a larger negative impact on ports than that of the 2003 outbreak of Severe Acute Respiratory Syndrome (SARS), because China now has a bigger weight in the global economy and the global supply chain is more integrated," Moody's Investor Service said in a report. Pertaining to container ports, extended factory shutdowns in China and containment measures in the APAC region have hampered the manufacturing and logistics sectors, said Moody's.

All medical devices will be treated as drugs from FY21

SOHINI DAS
Mumbai, 11 February

Come April 1, all medical devices sold in the country would be treated as drugs and would be regulated under the Drugs and Cosmetics Act of 1940, the ministry of health and family welfare said in a notification on Tuesday.

At present, only 23 medical devices have been classified as drugs. Of these, only a few including cardiac stents, drug eluting cardiac stents, condoms, intrauterine devices, have been brought under price control.

The health ministry said the decision was taken after consultation with the Drugs Technical Advisory Board (DTAB), the apex decision making body on technical matters related to drugs.

In a separate notification, the health ministry made some amendments to the Medical Devices Rules, 2017 (which was made public and suggestions were invited from stakeholders). This will be called Medical Devices (Amendment) Rules, 2020 and would also come in force from April 1.

It says that the medical devices shall be registered with the Central Licensing Authority through an identified online portal established by the Central Drugs Standard Control Organisation (CDSCO). Such registration is voluntary for a period of 18 months, after which it will be mandatory.

At present, only 23 medical devices have been classified as drugs

The manufacturer of a medical device shall upload the information relating to that medical device for registration on the "Online System for Medical Devices" established by the CDSCO. Importers too will be required to do the same.

"Central Licensing Authority may verify the documents at any point of time and investigate quality or safety related failure or complaints," the health ministry notification read. It can also cancel the license of a manufacturer if it finds lapses.

Further, it gives timelines for registration and regulation of devices. For low and moderate risk devices if is 30 months from date of commencement of the rules, while for moderate high risk and high risk devices it is a period of 42 months within which it would be brought under the new regulations.

According to healthcare activist group All India Drug Action Network's (AIDAN) Malini Aisola, "

Registration requirements for all devices is positive. Timeline for subjecting devices that will be duly notified as of April 1, ranges from 2.5 years to 3.5 years.So India has a loooongg wait before all its higher risk devices are regulated."

Meanwhile, the Industry lobby said that there is no formal assurance that the MoH will work with NITI Aayog on the draft Medical Devices Bill. "We are highly uncomfortable to be regulated under the very rigid and prescriptive Drugs Act as any non conformity can be treated as a criminal offence by any Drug Inspector at his discretion and hauled before a court and there are no risk proportionate penalties," said Rajiv Nath of Association of Indian Medical Device Industry (AIMED).

He added that the industry has been seeking an assurance from MoH&FW that this is a temporary measure until the NITI Aayog drafted Bill to regulate Devices separately from Drugs becomes a separate Law.

PNB says no proposal for changing bank's name

PRESS TRUST OF INDIA
New Delhi, 11 February

Punjab National Bank (PNB) on Tuesday said there is no proposal to change the name of the bank following the merger of two other public sector lenders — Oriental Bank of Commerce (OBC) and United Bank of India (UBI) — with itself.

This statement comes days after a UBI official said that the government is expected to announce the new name and logo of the merged bank, which will become operational from April 1, 2020.

"Punjab National Bank hereby clarifies that there is no proposal to change the name of the Bank," the bank said in a tweet.

Last year, Finance Minister Nirmala Sitharaman had announced the merger of OBC and UBI with PNB, making the proposed entity the second largest public sector bank.

Further, it was decided to merge Syndicate Bank with Canara Bank, while Allahabad Bank with Indian Bank. Similarly, Andhra Bank and Corporation Bank are to be consolidated with Union Bank of India.

Last week, Oriental Bank's CEO and Managing Director Mukesh Kumar Jain had said this was an amalgamation of equals.

IRFC to decide on issue of retail bonds following IPO response

ANUP ROY
Mumbai, 11 February

Spurred by the huge response to its $1-billion overseas bond issue, Indian Railways Finance Corporation (IRFC) expects investors to lap up its initial public offering (IPO) in the coming days.

A date for the public offering is yet to be set. But according to media reports, the IPO could be floated around mid-March.

IRFC is a special purpose vehicle (SPV) that raises finances for the infrastructure needs of the railways.

Even as the railways is run by the government, the financing requirements are tackled by IRFC on behalf of the government. IRFC bonds have sovereign guarantee, even as the balance sheet of IRFC is used to service the bonds.

IRFC leases out assets to the government, and the lease rental covers all such expenses.

In the current financial year, IRFC's mandate is to mop up ₹65,400 crore, out of which it has already raised nearly ₹40,000 crore, IRFC's managing director Amitabh Banerjee told *Business Standard*.

The next year's target has not yet been communicated to IRFC.

The quasi-sovereign company was the first Indian public sector unit (PSU) to raise a 30-year bond. Except Reliance, no other Indian company raised such a long-tenure bond in the international market.

The 10-year bond, used to raise $700 million, was subscribed eight times and the 30-year bond was subscribed seven times for an amount of $300 million.

The rate of interest for the 10-year bond was 3.25 per cent, whereas the 30-year bond coupon was at 3.95 per cent. The offer was open for all investors globally, and pension funds as well as sovereign wealth funds were big buyers.

