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Business Standard

COMPANIES P2
HARLEY TO RIDE ON SMALLER BIKES TO PUMP UP VOLUMES

ECONOMY & PUBLIC AFFAIRS P4
ADVISED MANMOHAN AGAINST VODAFONE TAX, SAYS MONTEK

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

THE MARKETS ON THURSDAY

		Chg#
Sensex	41,459.8▼	106.1
Nifty	12,174.7▼	26.5
Nifty futures*	12,174.6▼	0.1
Dollar	₹71.3	₹71.3**
Euro	₹77.5	₹77.9**
Brent crude ($/bbl)##	55.8##	56.2**
Gold (10 gm)###	₹40,603.0▲	₹182.0

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

S&P MAINTAINS INDIA RATING AT 'BBB-' WITH STABLE OUTLOOK

Standard & Poor's (S&P) on Thursday retained India's ratings at the lowest investment grade with stable outlook as the economy's fiscal position remains weak, which hampers consolidation over the next few years. In a statement, S&P said tight credit conditions remained in the financial sector, which would hamper growth in private consumption over the coming quarters. 22▸

EDIT: LONG ROAD TO REVIVAL 11▸

ECONOMY & PUBLIC AFFAIRS P20
Vodafone Idea reports loss of ₹6,439 crore

Vodafone Idea reported a consolidated loss of ₹6,439 crore for the December quarter as compared with a ₹5,004-crore loss in the same period in 2018-19. This is higher than analyst estimates, which had pegged the loss at ₹4,000 crore, after being in the red by a record ₹50,922 crore in the September quarter.

SC to hear modification pleas on AGR today

The Supreme Court is expected to take up the modification applications of Vodafone Idea and Bharti Airtel, seeking a relaxed payment schedule, on Friday. The firms owe ₹1.4 trillion in AGR dues to the Centre, besides interest accrued over a period of time and penalties. The court will hear the pleas and decide whether they should be allowed a staggered payment schedule.

Debasish Panda named financial services secy

Senior IAS officer Debasish Panda was on Thursday named financial services secretary as part of a top-level bureaucratic reshuffle effected by the Centre. Panda, a 1987-batch IAS officer of the Uttar Pradesh cadre, is at present special secretary, department of financial services.

ECONOMY & PUBLIC AFFAIRS P4
PW India won't provide non-audit services

Price Waterhouse Network of Firms in India (PW India), the Indian affiliates of accounting giant PwC, announced on Thursday that it would no longer provide non-audit services to Indian audit clients governed by the National Financial Reporting Authority. These are services such as tax advisory and consulting.

TO OUR READERS

The one-page commercial feature on NTPC's event, IPS 2020, being carried on Page 5, is equivalent to a paid-for advertisement. No *Business Standard* journalist was involved in producing it. Readers are advised to treat it as an advertisement.

Indian firms step up dollar-raising as China goes slow

Record $7.15 billion raised in less than two months as Chinese companies reel from coronavirus impact

The issue size of Chinese companies has come down sharply PHOTO: REUTERS

ANUP ROY & KRISHNA KANT
Mumbai, 13 February

With Bharti Airtel's subsidiary Network i2i raising $250 million from overseas markets, Indian companies would be raising a record $7.15 billion in less than two months, since the start of the calendar year, as global liquidity chases emerging market yields to compensate for the Chinese supply of bonds in times of a coronavirus scare.

Adani Transmission recently raised $310 million in the US private placement market by placing 30-year paper.

In January and February last year, Indian companies had raised $2.35 billion. In fiscal year 2019-20 so far, they have raised $19.24 billion as against $5.65 billion in the whole of 2018-19.

According to bankers involved in such deals, global liquidity is in abundance, but avenues to deploy funds are limited. With a coronavirus scare, good Chinese companies are not tapping the bond market actively. The issue size of Chinese companies has come down to $100 million, or even as low as $5 million. This is not enough to attract serious investors.

Indian companies, on the other hand, are finding the global bond market as a cheaper alternative to local bank loans. Indian banks are not very forthcoming with giving loans owing to the bad loan crisis, but global bond yields have fallen drastically. Turn to Page 21▸

ON FUNDRAISING SPREE
Bond issues in 2020

Issuer	Coupon rate (%)	Amount ($ mn)
Adani Electricity Mumbai	3.95	1,000
Bharti Airtel	1.5	1,000
Export-Import Bank of India	3.25	1,000
Power Finance Corp	3.95	750
Indian Railway Finance Corp	3.25	700
Future Retail	5.6	500
Shriram Transport Finance	5.1	500
Others	–	1,700

Source: Bloomberg

In China's Hubei, death toll rises by 242 in a day

The Chinese province at the centre of the coronavirus outbreak reported a record rise in deaths and thousands more infections using a broader definition on Thursday, while Japan became the third place outside mainland China to suffer a fatality. Earlier, two fatalities were reported in Hong Kong and the Philippines. In central China's Hubei province, officials said 242 people died on Wednesday.

CORONAVIRUS OUTBREAK P6
▸16,000 INDIANS UNDER WATCH
▸THOUSANDS OF INDIANS STUCK

Murthy's son-in-law is new UK chancellor of exchequer

Rishi Sunak, who went to Oxford and Stanford, became MP just five years ago

ASHIS RAY
London, 13 February

When former British foreign secretary William Hague vacated his safe Conservative party seat in Richmond in the countryside of Yorkshire, a surprise choice to step into his shoes was an Indian-origin candidate, Rishi Sunak.

This was five years ago. While he has been thrice elected from the constituency to the House of Commons, because of two mid-term elections, his rise from the back benches to the office of the chancellor of the exchequer (finance minister) in merely half a decade is, to say the least, meteoric.

Sunak's father was a doctor in the National Health Service and his mother an owner of a chemist shop. "I grew up watching my parents serve our local community with dedication ... I wanted to make that same positive difference to people as their Member of Parliament," he said after entering the Commons.

His parents sent him to Winchester, a distinguished institution in the British public school tradition — along with Eton, Harrow, Rugby, and some others — and attended by Tiger Pataudi and Madhavrao Scindia.

He did well enough there academically to secure admission to the University of Oxford. Turn to Page 21▸

IN THE HOT SEAT

- **The UK-born son** of a pharmacist mother and a health service practitioner father is married to Infosys co-founder Narayana Murthy's daughter Akshata
- **Former investment banker** has been an elected representative of the British Parliament three times
- **Sunak, 39, replaces Pakistani-origin Sajid Javid.** He was Javid's junior as chief secretary to the Treasury

Newly appointed British Chancellor of the Exchequer Rishi Sunak leaves 10 Downing Street in London PHOTO: REUTERS

I-T dept lines up ₹1-trn PSU tax row under 'Vivad se Vishwas'

SHRIMI CHOUDHARY
New Delhi, 13 February

Responding to the Vivad se Vishwas Bill introduced in the Lok Sabha earlier this month, the Income-Tax Department has identified at least 50 central and state public sector undertakings (PSUs) to be covered under the litigation settlement scheme. These state-run firms have been embroiled in legacy tax rows involving an estimated disputed amount of ₹1 trillion, according to sources in the know.

ECONOMY PAGE 4
SABKA VISHWAS SCHEME MAY NOT ADD MUCH TO GOVT COFFERS

The action plan came up in a video-conferencing discussion on Thursday between the top officials of the Central Board of Direct Taxes (CBDT) and Revenue Secretary Ajay Bhushan Pandey.

The Union Cabinet had on Wednesday expanded the scope of the scheme to cover litigation pending even in debt recovery tribunals (DRT). After the amendment, the scheme will also cover searches and seizure with recovery up to ₹5 crore.

The scheme is yet to come into effect as the Vivad se Vishwas Bill is pending in Parliament. The amended version would now be tabled in Parliament again. Turn to Page 21▸

IMMUNITY SCHEMES FOR DIRECT TAXES

Scheme (Year of launch)
■ Income declared ■ Tax collected (₹cr)

Scheme (Year of launch)	Income declared	Tax collected
Voluntary Disclosure of Income Scheme (1997)	33,000	10,000
Income Declaration Scheme (2016)	65,250	29,362
Black Money Act*	4,164	2,428
PM Garib Kalyan Yojana (2017)	4,900	2,451
Vivad se Vishwas** (2020)	NA	NA

Note: *Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
**It's for settling direct tax disputes; yet to be effective

Indian cinema has a happy story in rising ticket sales

Multilingual films, better scripts attract audiences to theatres

VANITA KOHLI-KHANDEKAR
New Delhi, 13 February

More tickets, more languages, and better scripts: That seems to be the story of the Indian box office, going by consulting firm Ormax Media's Box Office Report 2019.

Indians bought 1.03 billion movie tickets, spending ₹10,948 crore last year, an increase of 11.6 per cent over 2018, when they had spent ₹9,810 crore to buy 945 million tickets, the report says.

About one-third of these tickets were bought to watch films in Hindi, 19 per cent for Tamil films, and 18 per cent for Telugu films. Hollywood and Malayalam films came next. This is arguably the best thing to come out of the report. For the past four years or so, film-ticket sales had been falling or had remained stagnant, even as average ticket prices kept rising.

In 2019, there were some green shoots of rising ticket sales in the results for India's major multiplex chains. The Ormax report validates that. This round of box-office growth is led by growth in the underlying metric that matters most – more people watching films.

And it will continue going by the factors that underpin this growth. "On an overall basis language is becoming more important. More than 60 per cent of the box-office revenues for Saaho (a trilingual film in Hindi, Tamil and Telugu) came from Hindi. Part of the War (Hindi) business came from Telugu. We are getting into a scenario where many of the top 10 movies are more multilingual," points out Shailesh Kapoor, CEO, Ormax Media.

The reason Hollywood's share has gone up from 7 per cent of the total footfalls in 2015 to over 9 per cent is it has begun dubbing and releasing films in Hindi, Tamil, and Telugu, among other Indian languages.

"For Avengers, 40-45 per cent (box-office revenues) came from Hindi, Tamil, and Telugu. This holds true for all franchise films or big releases, which on average get 35-35 per cent from Indian languages. A smaller film, say 1917, is released only in English," says Kapoor. Turn to Page 21▸

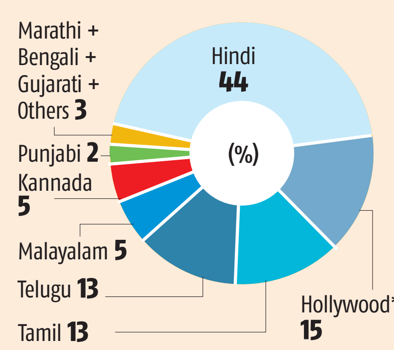
BOX-OFFICE REPORT CARD

₹10,948 crore Gross box-office collection across languages in 2019; ₹10,000 crore mark breached for first time

1.03 billion Theatre seats filled

30.5% YoY growth by Hollywood, touching an all-time high of ₹1,595 cr

Language-wise share of gross domestic box office (2019)



*Hollywood includes all language versions

Note: The report refers only to the India box office

Top 10 films (Gross domestic box office: All languages)

Film	Gross domestic BO (₹ cr)
Avengers: Endgame	433
War	357
Saaho	349
Kabir Singh	321
Uri	283
Housefull4	239
Good Newwz	230
Bharat	229
Mission Mangal	224
Sye Raa	196
The Lion King	184

Gross domestic BO in ₹ cr (Collections of all language versions added for each film)

Source: Oramax Media Report, 2019

RESULTS RECKONER

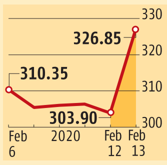
Quarter ended Dec 31, 2019; common sample of 1,910 companies (results available of 2,304)

SALES			
Dec 31, '18	19.0%	₹18.35 trillion	↗
Dec 31, '19	–0.1%	₹18.34 trillion	↘
PROFIT BEFORE TAX			
Dec 31, '18	–14.1%	₹1.49 trillion	↘
Dec 31, '19	31.2%	₹1.96 trillion	↗
NET PROFIT			
Dec 31, '18	–23.4%	₹94,104 cr	↘
Dec 31, '19	38.9%	₹1.31 trillion	↗

Companies with zero sales excluded; Given the change in corporate tax rates, to give a fair comparison the profit before tax has been considered; Compiled by BS Research Bureau; Source: Capitaline

STOCKS IN THE NEWS

Torrent Power

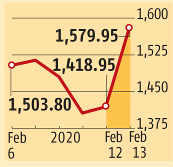


Q3 PBT up 24 per cent at ₹315 crore; YoY

₹ 326.85 CLOSE

▲7.55% UP*

IRCTC

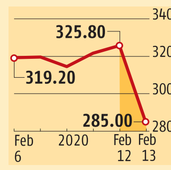


Q3 PBT at ₹270 crore, against ₹112 crore in the year-ago quarter

₹1,579.95 CLOSE

▲11.35% UP*

GE Shipping

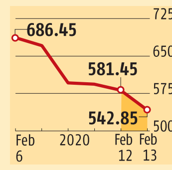


Q3 PBT at ₹341 crore, against ₹342 crore in the year-ago quarter

₹285.00 CLOSE

▼12.52% DOWN*

CARE Ratings

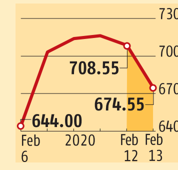


Q3 net profit down 43 per cent at ₹17 crore; YoY

₹542.85 CLOSE

▼6.64% DOWN*

Natco Pharma



Q3 PBT down 37 per cent at ₹129 crore; YoY

₹ 674.55 CLOSE

▼4.80% DOWN*

*OVER PREVIOUS CLOSE

Airtel 2nd most valuable telco in Emerging Asia

At its current market capitalisation of around $41 billion, Airtel is behind China Mobile, whose valuation is $175 billion

KRISHNA KANT
Mumbai, 13 February

Bharti Airtel has emerged the second-most valuable mobile operator among emerging markets in Asia, behind China Mobile, thanks to a surge in its share price and equity expansion in the past one year.

At its current market capitalisation (m-cap) of around $41 billion, Airtel is ahead of Emirates Telecom, Telkom Indonesia, and China Unicom. China Mobile remains Asia's top mobile operator with an m-cap of $175 billion, according to data from *Bloomberg*.

Including Japan, which is a developed market, Airtel is the fifth most valuable mobile operator in the continent behind China Mobile, NTT, NTT DoCoMo, and KDDI Corporation. Last year, Airtel was the seventh largest mobile operator in emerging Asia, behind South Korea's SK Telecom and Telekom Indonesia in terms of m-cap.

Globally, Airtel now has the 11th largest m-cap in the industry behind Canada's BCE, but ahead of France's Orange and Telefônica Brasil.

Airtel was the top performing telecom stock globally, last year. In the past 12 months, Airtel's m-cap has risen 135 per cent, against a 7 per cent rise in the combined m-cap of the top 50 operators.

The top 50 operators now have a combined m-cap of $1.63 trillion, up from around $1.52 trillion a year ago. Excluding Airtel, the industry's m-cap has risen 5.6 per cent in the past one year.

Globally, the industry is dominated by AT&T and Verizon Communications, followed by China Mobile — both in terms of m-cap, and revenue and earnings. AT&T currently leads the industry with an m-cap of $275 billion and revenue of $181 billion. It is followed by Verizon, with m-cap and revenue of $240 billion and $132 billion, respectively.

TOP TELCOS IN EMERGING ASIA
($ billion)

Operator	Country	Revenue	M-cap
China Mobile	China	107.6	174.1
Bharti Airtel	India	12.0	41.3
Emirates Telecom	UAE	14.1	38.1
Telekomunikasi	Indonesia	9.4	27.6
China Unicom	China	41.9	26.6
China United	China	41.9	23.9
Advanced Info	Thailand	5.8	18.7
SK Telecom	South Korea	15.2	15.3
Taiwan Mobile	Taiwan	3.9	12.5
Axiata Group	Malaysia	5.9	9.7

Note: Consolidated revenue during the latest trailing 12 months
Source: Bloomberg

Analysts attribute Airtel's relatively higher m-cap to its superior valuation, as investors are betting on a potential duopoly in the Indian market.

"With the Aditya Birla and Vodafone groups unwilling to infuse equity into Vodafone Idea, we see a strong possibility of Vodafone Idea going for bankruptcy. Airtel should benefit from further consolidation in the industry," analysts at Credit Suisse said, after the Supreme Court asked operators to pay adjusted gross revenue dues to the government.

Airtel raised the due amount from equity investors, thanks to its higher m-cap, but its competitor, Vodafone Idea, is struggling to gather funds to pay its tax liability. This increases the prospects of a duopoly in India's telecom sector.

Analysts' believe this would push up tariffs and margins in the industry, greatly benefiting Airtel. This has led to a rally in Airtel — its stock price is up 87 per cent in the past one year despite the company reporting a combined net loss worth around $700 million in the past four quarters.

However, Airtel is still a relatively small operator in terms of revenue and earnings. With global revenue of around $12 billion in the latest trailing twelve months (TTM), Airtel is the sixth largest operator in emerging Asia, behind Emirates Telecom, but ahead of South Korea's LG Uplus.

Globally, Airtel is the 17th largest mobile operator by revenue. Airtel's operating margins are, however, little better than its peers and it reported $4.7 billion in earnings before interest, depreciation and amortisation on TTM basis, which was the fourth largest among its peers in emerging Asia and 14th biggest globally.

Some say the rally in Airtel's shares is due to a general bullishness on Dalal Street. "Indian industry leaders are among the most expensive stocks on most valuation parameters. I am not surprised at Airtel's m-cap, given its leading position in the Indian telecom market," said G Chokkalingam, founder and MD, Equinomics Research & Advisory Services.

Harley to ride on smaller bikes to pump up volumes

PAVAN LALL
Mumbai, 13 February

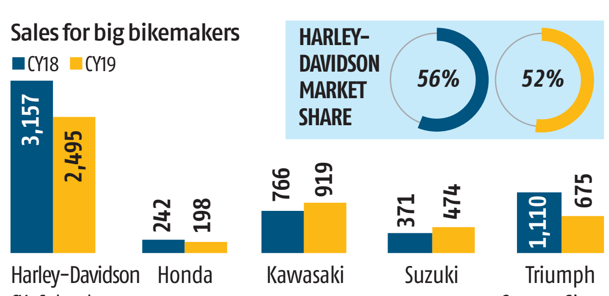
Harley-Davidson, which has half the market share in the 750-cc and above segment, is looking at launching smaller bikes over the next decade to enter segments that drive volumes in one of the largest two-wheeler markets in the world.

In keeping with the firm's global targets, Harley-Davidson's recent quarterly reports indicate they will launch 100 new 'high-impact' bikes.

Sajeev Rajasekharan, managing director of Harley-Davidson India, didn't specify which of the 100 new products would make it to India, but said "the next decade will see a focus on newer segments that include street and adventure bikes". Those are vehicles used for casual and sportier riding by younger consumers, as opposed to long rides that their bigger bikes have historically been used for.

The move is also a result of the firm's plans to grow international business from about 40 per cent to 50 per cent by 2027. Harley, which reported $4.5 billion in revenue in the previous financial year, has developed its smallest motorcycle for China — a 338-cc cruiser that will be sold there later this year. Incidentally, new international retail sales have been the highest in the Asean (Association of Southeast Asian Nations) market with 6.2 per cent growth over the previous year, as opposed to 2.3 per cent contraction in the EMEA (Europe, Middle East, and Africa) region.

Sajeev Rajasekharan, MD of Harley-Davidson India



In the past decade, Harley-Davidson India clocked sales of 25,000 bikes. While this may be a market leading in India, it is tiny compared to the 218,000 bikes sold in 2019 overall.

That could change if duties are slashed and the brand brings in smaller bikes, electric two-wheelers and e-bicycles, all of which it plans to do in home markets. Gross margins in America are 25 per cent, but in India the duty structure of around 50 per cent for larger bikes and 15 per cent for smaller ones means lower profits.

US President Donald Trump has in the past commented on the high duties that imported motorcycles attract (100 per cent), which was lowered to 50 per cent.

Experts say Trump and Prime Minister Narendra Modi will likely discuss revisions to the duty structure when they meet later this month.

Rajasekharan says infrastructure is one of the big challenges for Harley owners, but there's a glimmer of hope. "Most of our bikes are built for cruising and long distance riding and for that you need great highways and roads. So, if that takes off, we are very hopeful," he said. "The government has indicated that it plans to build 90,000 km of highways and roads and has executed 40,000 km. Another 50,000 km would change the game."

The firm sells 14 motorcycles across four product families (Street, Sportster, Softail, Touring) in India, apart from a range of genuine parts, accessories, and general merchandise. These are available at 33 authorised dealerships.

At the company's assembly unit at Bawal, Haryana, Harley-Davidson built its 750cc motorcycles and assembles other completely knocked down models up to 1,750cc engines. The Street 750, the best-selling model in the 750cc and above category, is the first large capacity motorcycle in India to be Bharat Stage-VI-compliant and starts at about ₹5.5 lakh.