"We were pleasantly surprised by the response. This has now created a benchmark in the overseas market for Indian PSUs and other corporate sector entities," said Banerjee.

IRFC engages in selective hedging of its foreign exchange exposure, and even those costs are passed on to the government.

"We save around ₹600-650 crore by doing selective hedging. Our risk management team is always engaged in figuring out any early warning signs on the foreign exchange fluctuation part. We don't want to hedge our entire portfolio. The idea is how to make borrowing cost cheaper for the government, which runs the Indian Railways," said Banerjee.

Despite receiving good response overseas, the domestic market continues to be the mainstay for IRFC, from which it raises 93.5 per cent of its financing need.

The firm is not averse to issuing retail bonds, but will take a call on that depending upon the response received from the IPO.

The government will look to divest 05 per cent stake via an offer for sale, while there will be fresh issuance of another 10 per cent. After dilution, the stake of the government in the firm will be 86.14 per cent. However, within three years, the government's shareholding would become 75 per cent, according to capital market listing norms.

Realty firm under insolvency can continue to complete other projects: NCLAT

RUCHIKA CHITRAVANSHI
New Delhi, 11 February

In a first, the National Company Law Appellate Tribunal (NCLAT) has passed an order for a reverse insolvency process that could set a template for stressed real estate projects. The process will give a chance to the promoter to complete the project within a specified time frame. The resolution plan would then achieve the same objective of the insolvency process but not involve any third-party approval or a resolution applicant to submit a bid.

The NCLAT has also said that if the insolvency proceedings are initiated against a project, these will not extend to the entire company or any of its other projects.

The NCLAT order has come in the matter of a real estate company — Flatbuyers Association of Winter Hills-77, Gurugram, a project of Umang Realtech — to discourage the use of IBC as a recovery tool.

"As we find it is very difficult to follow the process as in normal course is followed in a corporate insolvency resolution process (CIRP), we are of the view that a reverse CIRP can be followed in cases of real estate infrastructure firms in the interest of allottees and survival of real estate companies and to ensure completion of projects," the NCLAT order said. The two-judge Bench of the NCLAT has directed the interim resolution professional to expend the amount received by one of the promoters for completion of the project in a time-bound manner.

BUSINESS STANDARD BEST B-SCHOOL PROJECT AWARD

5 best entries shortlisted for finals today

BS REPORTER
Mumbai, 11 February

A power-packed jury has shortlisted five entries of the top 15 projects for the *Business Standard* Best B-School Project Award 2019. These will compete for the coveted award in the final round to be held in Mumbai on Wednesday.

The jury comprises Rediff.com Founder and Chairman Ajit Balakrishnan (chairman of the jury), BSE MD and CEO Ashishkumar Chauhan, McKinsey & Company senior partner Rajat Gupta, Axis Bank human resources head Rajkamal Vempati, former Hindustan Petroleum Corporation CMD Nishi Vasudeva, Brand-building.com founder Ambi Parameswaran, and CG Power's global head of internal audit and HR Sunil Panjwani.

The shortlisted entries include a project on credit risk assessment using market intelligence and a loan default prediction model by Ayush Trivedi from Symbiosis Centre for Management and Human Resource Development, Pune, for Samunnati Financial Intermediation, and another on identifying the ideal picking, storage and routing policy for a hyperlocal service warehouse at Flipkart by Kapil Gavali of National Institute of Industrial Engineering, Mumbai, and one on route train by Vivek Sathiamoorthy of XIME, Chennai for BMW.

Other projects in the fray include one on sales and marketing techniques for Titan's Skinn perfume in large format stores by G Teja from Vinod Gupta School of Management at the Indian Institute of Technology, Kharagpur, and a project on customer sentiment analysis by Ankur Aman of Management Development Institute, Murshidabad, for Deloitte.

The criteria used by the jury to shortlist the projects included the quality of research and analysis, problems or issues being addressed practicality of the solution and how innovative it is, apart from the problem being addressed.

Each of the finalists will make a presentation to the jury members at the awards function and the top three will be chosen. *Business Standard* instituted these awards in 2007 to honour excellence among students from India's best B-schools.

A national level competition, the award is an opportunity for B-schools to nominate one project by their students as part of their academics. Starting with 68 entries in the first year, the number of projects has steadily grown to 174 this year.

Business Standard
The Smart Investor
MUMBAI | WEDNESDAY, 12 FEBRUARY 2020

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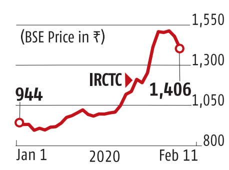
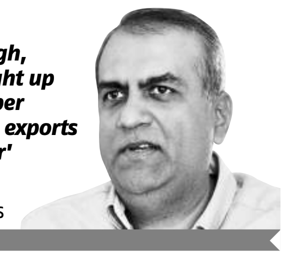
QUICK TAKE: PROFIT-TAKING AHEAD OF IRCTC'S Q3



IRCTC shares have come off 10 per cent this week, ahead of its Q3 results on Thursday. Analysts say that after a 50 per cent rally over the past fortnight, the stock is trading at 74x its trailing 12-month earnings. This factors in the positives, leaving little room for disappointment.