Rahul Mishra, principal automotive and industrials practice at Kearney, says there is clearly an appetite among buyers to move to bigger engine motorcycles the same way carbuyers migrate from mid-level brands to German luxury brands such as BMW, Mercedes-Benz, and Audi.

"The challenge, as we see it, is the availability of parts, and a supply chain that could evolve once volumes increase. But there is always a strong export hub angle that can be leveraged," he said. Harley-Davidson officials confirmed that some export manufacturing was ongoing, but declined to provide specifics. At present, India-made bikes have significant levels of localisation, and sourcing is under way for accessories, apparel and other parts that Harley uses.

SpiceJet hopes its Boeing 737 MAXs will fly from June

GIREESH BABU
Chennai, 13 February

SpiceJet is hoping its Boeing 737 MAX aircraft can start flying by June, says Ajay Singh, chief managing director of the airline.

"We have grown 50 per cent this year," he told reporters here. "This was possible because we took some aircraft from the erstwhile Jet Airways. We have a large number, 42, of MAX aircraft on the ground, waiting to fly."

Boeing 737 MAX planes were globally grounded in March 2019, after two of these crashed (elsewhere in the globe) within five months, raising safety concerns. SpiceJet has ordered 225 of the Boeing 737 MAX, for $22 billion.

"We hope these (MAX aircraft) can come back and that will fuel our growth for this year. We are expecting the approvals to be in place by the end of May or in June," he added. The company continues to talk with Boeing's major rival, Airbus, and the latter is making offers, he said.

Asked about expansion plans, he said he could speak on these once the Boeing planes are back. These would be, he noted, less costly to operate.

He was speaking at the sidelines of an event regarding Tamil movie *Soorarai Pottru* (*Hail the Brave*), a movie inspired from the life of G R Gopinath, founder of low-cost Air Deccan. SpiceJet is its airline partner for the film, which has significant content related to the low-cost airline industry.

AJAY SINGH
CMD, SpiceJet

"WE HAVE GROWN 50% THIS YEAR. THE GROWTH WAS POSSIBLE BECAUSE WE TOOK SOME AIRCRAFT FROM JET AIRWAYS. WE HAVE 42 MAXs ON THE GROUND, WAITING TO FLY"

On the coronavirus impact, he said they'd temporarily suspended operations to Hong Kong. However, it was not such a big issue as yet for Indian airlines. "But, there is a very big impact around the world. It has a cascading effect. Lots of fliers are not flying and it is going to have an impact on aircraft and airlines — it is going to be much worse than we imagine," he added.

Oil prices were showing a downward trend, a positive sign in terms of cost for airlines, he added. Also, that aviation had a bright future, as only 3 per cent of India flies today and that is bound to increase as the economy grows. "It is a volatile industry. It depends on many external factors, such as the price of fuel, cost of airports, etc. There will always be ups and downs, but the future is bright," he said.

IN BRIEF

Rohit Suri, president & MD, Jaguar Land Rover India, at the launch of the new Land Rover Discovery Sport, in Mumbai on Thursday. The starting price for both petrol and diesel variants is ₹57.06 lakh
PHOTO: KAMLESH PEDNEKAR

Tiger Global-backed start-up Vedantu raises $24 million

Online tutoring start-up Vedantu has raised $24 million from a clutch of investors, including global venture capital firm GGV Capital as part of their Series C extension round. The company has raised $66 million as part of the series C round so far. With the fresh funding, Vedantu is looking at expanding to new categories such as kindergarten to Standard 5. **BS REPORTER**

Reliance Jio tops 4G download speed chart, says Trai data

Reliance Jio continued its lead in average 4G download speed rankings with 20.9 megabit per second (mbps) speed, while Vodafone topped the chart in terms of 4G upload speed in January, according to telecom regulator Trai's data. Reliance Jio led the chart despite a dip in peak download speed of 27.2 mbps recorded in November. **PTI**

Oppo elevates Elvis Zhou as firm's India president

Oppo on Thursday announced the appointment of Elvis Zhou as president of its India operations. Before this, he was serving as general manager at Oppo in Mumbai. He is considered instrumental in the expansion of Oppo in the Indian market in 2013. **PTI**

CEAT to invest ₹3,000 crore in 2-3 years

CEAT is planning to invest ₹3,000 crore over the next 2-3 years. The money will be invested across its plant near Chennai, Halol, and Nagpur units, said Anant Goenka, MD, CEAT Tyres. This ₹3,000 crore is against ₹3,500 crore of capex that the company had earlier indicated. **BS REPORTER**

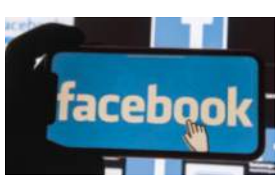
Adani Transmission looks at ₹4,500-cr capital expenditure

Adani Transmission plans to invest ₹4,500 crore as capital expenditure, of which ₹1,500 crore would be towards its distribution business. On its recently concluded capital management plan, the company said capital management for operational assets is now complete. **BS REPORTER**

Capgemini plans to continue aggressive hiring of freshers

Capgemini is looking at hiring 12,000 fresh graduates in India this year, as the firm is looking at scaling up its delivery capability. "We hired 25,000 people (in India) last year, of which 40 per cent (10,000) was from campuses. This year, we plan to add 10,000-12,000 engineering graduates from campuses," Pallavi Tyagi, chief HR officer for India operations, said. **BS REPORTER**

Facebook may have 275 mn duplicate accounts globally



Facebook has approximately 275 million duplicate accounts out of its 2.5 billion monthly active users as on December 31, 2019, the firm said in its latest annual report. "As of December 31, 2019, we had 2.5 billion monthly active users, an increase of 8 per cent last year," it said. **PTI**

TVS announces additional funding of $1.9 million

TVS Motor has announced acquisition of additional shares in Scienaptic Systems by infusing a total of $1.95 million. The acquisition is expected to be completed by August 1, 2020. The fund infusion would be through picking up 609,358 shares. **BS REPORTER**

Electric vehicles likely to remain niche segment in near future

Analysts say this is primarily because of the lack of infrastructure, especially charging stations

PAVAN LALL
Mumbai, 13 February

Despite the push for electric vehicles (EVs), keeping sustainability in mind, the market share for automobiles will be dominated by traditional cars for at least a decade for a multitude of reasons, primarily thanks to the absence of accompanying infrastructure for the former.

According to research by IHS Markit, for an ecosystem still grappling with infrastructure issues — the high cost of EVs and a greater OEM (original equipment manufacturer) focus on electrifying two-wheelers and commercial vehicles first — the share of such vehicles is expected to be 4 per cent by 2030.

The passenger car market in India has seen sales volumes of over 3 million units in the past couple years.

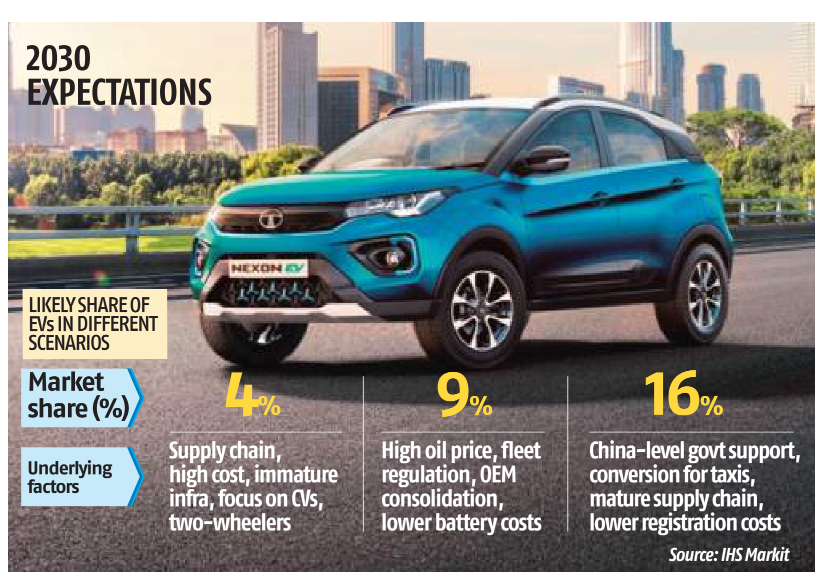
A study by CRISIL Research shows that by 2024, 43-48 per cent of new three-wheelers (excluding e-rickshaws), and 12-17 per cent of new two-wheelers sold in India will be EVs. However, traction may be low for four-wheelers, with only 5 per cent of new sales likely to be of EVs.

Shailesh Chandra, president, e-mobility business and corporate strategy, Tata Motors, says that EV adoption can be fast-tracked by extending the FAME (Faster Adoption and Manufacturing of Hybrid & Electric Vehicles) incentive to cars that qualify under it. "The personal segment is seven-eight times larger than the fleet segment and, thus, even lower penetration in personal segment will unleash a different kind of potential for electrification," said Chandra.

The government earlier projected targets of ensuring 15 per cent of all vehicles becoming electric by 2022 to 100 per cent auto electrification by 2030.

However, those are likely to fall short unless other variables are factored in. For one, the infrastructure — including charging station and power outlets — will be limited to private homes and office parks for the foreseeable future.

"The lack of charging infrastructure is a barrier in scaling up EVs in India," said Mahesh Babu, CEO, Mahindra Electric.



Suraj Ghosh, principal analyst (powertrain forecast) at IHS Markit, said traditional fuel stations are available at a ratio of one filling station to a 100 vehicles, and CNG (compressed natural gas) — introduced 15 years ago — is available at a ratio of one station to 2,000 vehicles.

"Building electric infrastructure will not happen overnight and unless that happens on a broader scale, most customers will be hesitant," he said. "Parity must be there in terms of price, range, and convenience with regard to re-fueling and cost efficiencies."

The other factor is residual value. How will resale of an electric car work in five years, given the technological leaps and a mindset where consumers are used to driving vehicles for decades. Manufacturers are offering long-term warranties for as long as eight years on their batteries, but that may take time to catch on.

Mass adoption would require a large number of EV models at various price points that can address multiple use cases. "Recent launches by mainstream automakers shows a clear intent of positioning EVs for personal buyers, and as more and more choices are made available and charging infrastructure hits a critical mass, it could create an inflection point for adoption within the next two to three years," said Chandra.

Babu said the demand for EVs in the personal segment would accelerate over the next three to six years. "We see the cost of EVs to be on a par with ICE (internal combustion engine) vehicles in about five to six years. That's when there will be a huge demand in the personal segment as well."

Kavan Mukhtyar, partner and leader, PricewaterhouseCoopers, said a significant shift to electric will take at least five years. "Fleet operators will shift first and it's already happening," he says, pointing to companies like Bengaluru-based Lithium Urban Technologies, which launched an electric fleet of Mahindra cars targeting employee transportation, and has also set up services in the Delhi National Capital Region. Tata Motors is on the same track. "The idea is to grow small fleet operators who will expand EV usage as a start," Mukhtyar said.

Falling EV battery prices could mean there's a chance that market share could climb as high as 15 per cent by 2030. "There exists a consumer who wants to be an early adopter and acquire a product that benefits the environment and prices for Bharat Stage-VI vehicles are already pushing traditional cars higher on price. So, the gap will continue to get bridged."

What role does product performance play for EVs. "Range, for one is not an issue. Most EVs displayed at the recent auto expo claim a capacity of 300 kilometres, which is sufficient for Indian metros," Mukhtyar said.

From an OEM perspective, sustainability will determine how EVs will develop because it requires careful partnerships, a new way of engineering, especially of batteries, and there's the looming prospect of heavy capital costs. "Those are long-term decisions that any carmaker will have to make very carefully, because their survival will depend on it," said Ghosh.

Report questions role of board, banks in CG Power

'Battle for boardroom has led to value destruction for minority shareholders'

RUCHIKA CHITRAVANSHI & DEV CHATTERJEE
New Delhi/Mumbai, 13 February

A detailed research into the corporate governance issue in CG Power and Industrial Solutions has revealed that a battle for the boardroom and for corporate control has led to value destruction for minority shareholders of the company.

CG Power is under investigation by the Serious Fraud Investigation Office and Enforcement Directorate for use of funds and land assets from the company by promoter-connected entities and borrowings against assets of the company for the benefit of other group companies.

A report by InGovern Research Services has raised several questions on the role of the board, banks, and private equity firm KKR India. "Banks and non-banking financial companies seem to have been fully cognizant of the situation in the company and other group companies and yet continued to fund and increase group company exposures against guarantees of the listed company," the report said.

An audit committee of the company on Tuesday red-flagged unauthorised transactions by certain employees of the company, leading to an understatement of not just the company's liabilities but also advances to related and unrelated parties of the group. The report has cited that fees paid for non-audit services, including tax audit fees, certificate work, fees for other services and expenses, were usually more than 50 per cent of the total auditor's remuneration for any given year.

"As a good corporate governance practice, it should never exceed 30 per cent of the total auditors' remuneration. Arrangements such as these should be treated as red flags and concerns should be raised by shareholders to their boards," the report stated.

The research also said that KKR India may have had a role in the unfolding of events at CG Power, since the private equity investor had debt exposure to the holding company Avantha Holdings, which the latter was unable to repay fully.

An audit committee of the company has red-flagged unauthorised transactions by certain employees of CG Power

This may be why the relations went downhill between KKR India and the promoter of CG Power, Gautam Thapar.

Moreover, KKR India had asked for appointment of Narayan Seshadri initially as a consultant and later as an independent director, who then set up an operations committee and hired Vaish Associates to investigate certain transactions.

"We have been a lender to Avantha Holdings and not a shareholder of CG Power until we enforced our share pledge on September 16, 2019, as a result of defaults by Avantha Holdings. As a result of our enforcement, we now own just under 10 per cent of equity stake in CG Power. As a shareholder, it is in our interest to engage constructively with the company, both through its board and shareholders, in order to preserve and enhance the value of the company. The appointment of Seshadri as an independent director predates our share pledge enforcement and in any case it is entirely within the board's power to manage the affairs of the company in accordance with its charter," said a KKR India spokesperson.

When contacted, a source close to Thapar said the company in question here is CG Power Solutions, which is a subsidiary of CG Power and Industrial Solutions. It is incorrect to assume that a non-executive chairman is associated with the day-to-day operations of a subsidiary.

"The then managing director and chief executive officer should clarify such matters as they were looking into the daily workings of the company. It seems these reports stem from certain bogus reports being referred to at different levels," the source said.

Thapar has alleged that the events at CG Power have been orchestrated by the lenders as KKR India to oust the promoters and take control of the company

The report also mentioned that the wealth of CG Power shareholders has eroded by more than 76 per cent in less than a year.

It also suggests that CG Power's funds were used to pay off debts of BILT or other group companies.

BILT had defaulted in repayment of borrowings and payment of interest and underwent strategic debt restructuring in 2017. Its subsidiary BILT Graphic was also under severe financial duress and had to undertake a master restructuring agreement in 2018. It is possible that the funds were routed to BILT to avoid the possibility of banks curtailing the limits to CG Power itself.

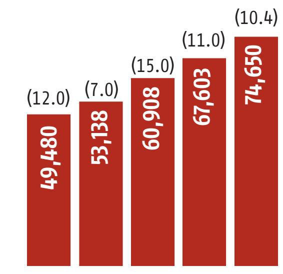
A Securities and Exchange Board of India order dated September 17, 2019, stated that, "Funds diverted from your company were fraudulently transferred to its promoter company i.e., Avantha Holdings and entities related or connected with the company, viz., Avantha International, Acton, Ballarpur International, Mirabelle, and Solaris, without the knowledge of the company and without any approval from its board."

INDIA'S 2020 AD GROWTH RATE ESTIMATED TO TOUCH 10.4%

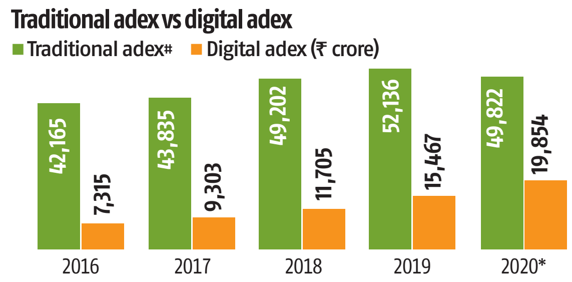
The Sam Balsara–led Madison Media group on Thursday said India's ad market would grow at 10.4% in 2020, in line with what rivals Dentsu Aegis Network and GroupM had said earlier. The latter two had pegged domestic ad growth rates at 10.9% and 10.7%, respectively, led by digital ads. Madison Media says digital ads will contribute 62% to domestic ad growth in 2020, up from 56% in 2019. Digital ad share will inch up to 27% in 2020, from 23% in 2019. TV and print ad shares will decline to 36% and 27% in 2020, from 37% and 30% in 2019

COMPILED BY VIVEAT SUSAN PINTO

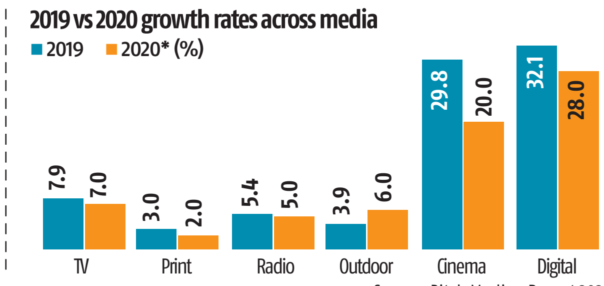
Indian ad market over 5 years



Traditional adex vs digital adex



2019 vs 2020 growth rates across media



*estimated figures; #Traditional adex is advertising on print, TV and radio

Source: Pitch Madion Report 2020

Our duty is to ensure fair competition, CCI tells HC

PEERZADA ABRAR
Bengaluru, 13 February

Counsel for the Competition Commission of India (CCI) and Delhi Vyapar Mahasangh (DVM) on Thursday defended the watchdog's order to initiate a probe against e-commerce firms, including Amazon and Flipkart, in the Karnataka High Court. Amazon had moved high court challenging CCI's order.

The matter pertains to a complaint filed by DVM, which alleged that these players were giving deep discounts on online sales of smartphones, and cherry-picking sellers. In its petition, Amazon made CCI, DVM and Flipkart respondents.

Senior lawyer Harish Narasappa, appearing for CCI, told the court that it was the watchdog's duty to ensure that there were no practices that had an adverse effect on competition. Narasappa said the arguments made by Amazon's counsel on Wednesday were like building a "fantastic castle", but it won't survive. Arguing against the CCI order on Wednesday, Amazon's counsel Gopal Subramanium told the court that the CCI did not have prima facie evidence to order a probe into his client's business practices.

Narasappa on Thursday objected to the jurisdiction point and said that writ petition filed under Article 226 of the Indian Constitution does not intervene in the investigations of the CCI director general as directed by the competition watchdog. He quoted from the Consolidated FDI (foreign direct investment) Policy, 2017, saying that merely satisfying FDI norms did not exempt anyone from other laws of land.

DVM counsel calls relationship between Amazon and sellers 'tentacles of octopus'

Senior Counsel KG Raghavan, who appeared for DVM, argued that violations of FDI norms and competition law can be looked at by the respective authorities without the CCI having to wait for the investigation by the Enforcement Directorate.

He said Amazon's petition had no merit and needs to be rejected. Giving examples of how Amazon was promoting seller firms, where it owned a stake, Raghavan said the relationship between Amazon and preferred sellers on its platform such as Cloudtail and Appario were like the "tentacles of the octopus" and "this has to be deciphered by the investigation".

Narasappa also referred various cases to state that a petition filed before the court under Section 226 of the Constitution cannot influence the order passed under section 26 (1) of the Competition Act, which states that investigation can be ordered if prima facie case exists. Cloudtail is a joint venture between Amazon and Catamaran Ventures, which is owned by Infosys founder NR Narayana Murthy. Appario is a subsidiary of Frontizo, which is a joint venture between Amazon and Patni Group.

Bengaluru to get its first non-stop flight to US

Bengaluru will get its first non-stop flight to the US in October, with American Airlines announcing a daily service from Seattle.

Currently, Mumbai and Delhi are connected with non-stop flights to the US and Canada and the new service by the American will provide connectivity to tech hubs in both the countries. The daily service, with Boeing 787 aircraft, will take around 17 hours to complete the trip, it is learnt.

BS REPORTER

Diabetes to be our focus in India, US: Wockhardt

SOHINI DAS
Mumbai, 13 February

After selling parts of its branded business to Dr Reddy's Laboratories for ₹1,850 crore on Wednesday, Wockhardt is gearing up to focus on its diabetes portfolio in India and the US.

"Antibiotics and drug discovery will be one of the main long-term focus markets. We will also focus on diabetes as a portfolio because we have the whole range of products from oral solids to insulins," Habil Khorakiwala, founder-chairman, told *Business Standard*.