"While India aims high, Bangladesh has caught up on the real metric – per capita. And booming exports will take them higher'

MANISH CHOKHANI,
Director, Enam Holdings



Tax sops boost GDR appetite

ASHLEY COUTINHO
Mumbai, 11 February

Depository receipts (DRs), American or global, may become more attractive to foreign investors that invest directly in Indian equities, with the Budget widening the tax arbitrage. The tax rate for dividends in the hands of foreign portfolio investors (FPIs) is now 20 per cent, in addition to surcharge and cess. Dividends paid to DR holders, on the other hand, are taxable at 10 per cent.

Further, investors holding American Depository Receipts (ADR) and GDRs do not pay capital gains tax if they do not convert the receipts into equity shares. This is because even though the DRs represent shares of Indian firms, these are considered to be offshore instruments and not taxed in India. Investors holding shares directly in India have to pay 10 per cent on long-term capital gains and 15 per cent on short-term capital gains.

"Issues of ADRs and GDRs will grow more popular because they offer a more attractive tax regime to foreign investors. Even the regulatory regime has undergone positive changes recently. Gains accruing on ADRs and GDRs are not subject to tax in India. Further, the tax on dividends is also more attractive at 10 per cent," said Suresh Swamy, partner (financial services), PwC India.

Under current norms, only listed firms can issue DRs. Recently unlisted companies were allowed to go for simultaneous domestic and overseas listing. Currently, 32 companies have their DRs listed on various exchanges around the world. These include HDFC Bank, ICICI Bank, Infosys, Wipro, Vedanta, and Tata Steel. Of these, 17 DRs have seen a fall in their prices while 12 have gained in the past year.

"ADRs enjoy an advantage over equity shares from a capital gains perspective. The lower rate of 10 per cent on dividends for those opting for the ADR route will bring more benefit to investors, especially those who are not entitled to treaty rates," said Sunil Gidwani, partner at Nangia Andersen.

Most ADRs trade at a premium to their underlying shares. Better valuations in overseas markets make it attractive for companies with listed DR programmes to raise funds overseas. In the recent past, HDFC Bank was seen tapping the ADR market for its equity fund raise.

Experts, however, say it's unlikely that firms that have not issued depository receipts will opt for this programme now only for the benefit of certain foreign shareholders.

"Although the regulator allows sponsored depository receipts, the process involves cost as well as local and foreign regulatory approval," said Gidwani. In October last year, the Securities and Exchange Board of India (Sebi) put in place a framework for domestic companies to raise capital through DRs. The move, which followed a Budget announcement last year, will allow listed Indian companies to issue either equity or debt to investors on overseas stock exchanges such as the New York Stock Exchange, Nasdaq, and the Hong Kong Stock Exchange.

The new guidelines have failed to spur Indian companies' interest in this segment. The DR market has also been suffering from a trust deficit because of either lack of quality disclosures, or market manipulation, or fraudulent arrangements, and in some cases it is even being used as a tool for money laundering, said Yogesh Chande, partner, Shardul Amarchand Mangaldas.

Illustration: Binay Sinha

GLOBAL APPEAL

DRs by domestic firms have performed well in last one year

	Exchange	1-year change (%)
ICICI Bank	New York	55.2
Dr Reddy's	New York	20.1
HDFC Bank	New York	17.1
Reliance Industries	London	13.9
SBI	London	13.8
Tata Motors	New York	11.3
Axis Bank	London	6.6
L&T	London	1.7
Infosys	New York	0.9
Wipro	New York	-12.1

Compiled by *BS* Research Bureau — Source: Bloomberg

NSE gets Sebi notices over COO pick

SAMIE MODAK
Mumbai, 11 February

The Securities and Exchange Board of India (Sebi) has issued show cause notices (SCNs) to the National Stock Exchange (NSE) over the appointment and promotion of Anand Subramanian. The capital markets regulator had issued its initial notice in October and a supplementary notice in December.

Subramanian had joined the NSE in April 2013 as chief strategic advisor, at a time when Chitra Ramakrishna took charge as managing director (MD) and chief executive officer (CEO). He was elevated to group chief operating officer (COO) in April 2015. Subramanian's appointment and compensation package had raised eyebrows at the time, considering his earlier profile at a logistics firm.

"The NSE is in receipt of Sebi's show cause notice... alleging violation in relation to certain alleged irregularities in the appointment of a chief strategic advisor and his re-designation as 'Group Operating Officer and Advisor to MD' by the former MD and CEO, and the sharing of certain internal information pertaining to the NSE with an alleged third party by the former MD and CEO," the exchange said in a disclosure.

The exchange has sought certain documents, pertaining to the matter, from Sebi for inspection. The bourse has also filed a consent application to settle the matter. Under the consent mechanism, an alleged wrongdoing can be settled without admission or denial of guilt. The NSE is awaiting Sebi's response on the consent plea.

Sebi's notices to the NSE come almost three years after Subramanian's departure. He had quit in October 2016. In December that year, Ramakrishna also resigned as MD and CEO amid allegations of irregularities at the exchange's co-location facility.

The markets regulator has directed the NSE to divest its stake in Computer Age Management Services (CAMS) within a year.

CAMS is a leading registrar and transfer agent (RTA) for the mutual fund industry. NSE Investment, an arm of the exchange, had picked up 45 per cent stake in the company in December 2013.

"Sebi vide its letter dated February 4, has noted that NSE should have obtained prior permission of Sebi for acquisition of stake in CAMS, an associate company, through its subsidiary namely NSE Investment Limited in FY2013-14, and has directed NSE to divest its stake in CAMS within a period of one year, including certain restrictive directions in relation to the said stake in CAMS. The company is doing the needful," says a disclosure on the exchange's website.

People in the know said the exchange will have to divest the stake before it launches its initial public offering (IPO). Earlier this year, CAMS had filed its offer document with Sebi for an IPO.

Through the IPO, existing shareholders are looking to pare their holdings. It remains to be seen how the Sebi diktat to the NSE impacts CAMS' proposed share sale.

Besides the NSE, private equity majors Warburg Pincus and Faering Capital, as well as ACSYS Investments and HDFC group, are other shareholders in CAMS.

Bourse adds 3 million investors in 2019

The NSE added 3 million clients in 2019, an increase of 4.5 per cent over the previous year. The increase was below the previous 5-year annual growth of 11 per cent. Volatility in the markets is a possible factor behind the decline in client addition. Last year, the Nifty rose 12 per cent but the broader indices Nifty MidCap100 and Nifty SmallCap 100 had declined 4.3 per cent and 9.5 per cent, respectively. "We should be looking to touch the 50-million investor mark over the next three years," said Vikram Limaye, MD and CEO of the NSE. At present, the exchange has 30 million clients. To achieve the target, its client base will have to grow at over 18 per cent annually. BS REPORTER

Indices snap 2-day decline as global markets regain footing

PRESS TRUST OF INDIA
Mumbai, 11 February

The benchmark indices snapped their two-session slide to close with smart gains on Tuesday, mirroring optimism in the global markets as investors wagered on limited economic impact of the coronavirus outbreak.

Led by gains in index heavyweights RIL, ICICI Bank and HDFC, the Sensex settled 236.52 points or 0.58 per cent higher at 41,216.14.

Similarly, the broader Nifty rose 76.40 points or 0.64 per cent to 12,107.90.

NTPC, Maruti Suzuki, SBI, PowerGrid, Bajaj Auto, UltraTech Cement and Axis Bank rose up to 2.95 per cent.

On the other hand, Bharti Airtel, Mahindra and Mahindra, Nestlé India, TCS, and Sun Pharma shed up to 0.75 per cent.

Global markets rose as China re-opened for business after a forced extension to the Lunar New Year holiday because of the coronavirus outbreak, which has killed over 1,000 people and disrupted major global supply chains.

Bourses in Shanghai, Hong Kong and Seoul settled with significant gains. Japanese markets remained shut for a holiday. Exchanges in Europe also opened on a positive note.

Compiled by BS Research Bureau
Source: Exchange

THE COMPASS

Muted outlook may dent Motherson Sumi's prospects

Weak global auto demand a major challenge

RAM PRASAD SAHU

The Motherson Sumi stock is likely to remain under pressure on the back of a weak performance in India, margin pressures, and a muted near-term outlook. The stock has shed over 16 per cent since the start of the year, as supply chain disruption — on account of coronavirus — has added to slowdown concerns in the India market.

The company reported a 5 per cent dip in domestic sales, given the fall in passenger vehicle production and weakness in copper prices. The lower volumes led to negative operating leverage, thereby denting operating profit margins. While margins at 15 per cent were 10 basis points (bps) higher than the year-ago quarter, they fell short of Street estimates by over 100 bps.

Recovery in India is crucial for overall margins, given the region is most profitable and margins here are twice that of consolidated operations. In addition to India, brokerages believe profitability gains will depend on a recovery in auto volumes across the EU, better operating efficiencies, and cost reduction efforts.

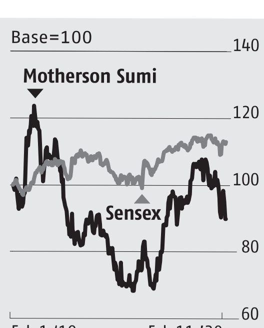
The international business of the company (subsidiaries) also reported a weaker-than-expected performance. Within this, while weakness in South Korea led to a 5 per cent fall in SMR's business, a slowdown in Class 8 truck orders dented the performance of PKC (both subsidiaries).

While SMR makes automotive mirrors, PKC manufactures wiring harness and electronics, mainly for commercial vehicle makers. SMP, which supplies internal and external modules, reported growth of 2 per cent. This was driven by organic growth, as well as a ramp-up of its greenfield facilities. The ramp-up of its Alabama plant in the US was critical for SMP and consolidated margins.

Brokerages have highlighted that revenues will be affected due to the weak global automotive demand. Lower-than-expected ramp-up of new plants and uncertainty on account of coronavirus could lead to pressure on revenues and margins.

In addition, expensive valuations of global subsidiaries vis-à-vis global peers has led Kotak Institutional Equities to give a 'sell' rating to the stock.

Investors should await a steady uptick in revenues and margins before considering the stock.



Compiled by BS Research Bureau

GAIL on strong footing after robust Q3 performance

Risk-reward in favour, with most negatives priced in

UJJVAL JAUHARI

GAIL (India)'s better-than-expected performance in the December quarter (Q3) — led by a rebound in gas trading segment's performance — improved investor sentiment, leading to an almost 6 per cent surge in the stock on Tuesday. Most other segments, including petrochemicals, liquefied petroleum gas, and hydrocarbons, also saw some improvement.

The natural gas trading segment, contributing 74 per cent to GAIL's top line, had seen subdued profitability over the previous quarter as the firm had to sell larger quantities of gas in the spot market in a weak pricing environment. However, the segment saw profit rise almost 2x sequentially.