He said the US had relaxed regulations for approval of biologic drugs, including insulins, recently. "Earlier, they were asking for extensive clinical work. While a normal biologic would have required $16-17 million for clinical trials, now the cost would be $10-12 million for the data they are asking for. This reduces costs significantly," Khorakiwala said.

Wockhardt is present in emerging markets like Mexico, Brazil with insulins. "We will now also look at the US. We are not present in the US insulin segment currently," he said, adding that the diabetes portfolio has limited competition market globally and, thus, Wockhardt now wants to focus on this segment.

The company has drawn up plans for the India market, too. According to Khorakiwala, Wockhardt has come up with a new marketing strategy and is using affordability as its key proposition, especially for insulins. "We think we would be able to expand deeper. We will introduce products with 50 per cent more insulin at the same price. Doctors do not have only rich patients, so we think this proposition would work," he said.

Insulins alone are a ₹2,500-crore market. "If we get 15-20 per cent share in next three to four years, it would be significant in terms of value."

For oral diabetes products, the drugmaker has come up with a new tech. At present, products are available with sustained release technology, where some short-acting drugs have a 24-hour action. "Our product has a laser reading and the drug comes out gradually. So, it gives much better clinical control. We have introduced one product and will bring in more," he said. Wockhardt plans to use this tech for every diabetes drug that has metformin in it. The business sold to DRL contributed 34 per cent to Wockhardt's standalone revenues in the first nine months of FY20. Sale of select divisions of the domestic branded business may not affect the firm's growth in the long run, analyst say.

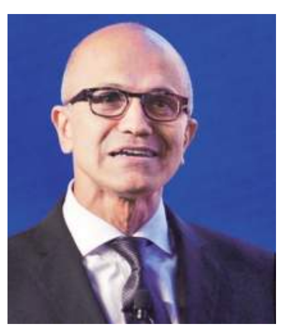
Analysts at Motilal Oswal said, Practin, Zedex, Bro-Zedex, Tryptomer, and Biovac are the five brands that form 40 per cent of the acquired business. "These brands have delivered 2 per cent sales CAGR (according to AIOCD) over past four years, largely led by better pricing," it noted. The brokerage felt that DRL may see an earnings addition of ₹80-100 crore from this acquisition.

Part of the funds from the acquisition would be used to fund clinical trials for the novel antibiotic pipeline that Wockhardt has. It recently got the Indian drug regulator approval for two new antibiotics which it plans to take to the emerging markets as well as China. Moreover, it has new molecules in the pipeline which it plans to take to regulated markets like the US.

TOP BRANDS SOLD BY WOCKHARDT TO DRL

Brand	Therapy area	CAGR (%) FY15-19	Vol CAGR(%) FY15-19
Bro Zedex	Respiratory	4	-3
Practin	Vitamins	0	-6
Tryptometer	Neurology	5	-13
Zedex	Respiratory	1	-5
Biovac A	Vaccines	9	0

Sources: MOSL, company, AIOCD



Microsoft CEO Satya Nadella to visit India this month

PRESS TRUST OF INDIA
New Delhi, 13 February

Microsoft Chief Executive Officer (CEO) Satya Nadella will visit India later this month, the company said on Thursday.

While the company confirmed the visit of the top executive, it did not give details about the dates and cities he is likely to visit. "Yes, Satya Nadella, CEO, Microsoft, will be visiting India later this month to address customers, young achievers, students, developers and entrepreneurs," Microsoft said.

According to sources, Nadella will be on a visit to India from February 24-26. He is likely to visit Delhi, Mumbai and Bengaluru, and meet industry leaders and government functionaries during his visit, they said.

The visit comes on the heels of the Indian-origin CEO recently voicing concerns over the contentious Citizenship Amendment Act (CAA) — Nadella had last month said what is happening is 'sad' and he would love to see a Bangladeshi immigrant create the next unicorn in India. His remarks had raised a furore in the political circles.

In a statement issued by Microsoft on January 14, Nadella had said: "Every country will and should define its borders, protect national security and set immigration policy accordingly. And in democracies, that is something that the people and their governments will debate and define within those bounds." India is a major market for Microsoft - the tech titan has a significant presence in cities like Bengaluru and Hyderabad.

It is pertinent to mention here that US President Donald Trump is scheduled to visit India on February 24 and 25.

Flipkart to focus more on value than delivery speed

AVISHEK RAKSHIT
Kolkata, 13 February

Flipkart has decided to focus more on tier-II cities and on value instead of delivery speed. "From being a start-up unicorn (the term for a business valued at more than a billion dollars), we have emerged a sizable firm and need to take a long-term view, and grow the business for the future. We have been focusing on tier-II business but it has become more intense now. We want to be a value player, focused on tier-II locations," Rajneesh Kumar, chief corporate affairs officer, said. With fashion the biggest category for the e-taler, sales from tier-II & -III locations account for 70 per cent of total sales. Micro to small sellers account for 80 per cent of sales in terms of value.

Kumar said the focus is to offer products at the best possible price, so that value-seeking consumers can be tapped. "Delivery (speed) will follow automatically," he said.

Walmart took a 77 per cent stake in Flipkart for $16 billion in 2018. Kumar said Walmart had representatives on the Flipkart board of directors but has not intervened on day-to-day operations. The company says 200,000 micro-, small- and medium-sized businesses are active on the platform.

One aim is to get more artisans, its 'Samarth' programme which has been designed to guide artisans to become familiar with the online model of sales. They are supported through the process of getting on board — cataloguing, account management, business insights, seller support, reduced commission where eligible, and warehousing support, said Flipkart.

"Statements like 'goli maro' and 'Indo-Pak match' should not have been made. Our party has distanced itself from such remarks"

AMIT SHAH
Union home minister

"Congress leaders have to reinvent themselves. The Congress has to reinvent itself if it has to be relevant. The substance and style of our leadership has to change"

JAIRAM RAMESH
Congress leader

"America is putting pressure and (Narendra) Modi is succumbing to completely open up our economy which is the gain they want to achieve in order to give support to Modi on issues like CAA, Article 370 and others"

SITARAM YECHURY
CPI(M) general secretary

IN BRIEF

FPIs turn net buyers; put in $6.3 billion in Dec quarter

Foreign investors turned net buyers in the Indian markets in the December quarter, pumping in a staggering $6.3 billion on the back of the government's intent to bring reforms for supporting the economic growth. This comes following a net outflow of $3.22 billion by foreign portfolio investors (FPIs) in the quarter ended September 2019. According to a Morningstar report, foreign investors started the quarter on a subdued note as they turned risk-averse with fears of a global recession and trade wars gaining momentum. PTI

Moody's: RBI's new asset norms credit negative for banks

The RBI's recent asset recognition norms that allow banks not to treat real estate loans as restructured for one year is credit negative for banks, Moody's said. It said property developers will have an extra year to address funding issues before banks have to classify a loan as restructured. PTI

Bank credit grows 7.13% to ₹101 trn in 2nd half of January

Bank credit and deposits grew 7.13 per cent and 9.91 per cent to ₹101.02 trillion and ₹133.24 trillion, respectively, in fortnight ended January 31, according to RBI data. In the year-ago fortnight ended February 1, 2019, banks advances stood at ₹94.29 trillion while deposits at ₹121.22 trillion. PTI

Allahabad Bank cuts MCLR by 5 bps across tenors

Allahabad Bank has cut the marginal cost of funds based lending rate (MCLR) by 0.05 percentage points across tenors, effective February 14, the bank said in a regulatory filing. PTI

2,200 professionals declared income above ₹1 cr: CBDT

CBDT defended PM Narendra Modi's statement that only 2,200 people declared income of more than ₹1 crore in FY20, saying it was true. PM's comment drew flak on social media, with many saying he contradicted government data. PTI

Canola oil imported as rapeseed oil from Bangladesh

The Directorate of Revenue Intelligence has unearthed a scam involving import of canola oil of Candian origin by wrongly declaring it as rapeseed oil from Bangladesh to evade taxes, sources said. PTI

ICAI's Sustainability Accounting Standards Board to be formed

Chartered accountants' apex body ICAI will set up a Sustainability Accounting Standards Board to help firms in achieving sustainable development goals. It also suggested legal provisions for "time-bound" completion of cases. PTI

Sabka Vishwas scheme may not add much to govt coffers

Govt faces uphill task of meeting indirect tax target despite scaling it down

DILASHA SETH
New Delhi, 13 February

The indirect tax department, facing a challenging revenue target for the current fiscal year (FY20), may get little cover from a pre-GST resolution scheme as about 65 per cent of the taxes declared has already been paid, said an official.

Of the ₹39,000-crore tax disclosed under the legacy dispute resolution scheme — Sabka Vishwas — the department will receive only ₹14,000 crore, with ₹25,000 crore already deposited by the applicants.

Almost 190,000 assessees came forward for settlement under the scheme.

"We have received applications and are sending out notices to them for payment. However, the dues will not add up to much as far as revenues are concerned as a large part was already given to the department as pre-deposit at the stage of investigation, enquiry or audit, leaving just about ₹14,000 crore to be collected," said the government official.

The indirect tax target was cut by ₹1.8 trillion in the Revised Estimates (RE) compared to the Budget Estimates for FY20, yet it appears on the higher side considering the rate of collection so far.

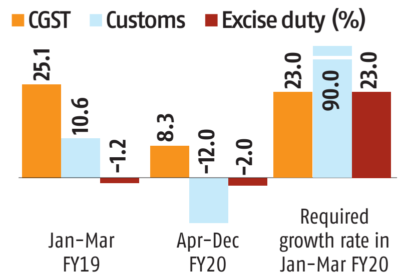
Central Goods and Services Tax (GST) grew 10.4 per cent in the April to January period and will need to grow by 21 per cent in the last two months of FY20 to meet the RE, which was scaled down by ₹1 trillion in the recent Budget.

Customs collections shrank 12 per cent in the April to December period and will need to grow by a whopping 90 per cent between January and March. The duty was raised on a slew of items in Budget, including electronics and household items, which may help the exchequer.

Similarly, excise duty revenue contracted by 2 per cent in the first nine months of FY20 and will need a growth of 27 per cent in the remaining three months.

A senior Central Board of Indirect Taxes and Customs (CBIC) member told *Business Standard*: "I don't think the projections are off the mark. We may fall short by a maximum of ₹5,000-6,000 crore, but not more than that as we are expecting to see GST collections of over ₹1.1 trillion in February, just like the previous month."

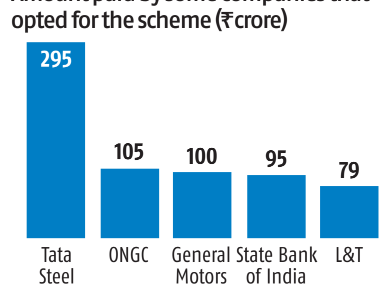
INDIRECT TAX REVENUE TARGETS



Sources: CGA, Budget

TAX DECLARED

Amount paid by some companies that opted for the scheme (₹crore)



"Collections from Sabka Vishwas will add to excise duty collections as payments for the applications made will start flowing in from February."

He added that large companies stayed away from the scheme as they felt they could fight it out legally, with the government having a winning rate of just about 10 per cent in litigation.

A CBIC member said that large companies stayed away from the scheme as they felt they could fight it out in court, with the government having a winning rate of just about 10% in litigation

The scheme was launched in September to resolve pending tax disputes under excise duty and service tax under litigation, arrears, or investigation worth around ₹3.75 trillion. Taxpayers were offered deep discounts to the tune of 40-70 per cent, relief from payment of interest and penalty and complete relief from prosecution. Services tax and a large part of the excise duty were subsumed under the GST regime from July 2017.

The CBIC had clarified that any amount paid as pre-deposit at any stage of appellate proceedings under the indirect tax enactment or as deposit during inquiry, investigation or audit, will be adjusted against the taxes declared under the scheme.

The scheme gives a deep discount of 70 per cent for cases pending appeal where tax demand is more than ₹50 lakh, and 50 per cent waiver beyond that amount. Even in the case of arrears, the discount is a lucrative 60 per cent for tax demands below ₹50 lakh, and 40 per cent above it. In addition, the scheme waives any interest, fine, and penalty pending, and absolves taxpayers of any prosecution.

The scheme, which closed on January 31 after a month's extension, saw taxpayers with large dues stay away. Among the large companies that filed declaration are Tata Steel, Mondelez India, ONGC, General Motors, SBI and Kellogg's.

Rajat Mohan, senior partner, AMRG Associates, said the government will only get a small sum. "This shows the deplorable state of tax litigations whereby taxpayers are confident of their tax claims and they want to file refund of pre-deposits also on final verdict of the courts," he said.

PW India won't offer non-audit service to clients

RUCHIKA CHITRAVANSHI
New Delhi, 13 February

Price Waterhouse Network of Firms in India (PW India), the Indian affiliates of accounting giant PwC, announced on Thursday that it will no longer provide non-audit services to Indian audit clients governed by the National Financial Reporting Authority. These are services such as tax advisory and consulting.

"Given the important role that auditing plays in the Indian economy, everyone relying on audit needs to have the same high level of confidence in auditor's independence, objectivity and effectiveness," said Subramanian Vivek, partner at Price Waterhouse.

Determining whether an auditor is independent under current laws, say experts, is difficult as audit firms provide services across jurisdictions as part of one common network. As a result, the same network could provide both audit and non-audit services to the same client, which can lead to a conflict of interest.

At a time when auditors are facing the heat in high profile corporate scams, some firms such as Grant Thornton India decided last year not to take up non-audit work for listed companies audited by them.

A recent consultation paper floated by the corporate affairs ministry called for suggestions on increasing the list of non-audit services and amending existing laws to enhance independence and accountability.

"...the auditors could be tempted to eliminate certain audit procedures to reduce costs, take on riskier clients, acquiesce to management's demands, or aggressively expand their riskier non-audit services under the banner of a trusted audit firm brand, which would only increase the already continued high rates of audit deficiencies," the consultation paper said.

In 2018, the Securities and Exchange Board of India barred PW India and some other firms from auditing listed firms for two years over their role in the Satyam case. The ban ends this year. Most audit firms operate as networks and have a brand licensing pact with the Big Four, which are not allowed to undertake audit activity in India.

"Good to see other firms follow what we announced effective July 1 , 2019, and collectively we can certainly set the high standards expected of the Audit profession. I expect this to become the norm not just in India but globally," said Vishesh Chandiok, CEO, Grant Thornton India.

PW India said in a press statement, "Considering the wide-ranging discussions with stakeholders about the future of audit, PW India firms believe that this voluntary action will further strengthen the audit profession in India and enhance trust in the Indian capital markets, society and Indian economy at large."

To tackle this economic concentration of audit, section 144 of the Companies Act, 2013, provides an exhaustive list of non-audit services that force auditees to consider hiring firms other than the Big Four to carry out statutory audits.

MCA'S 5 BIG CONCERNS

- **Self-interest**: Reliance of auditor on fee from client harms self-interest
- **Self-review**: Auditing their own work such as other non-audit services may hit independence
- **Advocacy**: Acting as advocate on behalf of the client in resolving disputes with 3rd parties
- **Familiarity**: Close relationship with a client could affect objectivity
- **Intimidation**: A client's bid to exercise undue influence over auditor

Source: MCA's consultation paper

Rajiv Bansal named AI boss amid sale process

ARINDAM MAJUMDER
New Delhi, 13 February

In between the privatisation process of Air India, the government appointed Rajiv Bansal, an additional secretary with the oil and gas ministry, as the new boss of the state-owned airline. He will replace Ashwani Lohani, the current Chairman & Managing Director (CMD), who didn't agree to extend his one-year contract, which expired on February 11.

Bansal has served as CMD of Air India for around a year in 2017 before going back to the oil & gas ministry.

Lohani, who was reappointed Air India CMD in 2019, had earlier held the position for around two years from 2015. In August 2017, he was named the Chairman to the Railway Board. He retired on December 31, 2018. Sources aware of the development said Lohani didn't agree to extending his one-year contract as he didn't see an opportunity for growth. "He wasn't very happy as there were cap on expansion and growth plans due to the ongoing disinvestment process, he didn't want to be remembered as the last CMD of Air India as it now exists," the person said.

The government has undertaken for the third time the process to privatise Air India after a failed attempt in 2017. As part of the process, the Department of Private Assets and Management has put limits on any capex expansion plans of the airline.

Banks, companies gear up for life after LIBOR

New process will be simple for loans, but tricky for derivatives, say experts

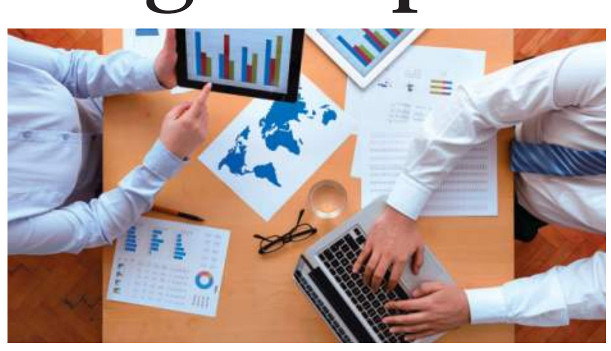
ANUP ROY & ABHIJIT LELE
Mumbai, 13 February

With the London Interbank Offered Rate (LIBOR) getting discontinued in 2021, about $350 trillion of linked loans and derivatives segment are now to be linked to a new benchmark.

There is a near consensus that the LIBOR will be replaced by the Secured Overnight Financing Rate (SOFR) for all dollar loans, but other benchmarks, too, are in the race. Besides, India has its own benchmarks and the Indian Banks' Association (IBA) is working on a road map to guide banks and financial assets to get into those.

Senior bankers said lenders are working on two aspects regarding the replacement of the LIBOR. They are now working on a strategy for the transition to a new benchmark as this has implications for risk management, product development, and information technology, which impacts the internal systems and client businesses. Second, banks under the aegis of Indian Banks' Association (IBA) may also approach the Reserve Bank of India (RBI) for regulatory guidances for an orderly transition.

The RBI, on its part, had asked Financial Benchmarks India (FBIL) to change its methodology on benchmark creation. FBIL has its own Overnight Mumbai Interbank Outright Rate (MIBOR) and Mumbai Interbank Forward Outright Rate (MIFOR) — which is linked to the LIBOR — as financial benchmarks.



With the world moving to a new benchmark, Indian banks and firms are awaiting clarity on how their contracted exposure will change. India's external debt at end-June 2019 was $557.4 billion

But final changes to these can be made only after it is established how the world shifts to a new benchmark.

There are several benchmarks, depending on the country of origin and currency used, which are competing for the space after the LIBOR is phased out. The SONIA (Reformed Sterling Overnight Index Average), the ESTR (Euro Short-Term Rate), the SARON (Swiss Average Rate Overnight), and the TONA (Tokyo Overnight Average Rate) are among the potential alternatives.

The LIBOR is fixed by a polling method where banks relay their rates to the Intercontinental Exchange, which puts out the benchmark. But after the 2012 LIBOR fixing scandal where it was found that some banks could be manipulating their rates in the poll, it was decided that the next benchmark would be based on actual trades.

India's benchmarks also consider trades.

However, with the world moving to a new benchmark, the Indian banks and companies are awaiting clarity on how their contracted exposure will change. India's external debt at end June 2019 was $557.4 billion.

Experts, on the other hand, say there is nothing to worry.

"It is such a big problem that the solution has to be very simple," said Samir Lodha, managing director at QuantArt Markets. One effective solution could be to simply tell that effective from the end of a particular period, the contract gets linked to the new benchmark.

"The difference won't be more than 5-10 basis points for the loans. But for derivatives products, the modelling, software, etc, will have to be changed," said Lodha.

Similarly, according to Prabal Banerjee, group finance director at Bajaj Group, the transition shouldn't be a problem for Indian companies and banks. "The contracts will automatically get converted. The benchmarks are technically highly developed. So switching on to the new benchmark will be smooth," Banerjee said.

Advised Manmohan, Mukherjee against Vodafone tax: Montek

BS REPORTER
New Delhi, 13 February

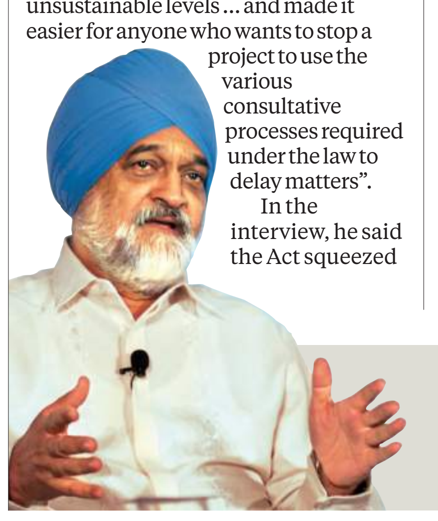
Montek Singh Ahluwalia, who was deputy chairman of the Planning Commission during the United Progressive Alliance's (UPA's) decade in office (2004-14), has said he had in 2012 advised then prime minister Manmohan Singh and then finance minister Pranab Mukherjee not to implement one of the most controversial decisions taken by the government of the day — to retrospectively amend the Income Tax Act, 50 years after it was passed, to overturn the Supreme Court's Vodafone judgment. However, they did not heed his advice.