While profit was still lower on a year-on-year (YoY) basis, increased offtake due to commissioning and expansion at fertiliser plants, coupled with the applicability of take-or-pay clause, will drive the segment's profitability further even as natural gas prices remain soft, say analysts.

The petrochemicals segment also did well, with volumes growing 22 per cent YoY, which helped curtail losses. Analysts expect GAIL to capitalise on low natural gas prices to protect margins in a scenario of falling petrochemical prices.

The gas transmission segment continues to clock steady improvement in profit and reported volume growth of 2.4 per cent YoY in Q3. Tariffs, too, rose 5.7 per cent. The transmission business is expected to get a leg-up from increased utilisation of Petronet LNG's recently added capacity and commissioning of the Kochi-Mangaluru pipeline in March 2020, while another pipeline in East India will boost volumes from FY21.

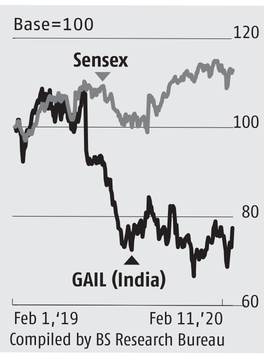
On the whole, after a good Q3, the business outlook for GAIL is improving.

The company has also received upgrades from foreign brokerages. Analysts at CLSA said a rebound in the trading segment's profit should be a big relief, as disappointment in the second quarter had weighed on the stock that now trades at close to its 10-year-low price-to-earnings/price-to-book (P/E-P/B), implying a sub-5x core P/E. Analysts see higher gas transmission volumes, inclusion of gas under the goods and services tax purview, and a change to the unified tariff regime as potential triggers in 2020.

Others factors that should benefit GAIL are the new US liquefaction terminals that will boost regasified LNG exports and keep Henry Hub prices subdued, enabling the company to swap higher-priced cargoes, highlight analysts at HDFC Securities.

Placement of higher-priced US contracts has been a concern for long.

In this backdrop, most of the negatives now seem priced in. Among monitorables are adjusted gross revenue-related developments (telecom dues worth ₹1.83 trillion that the company has refuted and filed an application in the Supreme Court) and demerger of the pipeline and gas trading segments. Beyond these, the risk-reward looks in favour of GAIL.



Compiled by BS Research Bureau

In their second innings

A clutch of veterans has raised nearly ₹4,000 crore in equity to script a new plot in shadow banking, reports **Raghu Mohan**

In 2005, Jaspal Singh Bindra cut a cheque of $3.3 billion for Standard Chartered Bank's purchase of Korea First Bank. "Nowadays, I chase investors for ₹50-100 crore," says the Centrum Group's executive chairman, and former group executive director at the UK-based bank. It's not as bad as he puts it — the firm is in talks with Morgan Stanley Private Equity to offload a 20 per cent stake in Centrum's housing finance arm, valuing it at over ₹1,000 crore. But surely, a global banker's business card opens more doors than the head of a shadow banking firm.

"I have very fond and satisfying memories of my previous life as a banker, with no regrets. I have a new business card and take great pride in what it stands for, towards building an admired and respected company", notes Gunit Chadha, founder of APAC Financial Services, and the former Asia Pacific chief executive officer (CEO) of Deutsche Bank. He got Multiples — the private equity (PE) firm headed by Renuka Ramnath — to invest 37 per cent in APAC, a month after the blowout at Infrastructure Leasing & Financial (IL&FS).

Forget the obituaries to the shadow banking sector for a bit. A clutch of veterans (besides Singh and Chadha) — Vimal Bhandari of Arka Fincap, Bhupinder Singh of InCred, Shachindra Nath of UGRO Capital, and Gaurav Gupta of Adani Finserve, have close to ₹4,000 crore riding on them. It is the biggest ever pool of capital to back professionals in this space even as some of the established players are being put through the wringer.

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GUNIT CHADHA — Founder, APAC Financial Services

"I am not like Jaspal or Gunit who had batted on big banking platforms. I am from a small town, and had to sweat it out"

SHACHINDRA NATH — Executive chairman and MD, UGRO Capital

"Having lived abroad for long, I wanted to come back and contribute to my country in my own small way"

BHUPINDER SINGH — Founder and Group CEO, InCred

"The biggest cheque I cut was of $3.3 billion for StanChart's purchase of Korea First Bank. I now chase investors for ₹50-100 crore"

JASPAL SINGH BINDRA — Executive chairman, Centrum Group

"There is no weakness in the non-banking financial company model. It depends on how you go about it"

VIMAL BHANDARI — Executive vice-chairman and CEO, Arka Fincap

"I am not travelling to fancy locations, and have been downgraded by all airlines, but it is a nice trade-off!"

GAURAV GUPTA — CEO, Adani Finserve

Heeding Proximo

What sets this crowd apart is that it has taken the character Antonius Proximo's advice to Maximus Decimus in the 'Gladiator': "I was the best because the crowd loved me. Win the crowd. You will win your freedom".

Says Nath, executive chairman and managing director (MD) at UGRO Capital: "I am not like Jaspal or Gunit who had the privilege of batting on big banking platforms. I am from a small town, the son of school teachers, and had to sweat it out". As Religare's Enterprises' chief executive officer in a past avatar, he became famous as the gladiator who blew the loudest whistle! And can now rightfully trumpet the ₹950 crore raised from PEs — ADV Partners, NewQuest Capital Partners, Indgrowth Capital and PAG (formerly the Pacific Alliance Group) and a few family offices — the biggest ever fundraising by a professional in the business till date. It boils down to reputation.