Asked whether this meant that Singh agreed with the proposal and didn't think it would send out a damaging message about India's attitude to investment and the rule of law, or that he was weak and unable to overrule the finance minister, Ahluwalia said he couldn't answer that because he was not privy to any discussions between the two of them.

However, he did say that at no point thereafter (during the past eight years) had Singh told him that the decision to retrospectively amend the Act was a mistake. He said this had not been discussed between them.

In a 60-minute interview to *The Wire*, to cover the launch of his forthcoming book *Backstage: The Story Behind India's High Growth Years*, Ahluwalia told Karan Thapar that the land acquisition law in 2013 "went too far". He admitted the government had received petitions from industrialists pointing this out but since they were "stakeholders" their advice was not taken.

In his book, he accepted the Act "increased the cost of land to financially unsustainable levels ... and made it easier for anyone who wants to stop a project to use the various consultative processes required under the law to delay matters".



In the interview, he said the Act squeezed industrialists in two ways — in terms of cost and by providing an easy route to obstruct their plans.

Ahluwalia agreed environmental regulations held up clearances of several projects during the UPA years and, consequently, delayed investment and growth. However, he said this became apparent around 2010-11 and thereafter the government needed a couple of years to work out what to do. In 2014, the UPA was voted out of office. Ahluwalia suggested that the UPA did not have the time to act and take corrective measures.

Describing the first seven years of the UPA's 10-year term as "outstanding", he said possibly its greatest achievement was an 8.4 per cent rate of growth during the period, when 138 million people, a figure without precedent, were lifted out of poverty. However, the UPA failed to get recognition for these achievements because it didn't broadcast its successes. Unfortunately, the Congress, too, did not take sufficient steps to publicise the UPA's successes.

Speaking about the charges of corruption that emerged from the 2G and Coalgate controversies, Ahluwalia said the government did not handle them well. He said the UPA had a credible defence, which it failed to make properly. He said the accusation that the exchequer had made a huge loss because spectrum and coal were sold cheaply overlooked the critical facts that this stimulated the growth of telecom and industry, which led to faster GDP growth and which, in turn, brought in additional revenues, which could be used for other developmental purposes.

As for his assessment of Singh as prime minister, Ahluwalia said the view he was weak and vacillating was unfair.

There was a long discussion about whether the fact that Sonia Gandhi was "the final decision-maker" undermined the constitutional position of the prime minister and the traditional manner in which the Indian government worked.

ASKED FOR HIS ASSESSMENT OF MANMOHAN SINGH AS PM, AHLUWALIA SAID THE VIEW HE WAS WEAK AND VACILLATING WAS UNFAIR

Why 'criminals' in election fray: Parties to clarify

SC orders to upload details of criminal cases against candidates on party sites

ARCHIS MOHAN & PTI
New Delhi, 13 February

The Supreme Court on Thursday directed political parties to upload on their respective websites and social media platforms the details of pending criminal cases against candidates contesting on their party symbols, the reasons for selecting them, and for not giving a ticket to those without criminal antecedents.

It said these details should be published within 48 hours of the selection of the candidate or at least two weeks before the first date for filing of nominations, whichever is earlier. "The political party concerned shall then submit a report of compliance with these directions with the Election Commission within 72 hours of the selection of the said candidate," said the Bench of Justices R F Nariman and S Ravindra Bhat.

The details should also be published on official social media platforms of the political parties, including Facebook and Twitter, and in one local vernacular and one national newspaper, it directed.

"It appears that over the last four general elections, there has been an alarming increase in the incidence of criminals in politics," the Bench said referring to the data placed before it. "We have also noted that political parties offer no explanation as to why candidates with pending criminal cases are selected as candidates in the first place."

If a political party fails to submit the compliance report of the directives with the Election Commission, the poll panel "shall bring such non-compliance" to the notice of the Supreme Court "as being in contempt of this Court's orders/directions", the Bench said.

The Association for Democratic Reforms (ADR), an election watchdog, in its analysis, released on Wednesday, revealed that 37 of the 70 of Delhi's newly elected legislators have declared serious criminal cases against themselves, which include attempt to murder. A total of 43 legislators elected in the polls earlier this month face criminal cases, the ADR study found.

According to existing election laws, only those convicted of their crimes are barred from contesting any elections for six years. However, senior advocate Prashant Bhushan termed the SC judgement an important one.

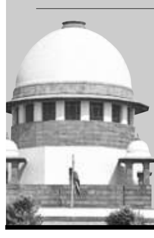
FIGURE THIS

48 hours parties have to publish details of criminal cases against their candidates

73 hours to submit a report of compliance with the poll panel

43 of 70 newly voted Delhi MLAs face criminal charges

37 face serious criminal charges, including murder



43% of MPs elected in 2019 are facing criminal cases

CORONAVIRUS OUTBREAK

Thousands of Indians stranded in China

Many are stuck in transit; even OCI cardholders are being denied entry into the country

NEHA ALAWADHI & SUBHAYAN CHAKRABORTY
New Delhi, 13 February

With the government denying them entry via any air, land or seaport, as many as 55,000 non-resident Indians and people of Indian origin are stuck in several parts of China where the coronavirus outbreak has claimed nearly 1,400 lives, multiple sources said.

India had recently evacuated over 640 of its citizens from Wuhan, the epicentre of the outbreak. Yet, around 80-100 Indians are stranded in the city and nearby areas.

The Indian Embassy in Beijing estimates more than 50,000 Indian citizens to have been working in mainland China as of early 2019.

Besides, there are no clear guidelines for Overseas Citizenship of India (OCI) cardholders. Erring on the side of caution, airport and immigration officials in other countries are not allowing OCI cardholders to travel to India, even though the Indian notification on coronavirus only mentions invalidating e-visas. As a result, families stuck in transit have been hit the hardest.

Officials at the Department of Overseas Affairs said no guidelines for Indians living in China are planned yet.

There have also been cases of people getting stranded because of lack of clarity regarding the visa rules following the novel coronavirus outbreak. The Health Ministry had cautioned people visiting China to strictly avoid locals with signs of fever, besides suggesting other preventive tactics as early as January 11. So far, there is no official travel advisory from the Ministry of External Affairs and this has led to confusion over international travel.

According to a person familiar with a specific case, a family of four was stranded last week at an airport in Ethiopia on their way back from a vacation in South Africa. The Indian man, his Chinese wife, and two children were returning to China, but given the situation there, they decided to travel to India.

They had a layover at the Ethiopian airport, where they were initially cleared by immigration, but later deplaned because officials said all e-visas to India have been cancelled. However, the wife holds an OCI card. Despite repeated requests and calls and communication with India's Home Ministry, the family remain stranded at the Ethiopian airport. *Business Standard* could not confirm if the situation was resolved.

Similarly, a person of Chinese origin from Hong Kong who has been staying in Geneva for the last five years was scheduled to travel to India for a technology conference in Mumbai. However, he was not allowed to apply for an Indian visa because of lack of clarity in the visa advisory.

COUNTING NUMBERS

As of Dec 2018

56,020 Indians in China (NRI+PIO)	38,419 Indians in Hong Kong (NRI+PIO)

Note : NRI – Non Resident Indian, PIO – Persons of Indian Origin
Source : Department of Overseas Indian Affairs

16,000 Indians under watch

The government on Thursday clarified that 15,991 people who have recently returned from China, Singapore, Thailand, South Korea and Japan, are currently under 'community surveillance'. An Integrated Disease Surveillance Programme (IDSP) is currently keeping in touch with these people, settled in 34 States and Union Territories, a high-level group of ministers that involves the ministers of Health, Civil Aviation, External Affairs, among others, said.

Two passengers, who arrived at Kolkata international airport from Bangkok, too, have been placed in isolation for suspected novel coronavirus, officials said. IndiGo's eight crew members, who were part of its Kolkata-Guangzhou flight operations, too, are in quarantine in Kolkata for the last few days. A flyer has been quarantined in Delhi.

SUBHAYAN CHAKRABORTY & PTI

VALENTINE'S DAY SPECIAL: Bouquets of roses and protective face masks are being sold in a flower market in Manila, ahead of Valentine's Day celebrations on Friday PHOTO: REUTERS

Decline in oil use in over a decade: IEA

Global oil demand will suffer its first quarterly drop in a decade as COVID-19 virus lashes the economy in China and its impact ripples throughout the world, the IEA said. "Global oil demand has been hit hard by the novel coronavirus and the widespread shutdown of China's economy," it said. AFP/PTI

Brent
$56.37
▼ 58 cents

WTI
$51.57
▼ 40 cents

In Hubei, death toll rises by 242 in a day

The Chinese province at the centre of the coronavirus outbreak reported a record rise in deaths and thousands more infections using a broader definition on Thursday, while Japan became the third place outside mainland China to suffer a fatality. Earlier, two fatalities were reported in Hong Kong and the Philippines.

In central China's Hubei province, officials said 242 people died on Wednesday, the biggest daily rise since the flu-like virus emerged in the provincial capital Wuhan in December. Total deaths in China are 1,367.

The rise, following a forecast earlier this week by China's senior medical adviser that the epidemic may end there by April, halted a global stocks rally.

But it appeared in large part to be because of methodology. Hubei had previously only allowed infections to be confirmed by RNA tests, which can take days. It has now also begun using CT scans, which give images of the lungs, the Hubei health commission said.

As a result, another 14,840 new cases were reported in the province on Thursday, up from 2,015 new cases nationwide a day earlier. REUTERS

Mobile World Congress cancelled

The wireless industry scrapped its biggest annual showcase — Mobile World Congerss, Barcelona — after the coronavirus outbreak sparked an exodus of participants, roiling telecom companies just as they're preparing to roll out new 5G services.

The list of big-name attendees started to crumble on February 7, when Ericsson pulled out, saying it couldn't ensure the safety of staff and customers. It's the first time in MWC's 33-year history that organisers have called off the event. BLOOMBERG

R K Pachauri, former TERI chief, dead

PRESS TRUST OF INDIA
New Delhi, 13 February

Environmentalist R K Pachauri, a former TERI chief under whose chairmanship the United Nation's Intergovernmental Panel on Climate Change won the Nobel Peace Prize in 2007, passed away on Thursday after a prolonged cardiac ailment.

He was 79.

In a statement, his family said Pachauri underwent a major heart surgery before succumbing to his deteriorating health on Thursday. He was admitted to Escorts Heart Institute here on Tuesday.

Pachauri passed away at his residence in the national capital with wife, daughter and son by his side.

"His courageous leadership allowed climate change to be recognized world over as the most pressing issue confronting the world and launched a new era of international deliberations and actions,"said his family. The Energy and Resources Institute (TERI) expressed grief over the passing away of its founding director.

"It is with immense sadness that we announce the passing away of R K Pachauri, the founder Director of TERI. The entire TERI family stands with the family of Dr Pachauri in this hour of grief," TERI Director General Ajay Mathur said in the statement.

In 2015, Pachauri was accused of allegedly sexually harassing a woman colleague after which he had to quit the post at TERI.

Successful CEO transitions

Board, not a committee, is accountable for selection of chief executive

THE WISE LEADER

R GOPALAKRISHNAN

After writing my book on lessons from the rise and exit of CEOs (*Crash*, Penguin, 2019) and after reflecting on my 30 years on boards, I state the obvious: Board must be more accountable for CEO selection. While a nominations/selection committee may run a process and a headhunter may be appointed for the search, they do so on behalf of the board, which is the decision-making authority. Hence directors must engage directly with the headhunter/selection committee to engage with their views. They must get comfort with the final recommendation. In my experience this does not happen rigorously enough. With important companies like HDFC Bank, IndusInd Bank and Wipro looking for CEOs, this article may be timely.

An MIT study in 2000 suggested CEOs appointed after 1985 are three times more likely to be fired than CEOs appointed before. It may well be a sign of the changing times, but directors must reflect on the fuzzy ways of CEO selection. They do apply their mind, but they inadvertently abdicate their responsibility to the selection committee. When a CEO is fired, the board stays, which seems a tad unfair.

Here are five suggestions for directors to consider:

■ In promoter-driven companies and public sector units, promoters, who are not board members, often communicate with the CEO, whereas they should have the discipline to express their views through their board nominees. Even though a director may be a promoter-nominee, the director will and should use judgement in accepting or modifying such views expressed. Multiple and contrary views can leave a new CEO quite flustered with contrary instructions.

■ The board must collectively agree a clear definition about the leadership skills sought from the CEO at that point of time. Boards most likely omit squishy leadership stuff like moving hearts, listening attentively and welcoming diversity. Inadequate discussion is devoted to culture fit, though they later realise cultural misfits. A coordinated board is mandate for the CEO is not made explicit to the incoming CEO. CEOs are exhorted in a general way to provide a bold direction and to be their own man. When they do so, discomfort sets in. Consider what happened to Chris Viehbacher at Sanofi or Vikram Pandit at Citicorp, both of which were discussed in *Crash*.

■ Boards should delegate, not abdicate, to the search committee. Assuming an appropriate brief and work plan, they acquiesce, rather than engage, in the hiring decision — the search committee recommends, the board engages/approves. Directors are unaware of special conditions for the new CEO selection until much later. Which board accepts responsibility for failure of its judgement if the CEO appointment does not succeed?

■ Leaders are required to have people skills to move human hearts. This is a nebulous and soft subject. So directors look for track record in market capitalisation, product market share or profit growth. Many years ago, iconic Coke CEO Roberto Goizueta was succeeded by his CFO, Doug Ivester. Alas, Ivester was a first-class financial whiz, but emotionally inept. The succession did not work out. The story of Richard Thoman at Xerox has similarities.

■ One-man initiatives and overpaying for acquisitions is another factor in CEO firings. In GE, Jack Welch relentlessly drove an enormous finance business under one set of circumstances; Jeff Immelt could not do so in the dramatically-changed market of the new millennium, and he wound it down. To bolster growth, Jeff Immelt acquired Alstom's power business in 2015 in $10-billion deal. The acquisition not only failed to deliver target results, it resulted in write-offs and marking down of assets by $23 billion. Immelt's successor, John Flannery, faced the falling knives; he was eased out in less than a year for not dealing with legacy issues. The board stayed, but the CEO was eased out.

The subject of hiring the 'wrong' CEO is a very live board issue. Unlike in the US and the UK, a firing in India is a blot. The CEO may not even get an exit package as CEOs do in the US.

Directors should be far more engaged because they are collectively accountable for successful CEO transitions.

The author is a corporate advisor and distinguished professor of IIT Kharagpur. He was director of Tata Sons and vice- chairman of Hindustan Unilever
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CHINESE WHISPERS

UP Assembly or *sabzi mandi*?

Onions, potatoes, and what not were on display on the first day of the Uttar Pradesh Assembly's Budget session, which started on Thursday, as Opposition MLAs protested against the BJP-led Central government, citing price rise. Some MLAs even lugged LPG cylinders on their back to protest the hike in their prices announced earlier this week. As soon as Governor Anandiben Patel rose for her speech, the Samajwadi Party MLAs, wearing red caps, marched towards the centre of the House in protest, with some sitting down on the floor. Some also held up placards, denouncing the Citizenship (Amendment) Act and a possible National Register of Citizens. Chaos continued through the day as Chief Minister Yogi Adityanath watched helplessly.

Cong's 'surgical' strike!

Recriminations continued in the Congress two days after its decimation in the Delhi Assembly polls. Senior Congress leader Jairam Ramesh suggested that the party "ruthlessly" reinvent itself or face the prospect of becoming irrelevant. Senior leader Veerappa Moily too called for a "surgical" action to revive the party. The Congress is planning its plenary session in April during which Rahul Gandhi is likely to return as president with Sonia Gandhi conveying to senior leaders that she is not in the best of health to continue as interim president. Seniors, however, believe the crisis could deepen with Rahul's return. In the weeks to come, he is set to be reminded of his resignation letter after the party's 2019 Lok Sabha election loss, when he had suggested that the Gandhi family should stay away from the post of party president and the Congress should elect someone from outside.

AAP's 'only Delhi' plan

There was heartburn among Opposition leaders, particularly those of regional and Left parties, because the Aam Aadmi Party (AAP) has decided not to invite any chief minister or political leader of other states to Arvind Kejriwal's oath-taking ceremony at Ramlila Maidan in Delhi on Sunday. Kejriwal will take oath as the chief minister for a third term in a "Delhi-specific" ceremony, AAP's Delhi unit convener Gopal Rai said. There is speculation that Kejriwal could lead a putative "third front" in the 2024 Lok Sabha polls. Aavyan Tomar, the child who has come to be known as "Baby mufflerman" after his photographs, in which he is seen dressed as Kejriwal, flashed across the media, will be a special invitee at the ceremony. Aavyan lives in east Delhi.

How listing will transform LIC

The proposed listing will render Life Insurance Corporation more transparent and efficient. And certainly, it would enable policyholders to make a significant contribution to the economy

ASHVIN PAREKH

The Finance Bill has taken a very bold step to announce the listing of Life Insurance Corporation (LIC). Truly, LIC has held a prime position in Indian history. Its contribution to the economy is unparalleled. With the life fund of about ₹30 trillion, it is one of the biggest balance sheets in the nation. The institution will contribute, by way of listing and offering the government equity shares to public, a sizeable amount.

There are a few interesting facets of this offer, which will need evaluation before the IPO is conducted. One of the critical issues will be whether the sovereign guarantee which is offered by the government to meet the contractual obligations between the corporation and the policyholder shall continue. This is the prime reason why the government has invested ₹100 crore by way of capital and the sovereign guarantee serves as the capital. In the year 2000 when the IRDAI Act was enacted, the regulator introduced the required solvency margin (RSM) regulations. To create stability in the insurance sector, the regulator required all the companies to hold net owned funds and unencumbered asset to the extent of 150 per cent of the actuarial liability. The gap between the two has to be funded by the promoter by way of equity capital. There was no such regulation prior to the formation of IRDAI and LIC was the only life insurance company. A substantial gap in the RSM was determined in the case of LIC with the introduction of this regulation.

Media reports suggested the RSM exceeded ₹30,000 crore. The promoter (government) was unable to contribute this amount and therefore over a period of time this amount was built up from the policyholders' funds. The RSM continues to grow with new business written by LIC, less of course the matured contracts, since the year 2000. From 2000 till now, policyholders have contributed this surrogate capital. Regulations also provide that the actuarial surplus belongs to the policyholders to the extent of 90 per cent of such surplus. The balance is available to the shareholders. In case a company is growing and the surplus is not adequate to meet with the RSM obligation arising out of such growth projections, the shareholders keep the surplus with the company. In the case of LIC, with a sizable inflow of new business the government could have decided not to

receive dividend from the surplus and hold back the capital with the corporation. Every year, the government decided to take 5 per cent of the surplus amount generated by LIC. The government has collected over ₹25,000 crore by way of annual cheques from LIC as dividends during these years. The justification, and a valid one perhaps, is that the sovereign provided an unconditional guarantee to all policyholders towards the contractual obligations of the corporation.

Thus, the withdrawal of the guarantee will render the policyholders the actual shareholders of the corporation. To that extent, policyholders will sacrifice the intrinsic value in the contract they hold and contribute to the economy by way of funding the Budget. The second major aspect that will also play a significant factor for investors is the ability of LIC to compete in the market without the sovereign guarantee shelter. Currently, it does not require capital for RSM to be contributed. Also, people will have less comfort to buy policies.

One more factor needs to be examined before the listing of LIC. The capital markets regulator will have to determine the regime of disclosures to meet the regulations as well as — and more importantly — ensure investor protection. The insurance regulator is responsible for protecting the policyholders and the markets regulator will have to ensure investor protection by way of disclosures. Related party transactions disclosure could be a thorny issue. Perhaps the experience of public sector bank listing of disclosures with forbearances might be useful. In this backdrop, the various decisions with regard to investments in various public sector or related entities will also need a fresh approach towards approval as well as disclosure. Analysts and fund managers in case of institutional investors and the retail investors themselves will have to be provided with some comfort regarding such investments with financial justification.

Then again, the disclosure will require the funds and its management of par and non-par businesses of LIC to be separated. Finally, the LIC Act will have to be amended to incorporate provisions of governance, board positions and genuine induction of independent directors. These steps will make the possible investors comfortable about investing in LIC shares.

To conclude, this is indeed a landmark decision in the history of the corporation. It will render it more transparent and efficiency. And certainly, it would enable policyholders to make a significant contribution to the economy. The deployment of their funds will trigger the necessary growth in the economy.

The author is managing partner, Ashvin Parekh Advisory Services LLP. Views are personal

INSIGHT

Moving towards a gas-based economy

DHARMENDRA PRADHAN

As emphasised in the 2020 Budget speech, about 27,000 km of national gas grid pipeline would be completed in the coming years connecting Kutch to Kohima and Kashmir to Kanniyakumari

The devastating Australian bush fires have reignited fierce debates around pyrogeographies and carbon emissions. Rightfully so. None of us will be immune to the grave effects of climate change should there even be a moderate increase of 0.3 to 1.7 degrees Celsius in global surface temperatures. Our stakes are collective, so efforts have to be collective albeit contextual.

Under Prime Minister Narendra Modi India has taken a strong turn in the energy road map towards renewables and rebalancing the energy mix. However, it would be unfair to expect India to wean itself off fossil fuels at this stage of our developmental cycle. India's per capita emission of 1.6 tonnes of CO2 is well below the global average of 4.4 tonnes, while its share of global total CO2 emissions is about 6.4 per cent. Nonetheless, efforts are underway to decarbonise energy production and use least polluting fossil fuels to complement the shift to renewables.

Accordingly, we are consistently taking policy initiatives, revamping policies and building next generation infrastructure towards making India a gas-based economy — initially, by increasing the share of gas in India's primary energy mix from the current 6 per cent to 15 per cent, a goal laid out by Prime Minister Modi. The government lays utmost emphasis on this stated goal — as reiterated in the finance minister's recent Budget speech, which highlighted some facts and figures as we move towards a gas-based economy.

The world's average natural gas share in the primary energy basket is about 24 per cent. The only Indian state that has a higher gas mix than the global average — of approximately 25 per cent — is Gujarat.

To realise our gas use ambitions, in the past five years, we transformed the domestic gas pricing regime in 2014 by linking it with global gas market benchmarks, gave marketing and pricing freedom 2016 onwards to attract investment in exploration and production activities, shifted focus from revenue maximisation to production enhancement through awarding blocks with investors' freedom, enhanced LNG import capacity by developing new terminals and augmented existing capacities, and, connected the eastern and north-eastern parts of the country with gas grid by developing the 2,650-km Pradhan Mantri Urja Ganga project and the 1,656-km North East Gas Grid project. Capital support of about ₹10,719 crore has been extended to these projects to make gas accessible in remote areas. As emphasised in the 2020 Budget speech, about 27,000 km of national gas grid pipeline would be completed in the coming years connecting Kutch to Kohima and Kashmir to Kanniyakumari.

We have placed a strong emphasis to expand city gas distribution (CGD) networks across the country covering more than 400 districts and about 70 per cent of the population. CGDs supply cleaner cooking fuel (such as PNG) to households, industrial and commercial units as well as transportation fuel (such as CNG). There is an expected investment of ₹1.2 trillion in over the next decade.

In addition to natural gas, an initiative, Sustainable Alternative Towards Affordable Transportation (SATAT), has been taken up to extract economic value from biomass waste in the form of compressed bio gas (CBG) and bio-manure. Municipal solid waste, sugar industry waste (press mud) and agricultural residue have significant potential for production of the same. Our oil and gas PSUs have come forward to promote their use by offering fixed floor price to off-take CBG for the first 10 years through upfront commercial agreements. Given the abundance of biomass in the country, CBG has the potential to complement CNG in automotive, industrial and commercial uses in the coming years. We have proposed that CBG plants be primarily set up through independent entrepreneurs. CBG produced at these plants will be transported through cascades of cylinders to the fuel station networks of OMCs for marketing as a green transport fuel alternative.

Liquefied natural gas (LNG) has also emerged as a feasible alternative, economical and environment-friendly fossil fuel for medium and heavy-duty vehicles. To kick start the development of LNG-based transport ecosystem in the country, thrust has been given to build LNG filling stations along the golden quadrilateral. The use of LNG in the transport sector would also reduce the import bill.

These initiatives to develop gas infrastructure have opened up avenues for investment of about ₹4 trillion with employment generation potential across the gas value chain. There are plans to have a free gas market with the setting up of a gas trading exchange for efficient price discovery in the Indian market. In addition, a rationalised pipeline tariff structure and a harmonised tax regime by including natural gas under the ambit of GST would be key to accelerating the shift towards a gas-based economy.

To meet our demand, we are in the process of diversifying the geographies to source gas. India imports LNG from Qatar, the US, Russia and Australia. However, some sectors that use or can potentially use gas — like the power sector and the steel industry — are constrained to opt for gas as a feedstock due to the current unattractive cost of LNG.

Therefore, it makes perfect business sense for gas-producing countries to realign existing long-term LNG contracts with the prevailing market conditions. Our greatest leverage is the size of our market and its increasing energy appetite.

The author is Minister of Petroleum & Natural Gas and Steel

LETTERS

Subsidy mirage

Apropos your editorial "Power populism" (February 13), every type of subsidy is harmful for economy. The idea of a stimulus meant for all is only a mirage that temporarily satisfies the masses but results in higher taxes. Even robbing Peter to pay Paul as a mode of income redistribution only makes Paul lazy and Peter resentful. Tamil Nadu holds the dubious distinction when it comes to introducing novel freebies and subsidies. Who can forget the distribution of free colour television sets to beneficiaries identified by the ruling party functionaries when the entire state was reeling under power cuts? To outshine this madness, the Opposition party introduced free grinders, table fans, laptops and what not, when it returned to power, making the state the laughing stock of the world. As your editorial rightly points out, the resounding victory of the Aam Aadmi Party in the Delhi elections is bound to result in competitive power populism in other states, especially those going to polls in the coming months, with economists wringing their hands in despair. Best wishes to India in becoming a $5-trillion economy by 2024.

V Jayaraman Chennai

Freebies misuse

Apropos the editorial "Power populism" (February 13), distribution of cash and liquor to electorates before elections has been replaced these days by freebies like free power, water, bicycles, laptops, gold ornaments for marriage, medical treatment etc. at public expense. The provision of free power leads to misuse, an example being farmers leaving their electric pump sets on through night, leading to depletion of groundwater and salinity of land parcels. Similarly, in a recent report, the Comptroller and Auditor General of India said that a third of PM Ujjwala Yojana beneficiaries failed to book replacements leading to the belief that they might have disposed of their LPG cylinders in the open market, going back to pollution-causing cooking mediums like wood and coal.

The much-touted UDAY scheme has only managed to shift the burden to the state governments instead of reducing power theft and achieving efficiency in operations. According to a Brookings India study, Discoms owed a whopping ₹418 billion to power-generating companies as of end of February 2019. The aim of every government should be to ensure availability of 24x7 power to all at an affordable rate. Instead of committing free power, the Kejriwal government would do well to credit the money to the bank accounts of the intended beneficiaries.

Ganga Narayan Rath Hyderabad

Green shoots v/s grey hair

The finance minister has observed that green shoots are sprouting in the economy. But what about the grey hair sprouting profusely all over the place? There is no out of the box remedy. One suggestion is that since only seven persons out of every hundred pay tax, why not tax the remaining 93 at the rate of ₹1 per day, which is not a big amount. Now the prime minister has stated that only 15 million of the 1.3 billion people pay tax. Of the rest, even if 10 per cent don't pay, the collection works out to nearly ₹1 billion per day translating to almost ₹360 billion a year which is a huge amount. It should be ensured that the money is not used to build statues and memorials. Will the government consider this idea, notwithstanding the usual opposition, which it will generate? All citizens should participate in nation building.

Shanmugam Pune

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HAMBONE

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Long road to revival

Indian economy remains in a weak spot

Global rating agency S&P has reaffirmed India's sovereign ratings, noting that growth will gradually recover over two-three years. It has also said India is experiencing a cyclical, rather than a structural, economic slowdown. S&P's optimism notwithstanding, the latest data on industrial production and inflation signals that the wait for revival will be longer than expected. Industrial output, as measured by the index of industrial production (IIP), declined by 0.3 per cent, year-on-year, in December. IIP growth during April-December was a meagre 0.5 per cent. While mining improved by 5.4 per cent in December, manufacturing output declined by 1.2 per cent, and electricity generation also contracted. Meanwhile, the retail inflation rate went up to a 68-month high of 7.59 per cent in January. An increase in headline inflation despite some moderation in food prices indicates that inflation has become more broad-based. Clearly, inflation and the industrial production data do not present a pleasant picture of the economy. The Reserve Bank of India in its latest policy review had stated that there was policy space for future action. However, if inflation becomes more broad-based, it will be difficult for the central bank to cut policy rates further in the near term.

There have been some positive developments, of course. For instance, the Purchasing Managers' Index for both manufacturing and services has registered a sharp jump in January. The third-quarter results show that the balance sheets of some public-sector banks have improved, raising hopes that the flow of credit to the productive sectors would increase. But these positive indicators should not be mistaken for a broad-based recovery. Investment by foreign portfolio investors, a rising stock market, and higher foreign exchange reserves, highlighted by the finance minister recently, do not always present the correct picture of the economy. For instance, research shows that the flow of foreign portfolio investment, to a large extent, depends on the availability of liquidity in the global financial system. Since there is ample liquidity in the system, thanks to the accommodative monetary policy in advanced economies, inflows are likely to remain strong. Intervention in the currency market to avoid appreciation in the rupee is resulting in higher foreign exchange reserves.

Also, the benchmark stock market indices do not reflect the state of the economy. A quick analysis of corporate results shows that the rise in profits is concentrated in sectors such as banks and oil refineries. Net sales at the aggregate level have gone up by just about 2 per cent in the third quarter. This again suggests that the economy remains in a weak spot. It is possible that a lower base will push growth in different areas, but those numbers should be read carefully.

Further, global uncertainty on account of Coronavirus could affect output in the near term. The Indian pharmaceutical industry, for example, imports many of its active ingredients from China. Although the impact on global output is not yet clear, the drop in crude oil prices suggests that it could be significant. The government should use the opportunity provided by the oil price drop to strengthen its finances. It has done well by not trying to push up economic growth through higher government expenditure, which could have increased macroeconomic risks. Instead of a turn towards protectionism, which does not augur well for a sustainable recovery, the government should continue to push reforms to improve the ease of doing business and enhance growth potential.

A remittance tax

Compliance burden should not be increased

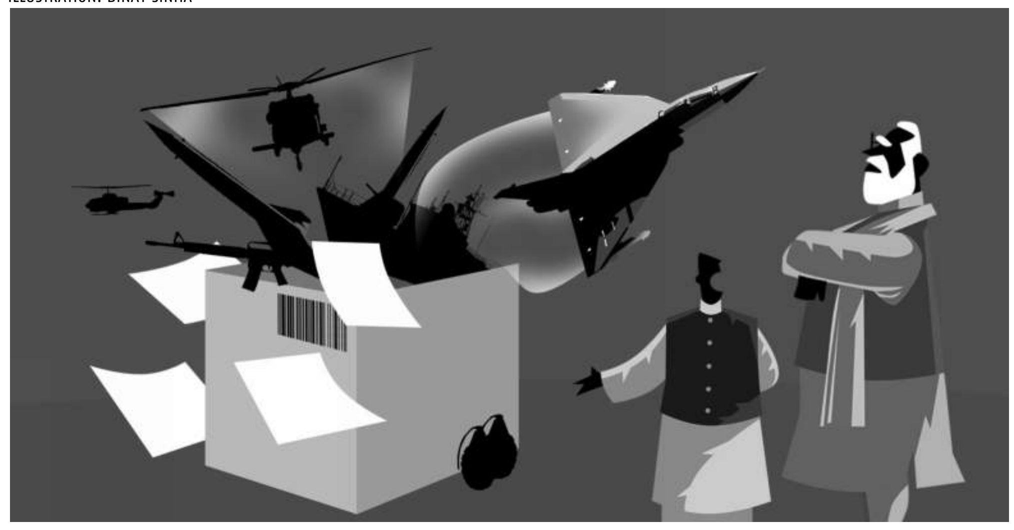
A provision in the Union Budget for 2020-21 that is attracting considerable adverse attention deals with remittances abroad. The Budget proposes that if a person remits more than ₹7 lakh overseas under the Reserve Bank of India's (RBI's) Liberalised Remittance Scheme (LRS) — or buys an overseas tour package of that amount from a travel agent — then the bank or agent in question would have to pass on 5 per cent of that amount as tax. The government says this does not count as double taxation although it is on income that is already taxed, because individuals can then adjust it against their tax paid on their returns. The stated reason for this move is that tax officials believe money is being laundered by sending it abroad under the liberalised regime, which permits remittances up to $250,000 a year.

While the government may be technically correct that this does not count as double taxation, this is another indication that it is not seriously seeking to reduce the compliance burden on ordinary taxpayers. Deduction of money that can only be claimed later should occur when there is a clear payoff for the government; but, in this case, the amounts brought in as tax will be low. There is no clear reason why compliance costs should be increased — and money tied up in the refund process — in the absence of a clear demonstration that the liberalised remittance scheme is being misused on a scale so large as to justify additional controls.

It is possible that the real concern of the government is not that money is being laundered through this process, but that money is being sent overseas. By making the remittance process more difficult, the government might be seeking to dis-incentivise money leaving the country. If so, this would be unfortunate. It would be a throwback to the pre-reform era, when money leaving the country was seen as a problem, and regulations were constantly being imposed to stem the flow. There was a time when the preservation of India's stock of hard currency was seen as a priority and, therefore, similar measures of control were introduced in order to minimise the transfer of money abroad. But those times should be seen as being long gone. India no longer has to hoard its foreign exchange. Certainly, the individual limits on the remittance of foreign exchange are not so high that the government should feel concerned about capital flight.

The concern is that attempts to save foreign exchange and discourage outflows are broadly in keeping with the recent turn towards trade protectionism. Such measures always have negative effects on businesses. Not only will compliance cost increase, but travel agents can justly point out that their customer base will decrease, because individuals seeking to avoid the hassle of tax being deducted will simply pay by themselves in cash abroad. The government should re-examine the provision. Both the signal it is sending out, and the actual effect on businesses and individuals, will prove to be negative for the economy in the longer term.

ILLUSTRATION: BINAY SINHA



Ambitious goals for defence

If India is to have any chance of doubling exports, it must first recognise exports and production are two sides of the same coin

PREMVIR DAS

At the Defence Expo held in Lucknow recently, Prime Minister Narendra Modi exhorted Indian manufacturers to double defence exports to $5 billion (₹37,000 crore) over the next five years. Around the same time, reports indicated that a major private sector company aspiring to become a producer of military platforms had gone into liquidation, forcing the government to en-cash all its bank guarantees. These two developments are incongruous and require some discussion.

In 2011, the Indian Navy placed an order for five Offshore Patrol Vessels (OPVs) with a private sector entity, the Pipavav Defence & Offshore Engineering Company. These vessels, the simplest of all naval platforms, were to be built at a cost of ₹2,500 crore and delivered starting 2014-15. By 2015, this company had stopped functioning and was taken over by Reliance Naval and Engineering Limited (R-Naval). In July 2017, R-Naval actually launched two OPVs, though these were nowhere near the final stage of construction. The company, which spelt out grandiose plans for manufacturing advanced warships and submarines, has filed for insolvency. The Ministry of Defence has advance payments made for the ships amounting to ₹980 crore but the ships are nowhere on the horizon. The order has been cancelled and no deliveries have been made. Yet, if any naval platforms have a chance of getting exported, the OPVs would be at the very top of that list.

This, of course, is the naval experience. Another privately-owned shipyard has also struggled to remain productive, but with little success. Only Larsen and Toubro has made headway, first by fabricating hulls of our nuclear submarines and then by building a few conventional but simpler ships. The picture in the other two arms of the military is no different. The private sector is far from manufacturing even the simplest aircraft or helicopter. In fact, even Hindustan Aeronautics Limited (HAL), the public sector unit assembling sophisticated fighters under a licensing agreement for decades, cannot produce these platforms in sufficient numbers to meet the needs of our own Air Force. The question of exporting any of these then does not arise. In two categories where the design is our own — viz. the fighter Tejas and the Advanced Light Helicopter — the capacity is well short of our own military needs. To expect serious enhancement in production with existing capacity is too ambitious. So, there are no air platforms for export. As for the Army, the one indigenous platform is the Arjun tank, but its weight and manoeuvrability are not suited for most countries; many other systems, such as BMPs and T 90 tanks, are assembled under a licence and, therefore, export is unlikely to be allowed. In short, India does not have a military platform that can pass the test for being developed as a potential export item. One possibility is the M77 howitzer gun being manufactured by Mahindra Defence Systems in collaboration with a US company, provided the contract allows for it and the requirements of our Army are first met. This leaves smaller items such as rifles, ammunition, grenades and light artillery for exports. It is unlikely that these, even if substantially enhanced, can help get us to the target that has been specified. I am assuming that missile systems like Agni, Prithvi and Aakash are not figuring on the export list. Where do we go from here is a question that merits examination.

All defence public sector undertakings (DPSUs) have been in the business for many years and have acquired skills and knowledge even if these are not enough to meet the needs of our military, either in quality or quantity or both. These capacities take time to be absorbed and to expect that private sector companies will not be subject to the same time constraints is to be simplistic. Merely tying up with a foreign manufacturer will not replicate its capacities in India in quick time; in any event, why should any prospective client not prefer to buy the item from the original manufacturer itself, say, Lockheed Martin or Boeing? In this context, the choice lies between strengthening the DPSUs, which already have capacities, howsoever unsatisfactory these might presently be, and to invest more proactively in the private sector, treating them as start-ups—literally. There could be a combination of both.

Existing policies require identification of a specific Indian partner who would then collaborate with the chosen foreign supplier. As already mentioned, neither a DPSU nor a private sector company can adequately meet this major technological challenge. The answer is to combine both into joint ventures, which could then collaborate with the original manufacturers. This is easier said than done. The operating philosophy, work culture and discipline of both are miles apart and, while the first strives to meet targets set by the user, the second has profit as its prime motivation. Often the two might not coalesce. Only stringent policies when strictly implemented can overcome this dilemma and it is not certain if the political will or ability to enforce both is currently there in the government. So, prospects of India becoming a credible manufacturer of defence platforms or major weapon systems for export are remote.

Fundamental to our inadequacy is the inability to design platforms and equipment needed by the militaries. There is some of this expertise in the Navy nurtured over decades but none in the other two branches where this work is the responsibility of the Defence Research and Development Organisation, whose strengths, though, are primarily in the sphere of missile systems. As such expertise will never be transferred by foreign suppliers, our first and foremost priority must be to focus on generating this capability; without it, we can never become self-sufficient in the field of defence hardware, much less be able to export to others.

The writer has served as Director General, Defence Planning Staff, and has been a member of the National Security Advisory Board

Why fiscal rules should be revisited

REAL TERMS

RAJESH KUMAR

The Union government has once again deviated from the stated fiscal consolidation road map. It will now aim to contain the fiscal deficit at 3.8 per cent of gross domestic product (GDP), compared with the current year's budget estimate of 3.3 per cent. The government aims to bring down the fiscal deficit to 3.5 per cent of GDP in the next financial year. Presenting the Union Budget for 2020-21, Finance Minister Nirmala Sitharaman used the escape clause under the Fiscal Responsibility and Budget Management (FRBM) Act on account of structural reforms in the economy, with unanticipated fiscal implications for both the current and the next fiscal year.

According to the revised FRBM rules, as amended by the Finance Act, 2018, the central government debt stock should not exceed 40 per cent of GDP by the end of financial year 2024-25. The fiscal deficit was also expected to be reduced to 3 per cent of GDP by 2020-21. The law provides for deviation from the fiscal deficit target by up to 0.5 per cent of GDP under various circumstances. In accordance with the latest revision, the central government's debt is expected to decline from 50.3 per cent of GDP in the current year to 45.5 per cent by 2022-23. Clearly, the government will take more time to reach the earlier target because of slower than desired consolidation. While a higher level of debt has risks, especially in the environment of slow growth, deviations from annual fiscal target also has costs.

The 15th Finance Commission is expected to constitute a committee to examine the fiscal and debt situation and present a road map. This would be a good opportunity to revisit the fiscal management framework. The committee would do well to reassess the fiscal deficit target of 3 per cent of GDP. As also highlighted by the FRBM review committee, the 3 per cent target for both the Centre and states in the FRBM Act, 2003, was set after considering the available pool of financial savings. It was also deemed sufficient to attain government debt-to-GDP ratio of 50 per cent over 10 years. Household financial savings were projected at 10 per cent of GDP. Another 2 per cent of GDP was added as external borrowing (current account deficit). The available pool of financial savings at 12 per cent of GDP was equally allocated to the government and the private sector. The FRBM review committee also broadly followed this path. Net household financial savings in 2014-15 was at 7.6 per cent of GDP. The sustainable medium-term current account deficit was estimated to be about 2.3 per cent of GDP. Therefore, the available savings of about 10 per cent of GDP was allocated equally between the public and the private sector. But this needs to be reviewed again, as the net household financial savings have dropped to 6.5 per cent of GDP.