Of the lot, Bhandari of Arka Fincap is a veteran of a different kind – a life spent only in the world of non-banking financial companies (NBFCs). He was identified by HDFC chairman, Deepak Parekh, among the handful who would draft a blueprint for IDFC when it was set up in 1997. And had a long stint at IL&FS before it hit the headlines, and had gone on to helm IndoStar Capital fuelled by Everstone and Goldman Sachs. He now has got Atul Kirloskar's ₹1,000-crore backing.

"The major difference in the NBFCs promoted by us is that the management comes from a lending background, and the sector's understanding, especially of risk, is good", says the executive vice-chairman and CEO of Arka Fincap. And, debunks any suggestion that NBFCs will roll over and die: "There is no intrinsic weakness in the model per se as it meets an important need of the borrowers. It all depends on the business model and how you go about it". And Chadha seconds Bhandari: "There is nothing wrong with the NBFC business model. I believe that it is governance that matters — you can't slip up on that front". And, he adds helpfully: "It is wrong to say that NBFCs will not have a stable funding base. If you mess up, even a bank's CASA (current and savings accounts) can be affected". And yes, we have an example of that too!

The other side of aisle

Gupta, the CEO of Adani Finserve, and Bhupinder Singh of InCred are the i-bankers in the fray. "The downside, Gupta says: "I am not traveling to fancy locations, and have been downgraded by all airlines, but it is a nice trade-off!" — a reference to his past as the MD of Macquarie Capital in India, and the frequent-flier miles earned earlier with Nomura, Lehman, Rothschild and Arthur Andersen. So, what's the upside on this side of the aisle? "I wanted to be an entrepreneur and was fortunate when Gautambhai (Gautam Adani) gave me the opportunity to build the financial services vertical for the Group".

As for Bhupinder Singh – the founder and group-CEO of InCred – he spent 16 years at Deutsche Bank, the final corner room being that of the bank's co-head of i-banking banking and securities in Asia Pacific, looking after $3 billion in topline. "From a personal perspective, after having lived abroad for the better part of my working life, I had a desire to contribute to my country in my own small way, specifically creating employment opportunities and bringing in global best practices, particularly in the area of risk management", he says.

Ask Bhandari to crystal gaze on the years ahead, and he tells you: 'It could be that some (of us) may aspire for a universal banking licence. Remember that corporate houses cannot aspire for one now. Who knows, some players may even get acquired by banks. The industry landscape is changing due to technology, regulation, and customer needs".

For Bhupinder Singh, the big relief from his days at Deutsche Bank is that he doesn't have to move the kids from one country to another, separating them from their school and friends. "I am very pleased with how quickly they've adapted and formed strong friendships out here. In fact, the transition has been so smooth that my wife is now a regular cyclist on Mumbai streets!"

Yes, it may be a new life – but you have to keep pedalling like Lance Armstrong.

Succession plan is often ill-executed

GUEST COLUMN

AGAMJEET DANG
Managing Partner, Executive Access (India)

The hunt is on to find a candidate to occupy the most coveted corner room in the country's largest private bank; another bank in the peer group has sought the banking regulator's approval for an internal incumbent as the most likely candidate. It brings to the fore the issue of succession planning, especially in financial services.

The last two years have seen as many as seven new CEO appointments in banks, a dozen-plus in insurance companies, and a few more in the larger financial services' ecosystem. This has ensured the topic remains hotly debated and fresh, both within corporate circles and the executive search fraternity.

The fact that as many as 60 per cent of the times, the CEO candidates end up being external hires is an indicator of the level of preparedness of organisations and their boards to find replacements internally. When I compare the data on CEO hiring in other industries within India as well as overseas, 55 per cent of the candidates are again external. Global reports indicate that the successor ends up being a mis-hire half the time. And the cost of getting a CEO-hire wrong can often peg firms back by as much as 100 times the compensation of the candidate, and even more for larger companies!

I often wonder if CEO hiring is one of the most important tasks, then why is it that companies get it wrong so often? One reason, of course, is that most companies lack proper in-house succession planning; and very often, don't spend enough time, energy and resources in planning for the same. Another could be that average CEO tenures are coming down globally — one would be extremely lucky to survive 24-36 months of lacklustre performance. The fact that the business environment is generally getting tougher, coupled with lower tolerance levels of boards, along with wider availability of jobs (all of it being a vicious cycle in my view), means that CEOs are getting replaced faster. And hence, this may not generally be leaving enough time and stability needed for companies and their boards to prepare for succession.

Most firms lack proper in-house succession planning; and often don't spend enough time, energy and resources in planning for the same. And miss more than a trick

In the case of the banks I started out with, where the incumbents have been in place for a very long period, it is unfortunate that they haven't been as meticulous in their succession planning. In a few other banks, it was due to circumstances beyond their control – be it regulatory guidance, potential successors losing out to external competition, or simply running out of patience.

One has to be extremely lucky to have a readymade solution available in-house. But then, only a few are born CEOs, and most candidates have to be groomed for the job. I always advise that the planning process should start at least 24-36 months before the due date, with a list of potential successors identified internally, and being put through a rigorous assessment and development process. Also, the successor should be identified and communicated to 12-18 months in advance, which allows sufficient time for the person to settle in, and finetune the skills needed. After all, there is nothing better than being paid to learn!