This essentially means that even at the stated level of deficit, the government is preempting the entire pool of financial savings and investment activity largely depends on imported savings. Things will not change much even if the general government deficit is brought down to 6 per cent of GDP. So, the basis for allocating 50 per cent of financial savings to the public sector also needs to be debated. The size of the government, even with the current level of deficit, is far less than 50 per cent of GDP.

The current level of savings and the requirement of the public sector means a revival of private investment will mostly depend on imported savings. The strain on financial resources is visible in the bond market. To reduce the pressure, the government is looking to issue special securities to non-resident investors. The idea is to get Indian government bonds included in global bond indices, which would result in a stable flow of foreign savings. Large passive investors, such as pension and insurance funds, invest in funds tracking such indices. The government is also increasing the foreign investment limit in the corporate debt market. The Reserve Bank of India (RBI), on its part, is flooding the system with liquidity to improve the transmission of policy rates.

Higher dependence on foreign savings, aside from increasing financial stability risks by adding to external debt, will create distortions in the system. Higher flow of foreign capital will put upward pressure on the rupee, which will affect India's external competitiveness. Overvaluation of the rupee is said be affecting India's exports, which have practically stagnated in recent years. Continued intervention by the RBI in the currency market can affect its monetary policy objectives. In fact, the need for continued flow of foreign funds could incentivise the system to keep the rupee strong.

Therefore, the challenge for the Finance Commission would be to suggest a road map to bring down the general government deficit to a more sustainable level, which leaves adequate means for the private sector. Since it is not easy to augment revenues at the scale required, large adjustments in expenditure would be necessary. A delay in adjustment would not only affect the potential growth but also increase longer-term financial stability risks.

Tolerating intolerance

BOOK REVIEW

SARTHAK CHOUDHURY

In the 2019 film *Article 15*, Ayan Ranjan, a policeman posted to a rural district in Uttar Pradesh (played by Ayushman Khurana), tells his partner Aditi in Delhi about the indifference in a village after two Dalit girls were murdered. "I will unmess the mess," he tweets. Is unmess a word, Aditi asks. If it is, then Aparna Vaidik's *My Son's Inheritance: A Secret History of Lynching and Blood Justice in India* takes half a step towards "unmessing" or at least revealing the inherent violence at the root of Indian culture.

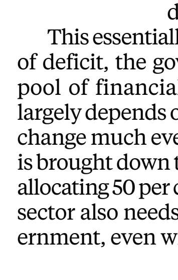
Ms Vaidik's book is framed as a narrative to her son in which she demonstrates how violence has pervaded mythologies, folklore and language. She begins by talking about her grandfather, who often told her ancestral folktales. One that stuck in her head concerned her ancestor Bharmall, from Rajasthan. According to the legend, Bharmall, an accountant, immolated himself after a local Muslim butcher ignored his pleas to stop slaughtering cows. Ms Vaidik uses this story to explain how the ascendancy of the Rajputs in Rajasthan and the concomitant growth of Vaishnavism turned cattle protection into a sacred duty. As a result, the meaning of *gauraksha* shifted from protecting cows from disease to protecting them from the butcher, specifically the Muslim butcher (a shift that eventually hit Rajasthan's leather goods industry, once part of a prosperous agro-pastoral economy).

Ms Vaidik goes on to explain how language became a marker of "racial" difference. In this narrative, fair-skinned Sanskrit speakers and dark-skinned Dravidian speakers are two different racial groups and Sanskrit-speaking Aryans are the builders of Indian civilisation. The notion took root thanks to thinkers such as Swami Vivekananda, who believed that Aryans settled in India without annihilating the first inhabitants. In his view, the caste system was simply a way of organising society's labour. For 19th century reformers, the Aryan tradition was synonymous with "Hindu" From this, evolved "the idea of Hinduism as a civilisation coterminous with India —spiritual and non-violent — a utopia for Aryans," she writes. Others such as Dayanand Saraswati placed cow-protection at the core of Aryan ideology. This movement "was successful in rallying all shades of Hindus".

The movement inventively used the developing print and journal culture to spread its cause so generations grew up immersed in this culture. The image of the cow as the mother of all Hindus was mass-produced. These images started appearing in journals and calendars and "made its way to family altars and knick-knacks like coin boxes". The movement, she writes, was also an attempt at stopping lower caste Hindus from converting to Islam. To this end, the Arya Samaj started inviting lower-caste groups for festivals. This "Hindu juggernaut" created an "affective community of violence" that forged the Hindu and Muslim identities as separate and antagonistic. Still, Ms Vaidik points out, these movements failed to garner support from south and north-east India because they "disregarded their socio-economic context".

Ms Vaidik points to the fact that the major success of the 20th century cow protection mobilisation was forging "a new Hindu identity — a community that was united in its belief of the cow's sacredness and the urgent need to protect it". This led to the formation of a new discourse in which cow protection came to mark the difference between the Hindu "self" and Muslim "other" as in Bharmall's.

Ms Vaidik moves on to describe how myths have played an important role in normalising violence. For instance, there was Barbareek, son of Ghatotkach and from a Mleccha tribe (considered outside the caste system). In one of the myths he sacrificed himself at the hands of Krishna. "His sacrifice ensured Arjuna remained the supreme warrior because had he fought, he would have upstaged him," Ms Vaidik writes. This myth played a dual role — of maintaining social cohesion and invisibilising violence. She adds that this myth is also about miscegenation— racial intermixing, drawing a similarity with Eklavya and Karna, who also paid the "blood price" to make Arjuna the mightiest warrior. It is upon these myths that Ms Vaidik questions the idea of India being an inherently tolerant state. "A role of normalising and invisibilising violence in various forms — pejorative naming, erasure of personhood, [are] … all done in the name of maintaining order of things," she says.



MY SON'S INHERITANCE: A Secret History Of Lynching And Blood Justice In India
Author: Aparna Vaidik
Publisher: Aleph
Price: ₹499

The author then examines the legacy of Jyotiba Phule, the Maharashtrian social activist and one of the first people to point out that violence, not tolerance was the essence of India. He figured that patriarchy and oppression of lower castes went hand in hand. Ms Vaidik questions how, despite all his efforts, Aryan superiority thrived as a national ideology. She says the Dalit movement developed in isolation; the British didn't pay Phule much heed, the Congress drained lower-caste movements and the Left focused on the urban proletariat.

Turning to contemporary politics, Ms Vaidik shows how the discourse of "Hindu victimhood" seeps into our consciousness through these myths. The author ends the book by comparing Aryan supremacy to white supremacy in the US and examines the reasons for lynchings that marked the first term of Narendra Modi's prime ministership.

Throughout the book, Ms Vaidik challenges the notion that India is a country that believes in non-violence and shows how violence had been "externalised, othered and justified in the name of enacting social justice". Or as she tell her son: "*Hinsa bhi tumhaari dharohar hai*," (violence is also your heritage).

Shell, Reliance win in British HC against govt in PMT case

PRESS TRUST OF INDIA
New Delhi, 13 February

In a big win for Shell and its partner Reliance Industries, a high court in Brtain has rejected Indian government's challenge to the recovery of certain costs in the western offshore Panna-Mukta and Tapti (PMT) oil and gas fields they operated.

The government had sought $3.5 billion in dues from Reliance and Shell-owned BG Exploration & Production India Ltd based on an October 2016 partial award of an international arbitration tribunal over the recovery of certain costs from the sale of oil and gas produced from the PMT fields.

The two firms had gone to the British high court against the 2016 partial award. Sources with direct knowledge of the development said the British High Court had previously directed the tribunal to reconsider certain issues. The tribunal subsequently in 2018 issued another award to uphold the two companies right to recover costs.

This award was challenged by the government.

Justice Robin Knowles of the British High Court delivered a judgement on February 12 rejecting all of Government of India's five challenges to the 2018 award, sources said. When contacted, Reliance declined to comment on the issue.

The government had used the 2016 partial award not just to raise a $3.5 billion demand on Reliance and Shell but also sought to block Reliance's $15 billion deal with Saudi Aramco on grounds that the company owed money to it.

Reliance and Shell had countered the government petition in the Delhi High Court, saying: "The petition is an abuse of process as no arbitration award has fixed any final liability of dues on the company". Sources said the Arbitration Tribunal adjudicating disputes under the PMT Production Sharing Contracts (PSCs) between BG Exploration & Production India (Shell) and Reliance with Indian government issued final partial award on October 12, 2016. Parts of the 2016 award were challenged by the two firms the British High Court, and the court directed the Arbitration Tribunal to reconsider certain issues.

Arbitration Tribunal reconsidered the issues and on October 1, 2018, gave its Final Partial Award holding that certain costs incurred by two companies were agreed to be cost recoverable by the Indian government.

The central government challenged the 2018 award on five issues. The two companies also filed a challenge on one issue that certain costs which Arbitration Tribunal held not be recoverable.

The British court has scheduled a Consequential hearing on February 28, 2020, for issuing further directions in the matter, they said.

Shell and Reliance had previously contended that the tribunal's 2016 award determined certain issues of principles. Pending determination of all issues before it, appropriately, it did not award any monetary sums. Quantification of amounts, if any, by the tribunal is to be done when all issues have been decided.

Certain parts of the 2016 award were challenged by the two firms before an British court wherein it decided some parts of challenge in favour of them and directed the arbitration tribunal to reconsider those parts of the 2016 award.

A British high court has rejected the Indian government's challenge to the recovery of certain costs in the PMT oil and gas fields they operated

CEA: Inflation to go below 4.5% by July

Says vegetable prices may moderate after fresh harvest in March

ARUP ROYCHOUDHURY
New Delhi, 13 February

Chief Economic Advisor Krishnamurthy Subramanian on Thursday said that he expects consumer price index (CPI)-based inflation to come down to sub-4.5 per cent levels by July, a day after headline inflation was stated to have touched its highest level in 68 months.

Speaking to reporters, Subramanian said that vegetable prices in general, and onion prices in particular, are expected to moderate after a fresh harvest in March. "I expect the headline inflation to converge back to core around July-August. Headline inflation should be around 4.2-4.5. The convergence should happen by July," Subramanian said.

Retail inflation for January came in at 7.59 per cent, according to the official data released on Wednesday. The food inflation rate remained elevated at 13.63 per cent. For December, CPI inflation was 7.35 per cent and food inflation was at 14.19 per cent. The inflation rate in vegetables for January came down from 60 per cent in December, but it still stood at 50 per cent. Pulses saw the inflation rate rising to 16.71 per cent in January, from 15.44 per cent in December.

According to Subramanian's assessment, core inflation (headline retail inflation minus food and fuel) stood at 4.2 per cent. "If you take the difference between headline inflation and core inflation, headline is 7.6 per cent and core is 4.2 per cent. Of the difference of 3.4 per cent, about 2.45 per cent, or 70 percentage points, comes just from onion," he said, adding a moderation in onion prices was expected after a fresh harvest in March. "If you look at the historical data, when food inflation falls, your headline inflation becomes lower than core inflation, and when food inflation rises, headline goes above inflation. When you look at inflation dynamics, core gives you the more stable portion."

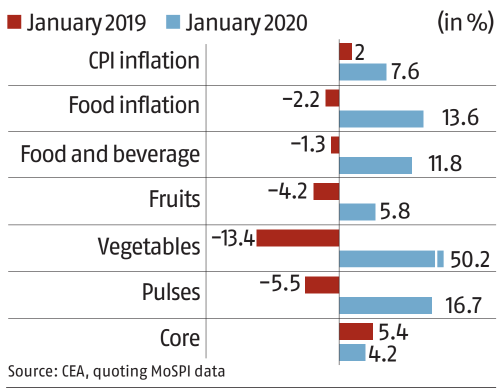
Subramanian said the Reserve Bank of India's revised inflation assessments were realistic. According to its latest Monetary Policy statement, the central bank sees CPI inflation at 6.5 per cent for January-March 2020, and 5.4-5 per cent for April-September.

The RBI predicted that food inflation was likely to soften from the highs seen in December with the arrival of new harvest and higher vegetable production, and that crude oil prices may remain volatile. Subramanian said that there was a greater downside risk to the latter.

Subramanian said that India's economy may not be severely affected by the coronavirus epidemic.

CEA Krishnamurthy Subramanian says the RBI's revised inflation assessments are realistic

CEA'S ASSESSMENT ON BASE EFFECT



Source: CEA, quoting MoSPI data

Vodafone Idea logs loss of ₹6,439 cr

Posts sixth straight quarterly loss in Q3

RAM PRASAD SAHU
Mumbai, 13 February

Vodafone Idea reported a consolidated loss of ₹6,439 crore for the December quarter as compared with a ₹5,005-crore loss in the same period in 2018-19.

This is higher than analyst estimates, which had pegged the loss at ₹4,000 crore, after being in the red by a record ₹50,922 crore in the September quarter. Exceptional items in the quarter were valued at ₹633 crore, largely on account of integration and merger-related costs.

While a large part of the liabilities on account of aggregate gross revenues (AGRs) was in the September quarter (just over ₹30,000 crore), the company made a ₹53-crore balance provision for those in the December quarter. The company posted revenues of ₹11,089 crore, down 6 per cent over the year-ago quarter, and this was in line with analyst estimates.

Though the churn, which was at 5 per cent a year ago, has come down to 3.3 per cent in this quarter, its subscriber base saw a decline of 21 per cent YoY to 304 million. Bharti Airtel's subscriber base was flat at 283 million while Jio reported a 32 per cent increase in subscribers to 370 million.

On a sequential basis, the company posted a growth rate of 2.3 per cent. While the price hike has not so far been reflected in the performance, the gains on a sequential basis were led by 4G additions and improvement in average revenue per user (ARPU).

While 4G addition growth was 9.4 per cent, ARPU growth was 1.8 per cent. On a YoY basis, ARPUs were up 22 per cent.

Led by revenue growth and synergy gains from the merger, operating profit on sequential gains was up 0.7 per cent to ₹3,421 crore.

Higher interconnect costs, however, limited the gains. The company indicated it had achieved 85 per cent of its targeted operating expense synergy of ₹8,400 crore and is on track to achieve the synergy gains by the first quarter of FY21.

Net debt went up a bit to ₹1.033 trillion, against ₹1.019 trillion in the September quarter.

On the AGR issue, the company's managing director and chief executive officer, Ravinder Takkar, said the company was engaged with the government, seeking relief on AGRs as well as other matters. The company has filed for modifying the supplementary order with the Supreme Court after its earlier petition was dismissed.

On the operational front, Takkar indicated after several quarters of pressure on the top line, Vodafone Idea witnessed a revenue turnaround from September. The tariff increase in December is expected to reflect in revenue performance in the coming quarters.

SIGNALLING FINANCIAL STRESS

(Figures in ₹crore)

	Q3FY19	Q3FY20	YoY chg (%)
Gross revenue	11,765	11,089	**-5.7**
Ebitda	1,163	3,421	**194.1**
Interest	2,633	3,431	**30.3**
PBT	-7,004	-6,421	**Loss**
PAT	-5,005	-6,439	**Loss**
Net worth	64,534	17,623	**-72.7**

Source: Company release   Compiled by *BS* Research

Nestlé India pre-tax profit up 18% in Dec quarter

ARNAB DUTTA
New Delhi, 13 February

Food and beverages major Nestlé India on Thursday reported an 18 per cent jump (YoY) in its profit before tax (PBT) for the October-December quarter.

The company's PBT rose to ₹614.6 crore from ₹522 crore. Its net sales stood at ₹3,131 crore — 8.8 per cent higher than ₹2,879 crore in the corresponding quarter previous year.

Nestlé, which follows a January-December financial year, also declared its yearly income for 2019. Its PBT for the year rose 10 per cent YoY to ₹2,675 crore — up from ₹2,429 crore. While its net sales grew 9.6 per cent to ₹12,295 crore.

The company's domestic sales, which forms 95 per cent of its net sales, grew 11 per cent. However, lower export of products like instant coffee impacted its top line growth rate.

Suresh Narayanan, chairman and managing director, Nestlé India, said, "We have delivered broad-based volume and mix-led growth. This is a trend that we have demonstrated consistently in the recent years. Maggi Noodles, KitKat, Nestlé Munch, Ceregrow, Maggi Masala-ae-Magic, Nescafé and Nangrow delivered strong performances during the year."

SALES CROSS 12,000-MARK IN 2019

(₹ crore)	CY2018	CY2019	% Change
Net sales	11,216	12,295	**9.6**
Profit before tax	2,429	2,675	**10**

Source: BSE

Automation may kill 9% jobs in India: IMF official

ABHISHEK WAGHMARE
New Delhi, 13 February

Automation can lead to 9 per cent of workers becoming unemployed in India, said David Lipton, deputy first managing director at the International Monetary Fund (IMF).

Delivering the CD Deshmukh memorial lecture on Thursday, Lipton said economic expansion in India would help these people as the economy was growing at 6-7 per cent a year if one disregarded the current slowdown. Besides, Indian businesses are more agile compared to their counterparts elsewhere, he said at the event, organised by the National Council of Applied Economic Research (NCAER).

Globally, he said, 14 per cent of workforce or 375 million workers could lose jobs to automation. Lipton warned that business model of low wage and labour intensive industries was under threat.

As India proposed import duty on a number of products in the Budget, Lipton said rising tariffs were having a drag on competition in India that hampered strong integration of the economy with global value chains.

He said competition might hurt in the shorter term, but it would make companies more able to grow organically over time. Tariffs have been on a rise in India for the past few years.

Citing benefits of competition, he said if India decided to play cricket only domestically, it would not be as great a cricket team as it was now. Though the cricket team struggled in initial years, competition made it stronger over years, he emphasised.

He said India should look at comparative advantages. According to him, tariffs on intermediate goods constrain the boom of manufacturing sector that creates jobs in India.

India is poised to be the engine of secular dynamism in a world that is witnessing secular stagnation (in the form of low interest rates and disinflation), he said, using terminology coined by former US treasury secretary Larry Summers. Though secular stagnation is restricted to advanced economies, its spillover globally cannot be ruled out, he said. Markets are lending to governments globally at negative interest rates, he said.

"For example, German pension funds can certainly serve better off investing in India steadily growing at 10 per cent. Currently, despite standing with a huge current account surplus, German savings end up getting invested in US treasuries, that give a return of 1.7 per cent," Lipton said. He said the global growth was down due to trade tensions between the US and China but its impact had been limited on India compared to other Asian exporters.

Referring to coronavirus, he said: "We have just begun witnessing how a pandemic is having an impact on global value chains." India could play a truly unique role to invigorating global growth, as it has a huge untapped demand. Addressing weak domestic demand and restoring balance sheets of lenders and borrowers can help it come out of the slowdown, Lipton said.

For investments to come back, legal and regulatory hurdles should be minimum, he added. Other issues confronted by the economy are falling rural consumption, slowing exports growth and rise in unemployment, he said.

According to IMF Deputy MD David Lipton, tariffs on intermediate goods constrain the boom of manufacturing sector that creates jobs in India

No Customs duty on imported solar cells and modules

Ministry clears the air after Budget proposed 20% BCD on equipment

SHREYA JAI
New Delhi, 13 February

The ministry of new and renewable energy has clarified that basic Customs duty (BCD) on imported solar cells and modules would remain nil in the current fiscal year.

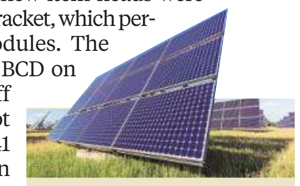
In the Union Budget, two new item heads were inducted in the Customs duty bracket, which pertained to solar cells and modules. The Budget proposed 20 per cent BCD on solar equipment. "Create tariff items 8541 40 11 (solar cells, not assembled) and tariff item 8541 40 12 (solar cells assembled in modules or made up into panels). The tariff rate for these items is 20 per cent. However, these items will continue at nil BCD," said the Budget speech.

The announcement led to confusion with the industry claiming that solar equipment is exempted from BCD. Solar cells and modules (under item number 8541) are exempted from any BCD, according to a 2005 notification of the department of revenue. The ministry, in its notice issued on Thursday, said solar would not attract any BCD. "Though the tariff rate on the new tariff items has been increased from nil to 20 per cent, the BCD on (solar cells, not assembled) and (solar cells, assembled in modules or made into panels) remains nil," said the notice.

There is already safeguard duty of 15 per cent levied on the imported solar cells and modules, especially those coming from China. Senior officials said whether BCD would be imposed or not from next fiscal year would be decided after the safeguard duty expires in July.

In 2018, India announced imposition of safeguards duty on solar cells and modules for two years — 25 per cent in the first year, 20 per cent for six months thereafter, and 15 per cent after that. The duty specifically impacted exports from China, as more than 85 per cent of India's solar capacity is built on Chinese panels.

The domestic solar manufacturing industry in a petition has asked the Centre to consider extending the duty beyond two years. In a separate request, the ministry asked the finance ministry to impose Custom duty on imported solar cells and modules, in a graded manner from 2021.



INDIA'S SOLAR STRENGTH

31,397 Mw: India's solar power generation capacity

3,164 Mw/annually: Solar cells manufacturing capacity

8,000 Mw/annually: Solar module manufacturing capacity

$1.4 million: Solar cells import to India (FY20 till yet) by value

15th FC to form panel on fiscal situation of Centre, states

ARUP ROYCHOUDHURY
New Delhi, 13 February

The Fifteenth Finance Commission will soon form a panel to examine the fiscal situation and the debt road map for the Centre and states, similar to the erstwhile Fiscal Responsibility and Budget Management (FRBM) committee, the Commission's Chairman N K Singh said on Thursday. Singh said the idea wasn't to recommend a new law but to examine to what extent do the Centre and states adhere to the FRBM Acts at their level, and what more they need to do.

"We have decided to constitute a fiscal committee, which will address one particular recommendation contained in our terms of reference regarding a legal framework for the fiscal architecture," Singh said. Business Standard was the first to report earlier this month that such a committee would be formed.

The term of reference, which Singh was referring, to says: "The Commission shall review the current status of the finance, deficit, debt levels, cash balances, and fiscal discipline efforts of the Union and states, and recommend a fiscal consolidation roadmap for sound fiscal management, taking into account the responsibility of the central government and state governments to adhere to appropriate levels of general and consolidated government debt and deficit levels, while fostering higher inclusive growth in the country, guided by the principles of equity, efficiency and transparency."

"We do not need a new legal framework because the existing FRBM Act is quite a robust legal framework, except for the fact that some states need to align their own FRBM Acts with the central law," Singh said.

This statement comes just days after the Commission's first report for 2020-21 was made public. The report had recommended that the country needs an overarching legal fiscal framework that would mirror the revised FRBM Act, define the roles and responsibilities of key stakeholders, as well as the budgeting, accounting, internal control and audit standards to be followed at all levels of government.

"I have been thinking about whether such a legal framework would be useful or practical. But certainly, we need to have a fiscal roadmap, which covers the Centre and states, both on the fiscal deficit and debt on off-budget borrowing of contingent liabilities," Singh said.

The Finance Commission is expected to submit its second report for 2021-22 to 2025-26 in October. Singh said that because of the paucity of time, he may not be able to seek inputs from members of the erstwhile FRBM Committee, including former Chief Economic Advisor Arvind Subramanian and former Reserve Bank of India (RBI) Governor Urjit Patel.

"We would like to have representatives from the finance ministry, the RBI, the Comptroller and Auditor General, and states, as well as subject experts in the committee," he said.

Singh was speaking to reporters after the meeting of the 15th FC and its Advisory Council. Apart from the members of the Commission, the meeting was attended by several prominent economists, such as Chief Economic Advisor Krishnamurthy Subramanian and bureaucrats like Economic Affairs Secretary Atanu Chakraborty, and Expenditure Secretary TV Somanathan.

"WE HAVE DECIDED TO CONSTITUTE A FISCAL COMMITTEE, WHICH WILL ADDRESS ONE PARTICULAR RECOMMENDATION CONTAINED IN OUR TERMS OF REFERENCE REGARDING A LEGAL FRAMEWORK FOR THE FISCAL ARCHITECTURE"

N K SINGH
Chairman, 15th Finance Commission

PANEL FORMED TO DISCUSS SECURITY FUNDING MECHANISM

The Fifteenth Finance Commission on Thursday said it had formed a panel to examine whether a separate mechanism for funding of defence and internal security ought to be set up; and if so, how such a mechanism could be operationalised. This is something the 15th FC had said it will do in its first report. The panel will be headed by Chairman N K Singh, and will include Commission member Ajay Narayan Jha, Home Secretary Ajay Bhalla, Defence Secretary Ajay Kumar, and Expenditure Secretary TV Somanathan.

Brands look for love in the age of social media

For Valentine's Day, brands spiced up the message of love with social causes and share-able videos

(From left) **Salman Khan says 'go single' in a song for Pepsi India, Uber celebrates gay pride in an Instagram post while MG Motor equates love with keeping the seat belt on, in a car ride**

T E NARASIMHAN
Chennai, 13 February

Salman Khan is asking people to go single this Valentine's Day. Go 'Swag Se Solo', he says, swinging to the Pepsi brand tune. Tata Motors says love is staying safe in relationships and on car rides. For Mother Dairy, Uber, Fastrack and a host of other brands, love transcends gender and age.

From fizzy drinks to cars, jewellery and fragrance brands, love on the occasion of Valentine's Day 2019, is being pitched as a many-splendoured and multi coloured emotion, wrapped up in a larger social cause. Eager to find easy traction on social media, the ads are turning popular wisdom on its head and pushingthe boundaries on social norms.

Salman Khan's anthem for staying single may appear to be contra-intuitive for a day meant to celebrate couples, but PepsiCo India says the campaign is based on customer insight. Gen Z prefers to be self-partnered and at least 7 out 10 Indian men, in the age group of 15-30 years, said they would rather stay single in a survey. Tarun Bhagat, director-marketing, Hydration and Cola, PepsiCo India, said that when it comes to Valentine's day, even today, many brands are focused on celebrating couples and the dating culture. But *Swag Se Solo*, encourages the young to unapologetically embrace their relationship status.

Not only is the popular understanding of love being challenged, many brands are also looking at the day as one of the biggest moments to push the brand forward, after the year-end festival season. Hence, the occasion is being stretched beyond the traditional dating-day framework, say marketers.

For instance, Raymond's ad for ColorPlus talks about love via hand-written notes. "The film focusses authentically on love, beyond gifting roses or chocolates, which bring people momentarily closer. Our film shows how a man is expressing love for his wife through her hand written letters," said Sheetal Seth, head of marketing and digital, ColorPlus.

> **"The primary difference in campaign delivery now, versus a few years earlier, is that consumers are looking for relatable stories that they can share amongst their peer group"**
>
> TARUN BHAGAT
> Director–Marketing, Hydration and Cola, PepsiCo India

Maruti Suzuki has made the occasion all about one's car, not a new car but just loving one's old ride by showcasing its vast network of service centres.

Titan has launched a series of films around platonic love and friendship for its fragrance brand Skinn. Ankit Kasliwal, head-marketing, fragrances, Titan Company, said the film is not limiting love to certain boxes and boundaries.

Several brands are wrapping the message of love around gender parity, diversity and respect for all. Several experts noted that social media is an integral part of the marketing mix for all brands today and hence ads, posts and special announcements are all crafted with an eye on shares and likes.

Humour plays a big part too, in the ads and tweets and Instagram posts. MG Motor, Kellogs and others are using love as a metaphor for safe driving or a selfie-moment. For brands such as Zivame (lingerie), Durex (condoms), the occasion offers a chance to push through some tongue-in-cheek humour to further the message of love and the brand.

Bhagat explained, "The primary difference in campaign delivery now, versus a few years earlier, is that consumers are looking for relatable stories that they can share amongst their peer group. Hence, most brands are taking the content marketing route for the occasion rather than pure play advertising."

Even jewellery brands are moving away from the traditional gifting stories, of a man bringing home diamonds and gold for his wife. The ad for Kalyan Jewellers celebrates love between a young woman and her parents-in-law.

Ramesh Kalyanaraman, executive director, Kalyan Jewellers said that his company's Valentine's Day campaigns have steadily moved from traditional mediums of communication like print to more digital channels, where there are multiple avenues and mediums to influence the consumers. For brands, Valentine's day is as much about love as it is about finding sticky and emotional connections, which in the age of social media, means raising a few laughs and generating a few moist eyes in the house.

FROM PAGE 1

Indian firms...

The US 10-year treasury notes are at 1.62 per cent now, from nearly 3.25 per cent in November 2018. Since April 2019, US bond yields have fallen steadily, dropping as much as 1.47 per cent in September 2019. No wonder then, Indian companies have found fundraising much cheaper from overseas.

In February, India Infoline Finance raised $400 million in three-year bonds at 5.87 per cent, Network i2i raised $250 million at 5.65 per cent, Adani Electricity Mumbai raised $1 billion through 10-year bonds at 3.95 per cent, and IRFC created a new benchmark through issuance of a 30-year dollar bond at 3.95 per cent. It also raised money through 10-year bond at 3.25 per cent.

IRFC 10-year bond, used to raise $700 million, was oversubscribed eight times and the 30-year bond was oversubscribed seven times for an amount of $300 million. "We were surprised by the response," said IRFC MD Amitabh Banerjee.

"It is a right time to borrow in dollar as the lending rates are incredibly low in overseas markets," said a spokesperson for Airtel, even as he did not want to link the cheap rates with the virus scare. The funds being raised are not hedged fully in most of the cases. For example, IRFC selectively hedges its foreign exchange exposure, saving ₹600-650 crore in the process. i2i largely earns its revenues in US dollars that gives it a natural hedge when it borrows in dollar denominated debt, the Airtel spokesperson said. Adani's private placement was also the first time in more than a decade an Indian company had managed to raise funds from the US private placement market.

Dev Chatterjee contributed to this story

Murthy's...

Following this he studied at Stanford in the US. Experience at the three institutions, he recorded, "changed my life". At Stanford, he met a fellow student called Akshata, who later became his wife. Akshata is the daughter of Narayana Murthy, one of the promotors of Infosys. While much of the British media didn't have a clue about this or didn't care, their Indian counterpart immediately recognised Sunak, when he was first elected MP, as Murthy's son-in-law.

His career as a businessman, though, began even before he completed his higher education — at his mother's chemist shop.

He proceeded to co-found a large investment firm, working with companies from Silicon Valley to Bengaluru. A year and a half ago Theresa May, then PM, appointed Sunak minister of state for local government. Johnson, a fellow Oxonian, elevated him to chief secretary to the Treasury, who ranks between minister of state and secretary of state and attends cabinet meetings.

A cabinet reshuffle was predicted after Britain quit its membership of the European Union on January 31. British journalist Steve Richards, a co-commentator on the *BBC*'s Dateline, made a stunning claim on the programme a couple of weeks ago, when he described the then chancellor, Sajid Javid, as the weakest ever and asserted 10 Downing Street or the Prime Minister's Office was writing next month's Budget proposals rather than he or his office. Richards was remarkably accurate.

Javid, son of a bus driver of Pakistani origin and himself a former banker, resigned on Thursday after he was, reportedly, asked to sack his political advisers by No 10. *The Guardian* quoted "a source close to Javid" as saying: "The chancellor said no self-respecting minister would accept those terms." He has in recent months often clashed with Johnson's senior adviser Dominic Cummings, who enjoys the PM's confidence.

In August, Cummings fired Javid's press secretary, Sonia Khan, without consulting him after alleging she was responsible for leaks, which she denied.

That Sunak was rapidly moving up the ladder and had been incorporated into Johnson's inner circle was evident for a while. He impressed at the Treasury and there was a greater meeting of minds between him and the PM, who even put him up for TV interviews. His reputation among Conservative colleagues is one of "a guy who knows his stuff", but is lacklustre with the media. Sunak's interests include cricket and football. More importantly, he has the onerous responsibility of presenting a Budget in less than a month.

Alok Sharma, also of Indian origin, has been promoted from international development secretary to business secretary (which is equivalent to minister for commerce and industry). He will also be the minister in charge of the Cop26 climate summit in Glasgow in November. It was speculated Priti Patel, who is of East African Indian descent and is home secretary, may suffer from Johnson's cull. But with her retaining her position, three persons of Indian extraction are key Cabinet ministers in the British government.

I-T dept...

The Budget session would re-convene next month. Sources said assessment wise details of PSU firms had been prepared including their assessment year, status of appeal, disputed demand, amount collected and pending along with the refund, if any. SBI, LIC and ONGC are among the major PSUs with pending direct tax disputes estimated at ₹30,000-40,000 crore, said an official dealing with the matter. The tax department will approach them to settle their tax matters under the new legislation, he added.

The meeting on Thursday also decided to start an intensive outreach programme for the industry and eligible taxpayers so that they respond to the scheme.

Meanwhile, senior officials are in the process of collating information linked to eligible taxpayers. "Since we sought details from various judicial forums including dispute resolution tribunals, the interested entity/persons should go through the nuances of the scheme to check whether their tax cases are eligible to come under the scheme," said an official privy to the plan.

Indian cinema...

So whether it is non-Hindi films dubbed in Hindi or Hindi dubbed in other Indian languages or English dubbed in Indian languages, the whole multilingual film is bringing more ticket sales and, therefore, top line to the box office. That is a ringing endorsement of what diversity means in business. Incidentally most large broadcasters in India get 25-40 per cent of their top line and a good chunk of their audience share from non-Hindi channels.

Lastly, what is working is 'content'. According to the report, the first weekend (Day 1-3) contributed 39 per cent to the total box office in 2019, about 1 per cent lower than the previous year. Hindi cinema's dependence on the first weekend has reduced to a decade-low of 37 per cent because of stronger content leading to higher sustenance. "Earlier when *Kahaani* or *Queen* did ₹100 crore, it was a big deal since there were no stars. In 2019, *Chicchore* (without a big star) did (net) business of ₹140 crore, same as *Dabangg3*. Now there is no upper limit for a non-star film. That is a progressive thing," says Kapoor.

While star-led films naturally get a better opening, their staying power depends on the story. So *Chicchore*, which opened at ₹6 crore against *Dabangg3*'s ₹32 crore, picked up. Think of *Badhaai Ho*, *Bharat Ane Nenu*, and *Raazi*, some of the biggest hits in recent years have simply been good stories.

There couldn't have been a more robust endorsement of all the changes the ₹17,500-crore Indian film industry has seen in the last decade — tech, distribution, hyper-competition, growth in multiplexes. It has adapted well and come out stronger — not just within India but also as a supplier of content to global brands. This buoyancy in the domestic market then is simply another feather in its cap.

BS SUDOKU # 2973

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SOLUTION TO #2972

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Medium:
★★★

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

Confident of recovery, S&P keeps India's grade at BBB-

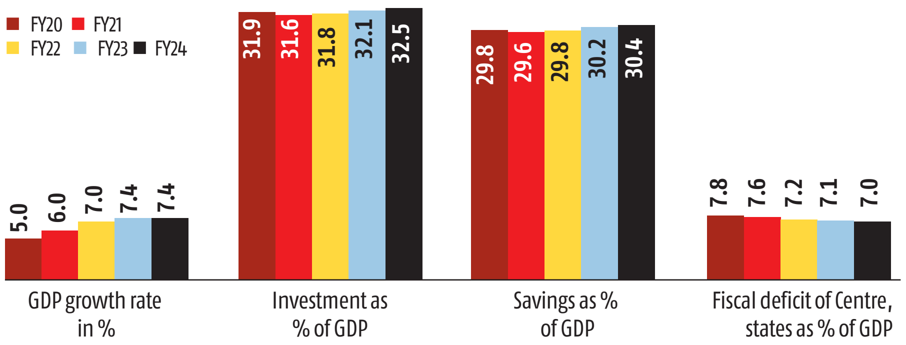
Says fiscal position weak, but sees strong growth prospects over 2–3 years

GROWTH FORECAST

	Rating on India	Outlook on India's rating
S&P	Lowest investment	Stable
Fitch	Lowest investment	Stable
Moody's	A notch above lowest investment	Negative

Source: Respective agencies

S&P'S ASSESSMENT OF INDIAN ECONOMY



INDIVJAL DHASMANA
New Delhi, 13 February

Standard & Poor's (S&P) on Thursday retained India's ratings at the lowest investment grade of BBB- with stable outlook as the economy's fiscal position remains weak, which hampers consolidation over the next few years.

In a statement, S&P said tight credit conditions remained in the financial sector that would hamper growth in private consumption over the coming quarters.

However, factors affecting economic expansion are cyclical and the economy retained its structural growth performance, it said. As such, it believes the economy to gradually recover to its long-term trend over two to three years.

The stable outlook on India's ratings reflects agency's view that the economic growth will stabilise and begin to recover from its current low ebb and fiscal deficits will remain elevated but broadly in line with forecasts over the next two years.

Ratings could be upgraded if the government significantly curtails its fiscal deficits, resulting in lower net indebtedness at the general government level. It could also be due to any substantial strengthening of India' external accounts.

Ratings could be downgraded if India's GDP growth falls well below the agency's forecasts, net general government deficits rise further from their currently elevated levels, or political developments materially undermine economic reform momentum.

S&P said the ratings reflected the country's above-average GDP growth, sound external profile, and evolving monetary settings. Also, India's strong democratic institutions promote policy stability.

These strengths are balanced against vulnerabilities stemming from the low per capita income and consistently elevated fiscal deficits that contribute to high general government debt, net of liquid assets.

It expects the growth rate to improve to 6 per cent during FY21, from expected 5 per cent in the current fiscal year and 7 per cent in the next fiscal year and 7.4 per cent thereafter. "We expect India's economy to continue to outperform peers at a similar level of income, despite a recent slowdown in real GDP growth," it said.

The agency noted that tighter lending conditions continue across the financial system, particularly in the public sector. This, it said, is reflected in a gradual decline in credit growth.

In combination with ongoing liquidity concerns in the non-banking financial institution (NBFI) sector following the September 2018 default by Infrastructure Leasing and Financial Services (IL&FS) and subsequent relatively less impactful defaults, domestic credit conditions have been somewhat mixed, it said.

"Weaker sentiment in the NBFI space may limit private consumption growth over the coming quarters,"it said.

The government's August 2019 announcement that it would consolidate major public sector banks may also constrain credit growth over the next 12-24 months, it said. "Nevertheless, we believe India is experiencing a cyclical, rather than a structural, economic slowdown. The economy's long-term outperformance highlights its resilience. "India's wide range of structural trends, including healthy demographics and competitive unit labour costs, works in its favour. A more favourable corporate tax regime, which is particularly supportive of manufacturing firms, should reinforce growth, alongside additional fiscal and monetary easing," it said.

Not right if e-tailer makes ₹6K-cr loss on turnover of ₹5K cr: Goyal

PRESS TRUST OF INDIA
New Delhi, 13 February

Commerce and Industry Minister Piyush Goyal on Thursday asked e-commerce players to strictly adhere to foreign direct investment (FDI) norms, saying it "certainly does not look and feel and smell right" when a company makes a loss of ₹6,000 crore on a turnover of ₹5,000 crore.

Goyal, who had earlier remarked that e-commerce giant Amazon was not doing any favour to India by announcing $1-billion investment in the country as they are financing their losses, also reiterated that neither the Competition Commission of India (CCI) nor his ministry would have to probe on fair trade practices if e-commerce players "can stick within the letter and spirit of the law".

The minister said India would welcome e-commerce companies to work within the framework and the laws of the land. He was replying to a question about his earlier statement on Amazon and whether the company is breaking domestic laws of the sector.

"I had before me the CCI's preliminary findings. Our own office is also making queries on the various practices and I do hope and believe that if everybody can stick within the letter and spirit of the law, we won't have to go down the path of finding whether anybody is breaking the law or not but whoever makes losses will have to bring in FDI to pay for those losses," he said.

He appealed to all stakeholders in the industry to work within the letter and the spirit of the law and said: "I am sure it would look good for everybody."

Bangladesh per capita GDP higher than eastern India: IMF

Its per capita GDP was $1,905 in 2019, against $1,566 in West Bengal and $1,185 in Assam

HOW THEY STACK UP

(in $)

State/country	Per capita GDP
Assam	1,185.8
Bihar	626.9
Jharkhand	1,087.5
Meghalaya	1,276.2
Tripura	1,729.7
West Bengal	1,566.4
Mizoram	2,242.4
All-India	2,177.0
Bangladesh	1,905.7

Note: Per capita GDP at current prices in US dollar in FY19; data for Indian states based on net domestic product, growth in FY18 projected in the FY for states with data gap
Sources: International Monetary Fund, Reserve Bank of India

KRISHNA KANT
Mumbai, 13 February

Bangladesh's per capita gross domestic product (GDP) is now higher than most Indian states in eastern and north-eastern regions, with the exception of small hill states such as Mizoram and Sikkim.

According to the data from the International Monetary Fund (IMF), Bangladesh's per capita GDP was $1,905 in 2019, against West Bengal's $1,566 in 2018-19 (FY19) — economically the most developed state in eastern India.

Bangladesh's lead over other states in eastern India is even bigger. For example, Bangladesh's per capita GDP is now nearly 50 per cent higher than Assam's, nearly three times Bihar's, and twice of Jharkhand's.

Assam's per capita GDP was estimated to be $1,185 in FY19, while Bihar is the poorest — its per capita GDP was $627 during the year ended March 2019 (see chart).

Bangladesh is surrounded on three sides by the Indian territory; it shares its border with four Indian states — Tripura, Assam, Meghalaya, and West Bengal.

The figure for Indian states has been sourced from the Reserve Bank of India and the average dollar-rupee exchange rate for FY19 has been used to get numbers in dollars. The exchange rate was ₹69.9 to a dollar in FY19.