If it is clear the successor clearly doesn't exist in-house, my advice would be to engage a specialist firm to identify one two years in advance, and on-board the person at least 18 months before D-day. The key is to communicate properly within the organisation to potential aspirants, as well as drawing a clear charter for the person to come and learn. As the CEO role is a major step-up, expectations can be laid out with complete clarity. I often find organisations missing more than a trick by not being clear in their communication, thereby giving wrong signals, which makes the process a mess.

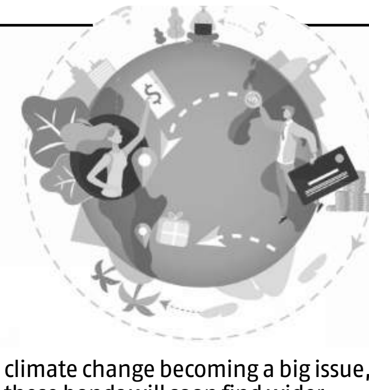
Inputs from Arpita Garg, Partner at J Sagar Associates

BLUE PLANET BONDS

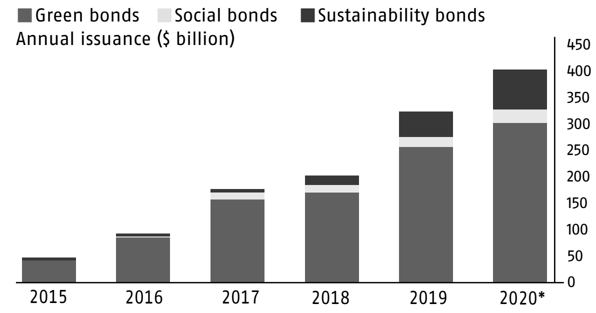
Delinquencies in banks' retail green, social and sustainability bond issuances will continue to be in the spotlight and hit a record of $400 billion in 2020, up 24 per cent from its previous high of $323 billion in 2019, says Moody's Investor Service. The heightened focus on climate action by governments and the financial sector will drive further growth and innovation.

According to Moody's Investor Service, the green bond sub-component issuance will reach $300 billion this year, up from $258 billion (in 2019). Social and sustainability bond issuances will reach $25 billion and $75 billion, respectively, (from $17 billion and $48 billion last year). Proceeds from such instruments are typically earmarked to finance eligible environmental and social projects.

It may be recalled that in 2019, researchers at the Bank for International Settlements (BIS) had said there would be few disadvantages for central banks to use "green" bonds as part of their foreign exchange reserve assets. With climate change becoming a big issue, these bonds will soon find wider acceptance globally.



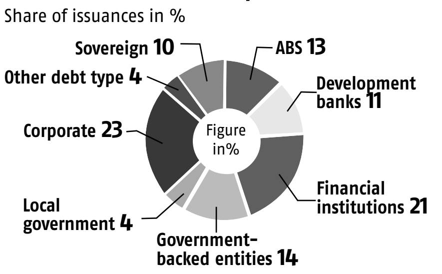
ON THE WAY TO $400 BILLION



*2020 figures reflect Moody's projections

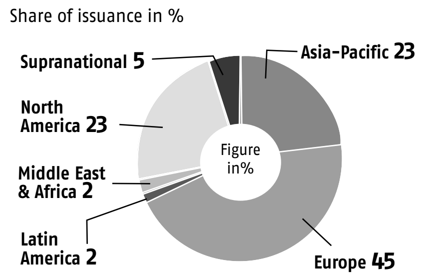
IN 2019 GREEN BONDS, PVT SECTOR TOPS

Share of issuances in %



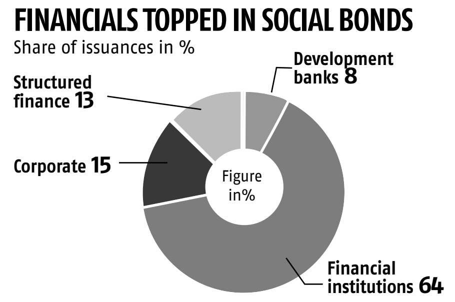
... EUROPE HAD LION'S SHARE

Share of issuance in %



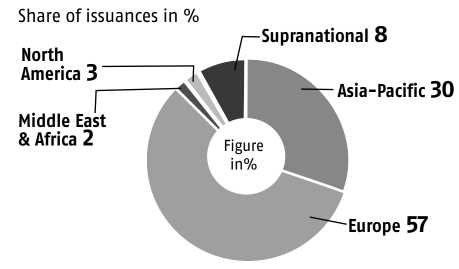
FINANCIALS TOPPED IN SOCIAL BONDS

Share of issuances in %



EUROPE TOPPED IN SOCIAL BONDS TOO

Share of issuances in %



Source: Moody's Investors Service

The hunt for directors' special!

Most UCBs will find it tough to set up a board of management

RAGHU MOHAN

Urban co-operative banks (UCBs) with deposits of over ₹100 crore are to set up a board of management (BoM). In FY19, you had 647 UCBs which answered to such a profile which among them had deposits of ₹4,49,907 crore. If all these UCBs were to appoint a BoM which is to have a minimum of five members, you will need 3,235 qualified people who will also have to get the nod of the central bank.

The Reserve Bank of India (RBI) has indicated the provisions in sub-section 2 of Section 10A of the Banking Regulation Act (BR Act: 1949) will come into play. While the central bank's notification of December 31, 2019, does not specifically mention the sub-section in the BR Act, it refers to the provisions: "The BoM will have specialists drawn from accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law, small scale industry, and information technology".

Not practical

Senior officials in UCBs say the central bank has not been practical in its approach.

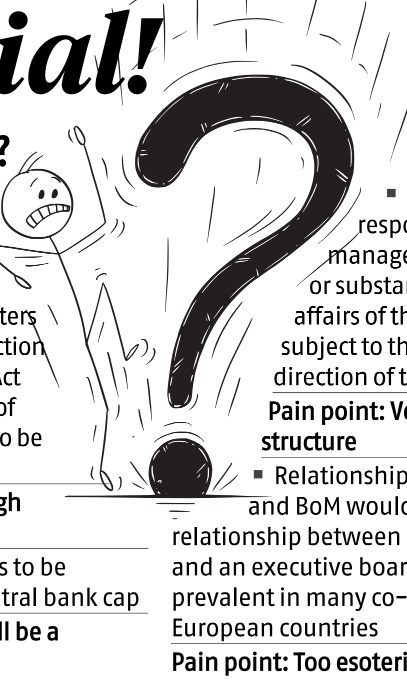
"The BoM will be an addition to the existing board of directors (BoD). The RBI has not also spelt out clearly if the BoD is to mirror the provisions in sub-section 2 of Section 10A entirely. If so, this is needless duplication. It would have been better to insist that the BoD will have to be spruced up", says a senior functionary at a UCB. The point being made here is that the insistence on the BoM can distract UCBs' management from their business.

Many of the better-run UCBs may opt to convert into small finance banks (SFBs). In FY19, there were 184 UCBs with deposit sizes between ₹500 crore and ₹1,000 crore; and a lot many SFB aspirants will come from this grouping. "We now have to set up a BoM, and if we were to become eligible for an SFB licence, we will have to dismantle it, and set up a new BoD all over again", said an official from a UCB with SFB ambitions.

The RBI's Report on the Trend and Progress of Banking in India (2018-19) says that UCBs with deposit bases of up to ₹10 crore formed the modal class in FY08, but the ₹100 crore to ₹250-crore bracket became the modal class at the end of FY19. This suggests an increase in the average deposit per account as well as an expansion of the customer base of UCBs". This transition over a decade has come with its pains, and the fear is that an inability to set up a BoM can harm their business, given the reputational risk involved.

The larger UCBs with a total business size of ₹20,000 crore (or which will be approaching this threshold in say, five years from now) will definitely seek to morph into universal banks. This is because the SFB model will call for them to exit current business lines. Both Saraswat UCB and Cosmos UCB are set to opt for the universal bank option, and are finetuning their plans for the life ahead. It makes no sense for these banks to set up a BoM in the interim.

WILL THE BoM WORK?



- Majority members in the board of management (BoM) are to be persons with special knowledge or practical experience in one or more matters specified in sub-section 2 of Section 10A of the Banking Regulation Act (1949). The maximum number of members of the BoM (say 12) is to be prescribed by the RBI

Pain point: Hard to find enough competent persons

- Sitting fees for BoM members to be decided by BoD, subject to central bank cap

Pain point: Low sitting fees will be a hindrance

- UCB CEO to be responsible for the management of the whole, or substantially the whole affairs of the bank, but shall be subject to the control and direction of the BoM

Pain point: Very cumbersome structure

- Relationship between the BoD and BoM would be similar to the relationship between a supervisory board and an executive board. This is widely prevalent in many co-operative banks in European countries

Pain point: Too esoteric an arrangement

Note: The RBI is yet to spell out how the BoM mechanism is to be operationalised. Broad contours taken from Y H Malegam's 'Expert committee on licensing of new UCBs' in 2011 which set the case for the BoM

No incentive to be on the BoM

A fallout of the Punjab and Maharashtra UCB mess is that few professionals want to be associated with the sector.

The central bank's data shows that UCBs in the top-ranking categories – with 'A' and 'B' ratings – accounted for 78 per cent this universe. The share of UCBs in category 'A' has, however, declined in the last five years with a concomitant increase in category 'B' banks. The share of UCBs in category 'D' has remained in the range of 4 to 5 per cent in the last five years. But the RBI does not link these ratings to the size of the UCB – those with ₹100 crore being of immediate import as they have to set up a BoM.

"Why should I offer myself to be on the BoM of a UCB. I have no idea about the risk profile of these banks. After the PMC Bank blowout, these ratings are anyway under a cloud", says an independent director who serves on the boards of a universal bank, and companies. In any case, being on the boards of banks (let alone a new creation: the BoM) is being seen by most senior professionals as not worth the headaches involved, given that directors are under stricter scrutiny.

In the case of UCBs, the hierarchy between the BoD and the BoM is diffused as well. It is not yet clear if both the BoD and BoM are to attract the provisions under sub-section 2 of Section 10A of the BR Act; or if the BoM is to be purely advisory in nature. The RBI's notification says "the BoM shall exercise oversight over the banking related functions of the UCBs, assist the BoD on formulation of the policy and any other related matters specifically delegated to it by the Board for proper functioning of the bank". And "in the event where the BoD differs with the recommendations of the BoM, it shall do so by recording, in writing, the reasons thereof".

The BoM does not appear to be a bomb of an idea.