The IMF pegged India's per capita GDP at $2,177 in 2019 — 14 per cent higher than its eastern neighbour. Income growth in India (in dollar terms) is, however, on the lower side, raising the possibility of Bangladesh outgrowing its bigger neighbour in the next few years.

In the past five years, per capita GDP at current prices in India has grown at 6.2 per cent in dollar terms. At this rate of growth differential, Bangladesh may soon overtake India in terms of per capita GDP by 2023.

Bangladesh's economic success is attributed to its textile and garment sector

The numbers also suggest Bangladesh's national GDP will soon surpass the combined economic might of India's 10 eastern states, including West Bengal, Bihar, Jharkhand, and Assam.

In 2017-18, the combined GDP of 10 eastern states was worth $290 billion, against Bangladesh's GDP of $288 billion in 2018, according to the IMF's latest World Economic Outlook.

In the past five years, Bangladesh's per capita GDP grew at a compound annual growth rate (CAGR) of 10.4 per cent.

In the same period, West Bengal's per capita GDP expanded at an annualised rate of 7.5 per cent, while it was 7.6 per cent in Assam, 7.1 per cent in Bihar, and 5.6 per cent in Jharkhand.

Tripura, which is surrounded on three sides by Bangladesh, however, grew a much faster clip.

In the past five years, Tripura's per capita GDP has grown at a CAGR of 11.2 per cent, allowing the state to close the income gap with its neighbour.

Bangladesh's economic success is attributed to its textile and garment sector. "The rapid expansion of the ready-made garment sector helped the economy transform into a more manufacturing-based one and large inflows of remittances helped strengthen its external position and supported private consumption," said the IMF in its recent consultation paper on the country.

Bangladesh is now the largest apparel exporter after China, with total apparel exports worth around $33 billion during 2018, according to the data from the World Trade Organization.

This was more than twice India's apparel exports worth $16 billion that year.

It is expected to continue its growth momentum in the near- to mid-term, allowing it to further increase its lead over eastern India.

The Asian Development Bank (ADB) expects Bangladesh to be the fastest-growing economy in Asia in 2019 and 2020, with GDP growth rate of 8 per cent at constant prices.

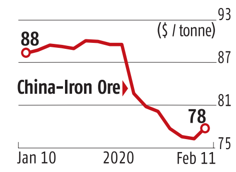
In contrast, ADB pegs the Indian economy to grow by 6.5 per cent in 2020.

Business Standard
MUMBAI | FRIDAY, 14 FEBRUARY 2020

The Smart Investor

WWW.SMARTINVESTOR.IN FOR INFORMED DECISION MAKING

QUICK TAKE: IRON ORE MAY REBOUND ON OUTPUT CUT



Iron ore prices have dropped 11 per cent in one month on weak demand from Chinese steel mills, which have cut output because of the spread of coronavirus. Vale's lower production guidance for the January–March quarter, however, helped prices see some rebound, a trend analysts believe will continue

"Page Industries' Ebitda collapses. Marketing spend taking a toll. Is this the beginning of the end for high PE stocks?"

BALAJI VAIDYANATH,
CEO, Crest Wealth Management

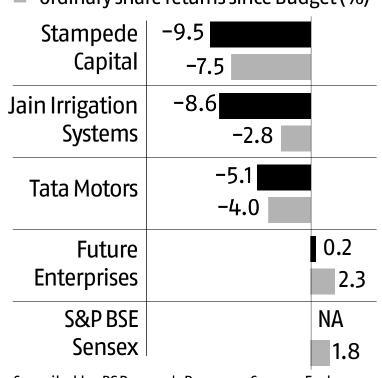
DVR stocks feel Budget blues

Have underperformed ordinary shares and the benchmark

SACHIN P MAMPATTA
Mumbai, 13 February

ILLUSTRATION: BINAY SINHA

RETURNS GAME: POOR SCORE



Compiled by *BS* Research Bureau Source: Exchanges

Shares with differential voting rights (DVRs) have underperformed the broader market after the Budget on February 1.

The median loss for such securities after the Budget is 6.8 per cent, compared to a 1.8 per cent gain in the benchmark S&P BSE Sensex.

Companies with DVRs include Tata Motors, Future Enterprises, Jain Irrigation Systems, and Stampede Capital. DVRs have also underperformed the ordinary shares of the companies, which are down 3.4 per cent on a median basis. Among key examples, the Jain Irrigation stock was down 2.8 per cent compared with an 8.6 per cent DVR decline. The Tata Motors DVR is down 5.1 per cent compared with a 4 per cent decline in the ordinary share.

Future Enterprises' ordinary shares also outperformed the DVR. Ordinary shares rose 2.3 per cent compared to a 0.2 rise for its DVRs. Stampede Capital ordinary shares are down 7.5 per cent while the DVR is down 9.5 per cent.

DVRs typically come with lower voting rights than regular shares do. But such securities also offer higher dividends to investors. The Budget has suggested that dividends will be taxed in the hands of investors.

Earlier a flat rate of 20.56 per cent, including cess and surcharge, applied. Companies deducted this dividend distribution tax before paying investors. Investors will now have to pay it at their marginal tax rate. This could be as high as 42.7 per cent for the highest tax bracket. The move comes even after a recent recognition that DVRs can help meet capital needs of many kinds of firms, especially technology companies.

"This is especially relevant for new technology firms which have asset light models, with little or no need for debt financing. These firms, however, continuously require grow only through equity, which dilutes promoter's/founder's stake, thereby diluting control. It is pertinent to note that in such cases, retaining founder's interest & control in the business is of great value to all shareholders," said a March 2019 consultation paper on DVRs and their applicability in the Indian context.

The Securities and Exchange Board of India approved norms for the issue of DVRs in June.

S Krishnakumar, chief investment officer (equity) at Sundaram Asset Management Company, suggested that taxation might not be the key determinant of how these instruments fare. He said the current phase was a transitory one as people got used to lower post-tax returns. "Companies will have to go in for a little higher dividend so that offsets the taxes (to ensure) the yields are better ..." he said.

Pankaj Pandey, head of research at brokerage firm ICICI Direct, suggested that company-specific issues could dictate expectations of dividends from firms with DVRs. The instrument may underperform if investors believe that fewer dividends will be forthcoming. He added the taxation aspect could also have a bearing for high networth individuals (HNIs) who own such securities.

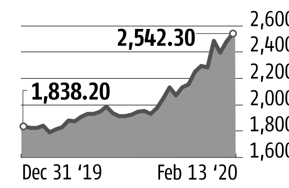
"It is a bit negative for HNIs and promoters with a direct holding," he said.

Promoters of DMart to offload 2.3% stake

Target mop-up of ₹3,000 crore from share sale

SAMIE MODAK
Mumbai, 13 February

TRENDING HIGH



Compiled by BS Research Bureau
Source: Exchange

Promoters of Avenue Supermarts will offload 2.28 per cent stake (14.8 million shares) through the offer for sale (OFS) route on Friday. The base price for the share sale has been set at ₹2,049, a discount of 19.4 per cent to the current market price.

Shares of Avenue Supermarts last closed at ₹2,542.3, up 2.5 per cent, on the BSE. At the base price, the promoters of the company will be able to mop up over ₹3,000 crore. Among the selling promoters are Radhakishan Damani, Gopikishan Damani, Shrikantadevi Damani, and Kirandevi Damani.

Following the share sale, Avenue Supermarts, which operates the DMart retail chain, will become compliant with the 25 per cent public shareholding norms. The deadline to increase the public float to 25 per cent for the company expires next month.

Until recently, the promoter stake in the company was nearly 80 per cent. The stake got diluted to 77.27 per cent after the company issued fresh shares to raise ₹4,000 crore via the qualified institutional placement (QIP) route.

The QIP saw participation of several marquee investors, including the Government of Singapore, Europacific Growth Fund, Lone Pine Capital, and ICICI Prudential Mutual Fund.

Market players say the OFS could see strong demand given the attractive discount to the current market price. About 10 per cent shares of the OFS will be reserved for retail investors, which will be auctioned on Monday.

The QIP, and now the OFS, are underpinned by a sharp rally in shares of Avenue Supermarts this year. So far in 2020, the stock has rallied 38 per cent, even as the Sensex has remained flat during this period. Currently, Avenue Supermarts commands a market cap of ₹1.65 trillion.

Following the steep run-up, shares of Avenue Supermarts trade at rich valuations, at 90x its estimated earnings for the next financial year, and 70x estimated earnings for the year after that. Avenue Supermarts is now among India's top 20 most valuable firms, and its promoter RK Damani is among the top 10 richest Indians.

Benchmarking may lead to more AIF categories

ASHLEY COUTINHO
Mumbai, 13 February

AIFs: ASSETS MANAGED

Category	Commitments raised	Funds raised	Investments made
I	38,825	17,574	13,904
II	260,824	112,689	92,433
III	48,151	41,449	35,778
Total	**347,802**	**171,713**	**14,2115**

Net figures at the end of December 2019, Figures in ₹cr
Source: Sebi

The Securities and Exchange Board of India's (Sebi's) diktat for benchmarking the performance of alternative investment funds (AIFs) may necessitate the creation of sub-categories.

Sebi has classified AIFs into three categories, with four sub-categories for 'Category I AIFs' that include venture capital funds (including angel funds), SME funds, social venture funds, and infrastructure funds. There are no sub-categories for category-II and category-III AIFs.

"For data to be dissected meaningfully, sub-categorisation is required," said a senior industry executive.

All category-III schemes, for instance, are not comparable and cannot be put under one basket as they include debt, equity, and hybrid schemes with long-only or long-short strategies. Equity schemes, in turn, could be large- or mid- or small-cap oriented. In 2017, Sebi had categorised MF schemes, defining 10 categories for equity funds, 16 for debt funds, and six for hybrid funds. The sub-categorisation of AIFs could be far more complex. Separate categories for realty, commodity funds, sector funds, mezzanine funds, and special situation funds may have to be created, said experts. Subramaniam Krishnan, partner at EY India, said performance benchmarking will enhance transparency and aid in comparison across similar strategy schemes.

"The key will be effective stratification of AIFs into relevant and well-defined categories, such as special situations funds, mezzanine funds, real estate funds and sector funds, so that the performance of a particular fund and the benchmark are truly comparable," he said.

AIFs employing diverse/complex trading strategies and using leverage — including via investment in listed or unlisted derivatives — are category-III and include hedge funds and PIPE funds. Those not using leverage and not falling under categories I and III are classified as category-II, and may include realty funds, PE funds, and stressed asset funds. "Performance benchmarking will be useful if the report contains benchmarking on various criteria such as sector and stage of investment. Additionally, the data used for this benchmarking should be robust and the agency should provide clearly defined valuation policies for investments, especially in the unlisted space," said Vaneesa Agrawal, founder of Thinking Legal.

Globally, there aren't too many benchmarking guidelines for AIFs, according to experts. Besides, the data provided to independent agencies is done voluntarily and not as part of a regulatory diktat.

"How a benchmarking agency will process data while ensuring accuracy and completeness, and factor in variations in different kinds of AIFs under the same category (for enabling realistic comparisons) remains to be seen," said Tejesh Chitlangi, senior partner at IC Universal Legal.

Sebi has proposed that an association of AIFs, with representation from at least 51 per cent of the industry, select one or more benchmarking agencies. Benchmarking will apply to all schemes that have completed at least one year from the date of 'First Close'. Funds incorporated overseas with India track record shall also provide data to agencies when they seek registration as AIFs.

Category-III records rise

Despite adverse tax treatment, category-III funds have seen a 14 per cent sequential rise in commitments in the December quarter.

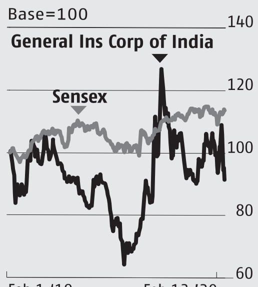
Over the year-ago period, commitments raised are up 18 per cent and investments up 29 per cent. Experts say the surge is due to inflows in long-only funds. Long-short funds continue to remain unattractive, except for funds generating decent alpha net of taxes.

THE COMPASS

GIC's near-monopoly is no insurance cover for investors

Stock's appeal capped by weak fundamentals

HAMSINI KARTHIK



Compiled by BS Research Bureau

General Insurance Corporation of India (GIC) is a good example of how enterprises fail to attract investors' attention despite enjoying a near-monopoly.

GIC is the only domestic general insurer operating in India's reinsurance space, with a market share of over 90 per cent. Its competitors are global giants such as Lloyd's, Berkshire Hathaway, and Reinsurance Group of America. These aren't listed in India and their asset base in the country is very small.

Yet, the stock — despite gaining 9 per cent in a year — is far from its IPO listing price of ₹435 (adjusted for one-for-one bonus). Further, its announcement pertaining to the start of business in Russia hardly cheered the Street (down 4.1 per cent on Thursday).

The stock is bearing the brunt of unpredictable financials, which took a massive beating in the December quarter (Q3) with a loss of ₹984 crore. This was on the back of elevated underwriting losses at ₹2,740 crore, driven by higher claims in agriculture and property insurance.

Analysts at HDFC Securities said Q3's underwriting losses were the highest since listing. GIC also provided ₹312 crore for its exposure to DHFL and Reliance Capital. Decent premium growth in its property, crop, and motor insurance businesses (up 19.7 per cent year-on-year) weren't enough to save its blushes.

If not for ₹2,015 crore in investment income (up 35 per cent YoY), the quarter would have been more painful. With steep losses, solvency ratio at 151 per cent in Q3 — way lower than March 2019's 206 per cent — was hovering around the regulatory limit of 150 per cent. GIC plans to book sale of some investments to shore it up.

The stock has shed nearly 10 per cent since Monday. What could help GIC cap financial losses is the 13-15 per cent price hike across segments.

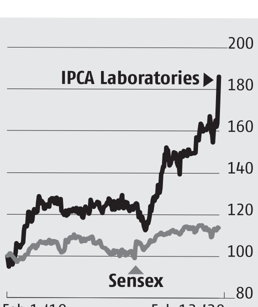
"The corporation has also pruned the portfolio based on more stringent profitability criteria," it added in the Q3 results release.

Analysts at HDFC Securities, having a neutral recommendation, say price hikes in property insurance may improve underwriting profits but a high proportion of crop business will enhance volatility. Investors should therefore wait for a sustainable turnaround before taking fresh positions, despite a reasonable valuation at 10x FY21 earnings.

Ipca Laboratories firing on all cylinders

Outlook remains intact with India business on strong footing

UJJVAL JAUHARI



Compiled by BS Research Bureau

Ipca Laboratories' strong performance in the December quarter (third quarter, or Q3) raised its stock to a fresh all-time high, before it closed 7 per cent higher on Thursday. Given its Q3 performance and outlook, the stock, which has nearly doubled in one year, could see more upside.

A continued focus on brands is driving domestic formulations, while exports (branded, generics, and institutional business) continue to complement, even as US supplies remain constrained due to unresolved Food and Drug Administration (FDA) issues.

The company's strength lies in its domestic formulations, which contributed 43 per cent to revenue and grew 15 per cent in Q3, ahead of the Indian pharma market's growth of 9-10 per cent. The strong pain management portfolio (half of India sales) grew by 19 per cent in Q3 and 21 per cent in the first nine months of 2019-20, and is providing momentum.

Driven by Ipca's efforts to consistently engage orthopaedic surgeons and dentists through new clinical programmes, strong and growing field-force and productivity improvement, its pain brands should maintain leadership. Other segments such as cardiovascular, antibiotics, antimalarial, and dermatology, too, continue to complement, with 17-34 per cent growth in Q3.

Formulation export income (31 per cent of revenue), too, grew by a robust 26 per cent year-on-year (YoY), while generics growth of 39 per cent was driven by European business that grew by over 30 per cent. Institutional supplies business at ₹48 crore grew 23 per cent. Ipca expects to clock in annual revenue of ₹175-180 crore this year, rising to ₹250 crore in 2020-21.

Lastly, active pharmaceutical ingredient (API; a fourth of revenue) sales, too, grew by 24 per cent YoY and the trend should remain robust. API exports continue to be aided by incremental sales from anti-hypertensive Sartan APIs.

Ipca is the world's largest manufacturer of Losartan. Its Ratlam facility touched a utilisation of 100 per cent (despite no shipments to the US), say analysts. Given the expansion in API capacity, higher volumes should drive growth even if intermediate prices remain flat.

Analysts say strong API capabilities are at the core of Ipca's diversified export model, a major competitive advantage amid growing cost pressures in global generics.

Even domestic formulations, with backward integration, should see firm profitability and limit any impact of shortage of intermediates if there are supply disruptions due to the novel coronavirus.

Overall, Q3 revenues at ₹1,213 crore and operating profit of ₹223 crore were ahead of consensus estimate of ₹1,117 crore and ₹188 crore, respectively.

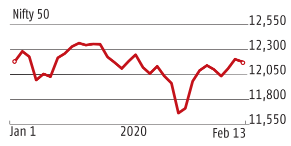
Analysts at India Nivesh said they expect Ipca's earnings to grow 29 per cent annually till 2021-22, without factoring in FDA resolution of its three manufacturing facilities.

TODAY'S PICKS

BY DEVANGSHU DATTA

Nifty

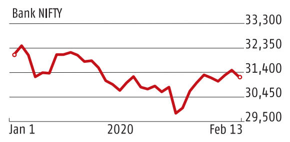
Current:
12,174 (fut: 12,163)
Target: **NA**



Stop long positions at 12075. Stop short positions at 12225. Big moves could go till 12325, 12025. A long Feb 20 12000p (24), short 11900p (11) could gain 10-15 if the index drops below 12100.

Bank Nifty

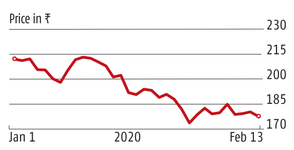
Current:
31,230 (fut: 31,202)
Target: **NA**



Stop long positions at 31050. Stop short positions at 31350. Big moves could go till 31550, 30650. Trend has a negative bias.

Coal India

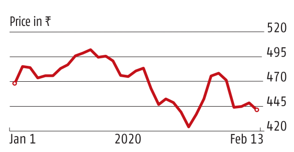
Current: **₹178**
Target: **₹175**



Keep a stop at 180 and go short. Add to the position between 175.5-176.5. Book profits at 175.

Tata Steel

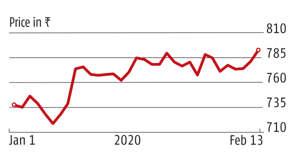
Current: **₹441**
Target: **₹433**



Keep a stop at 445 and go short. Add to the position between 434-436. Book profits at 433.

Infosys

Current: **₹792**
Target: **₹805**



Keep a stop at 785 and go long. Add to the position between 800-802. Book profits at 805.

Target prices, projected movements in terms of next session, unless otherwise stated

Asian Paints, Berger set to intensify valuation duel

Berger trading at more than 25% premium to Asian Paints

SHREEPAD S AUTE
Mumbai, 13 February

There is little doubt that the two decorative paint majors — Asian Paints and Berger Paints — have done well in recent times despite the muted consumption sentiment.

This trend is expected to continue for now. In the last six months, the two stocks have gained 19-60 per cent, against a 12 per cent rise in the Sensex.

Analysts, however, say the gap in valuation is unsustainable and either Asian Paints will soon catch up, or Berger will witness a correction in share price.

Berger Paints, which used to trade at a near-15 per cent discount to Asian Paints in the past, is now trading at an over 25 per cent premium to the market leader. Though part of it could be attributed to technical reasons such as the inclusion of Berger in the MSCI (Morgan Stanley Capital International) index in November last year, fundamentals still indicate that Asian Paints deserves a premium over its smaller peer.

According to Abhijeet Kundu, vice-president (research), Antique Stock Broking: "The current situation of Berger Paints enjoying a rich premium over Asian Paints is not driven by fundamentals. We believe the gap should reduce."

Asian Paints' compound annual growth rate (CAGR) in top line and net profit in the last 5 years (FY14-19) is marginally lower than that of Berger Paints.

Even in the December 2019 quarter (Q3), a similar trend was observed. However, analysts say Asian Paints' growth is commendable and growth rate differential not significant, considering its higher base and size.

In fact, JM Financial analysts say that a firm (Berger Paints) at one-third the size (of Asian Paints) with nearly the same growth profile does not deserve to trade at a premium to the latter. What is noteworthy is Asian Paints' ability to consistently earn higher Ebitda margin (over 400 bps higher in Q3).

Though its asset turnover ratio (indicates asset utilisation efficiency) is a tad lower, it could be attributed to a 50 per cent rise in capacity last fiscal. All this, in turn, is providing strong impetus to Asian Paints' return profile.

Further, Asian Paints' vast distribution network (more than double that of Berger) will help reap maximum benefits if sales of decorative paints and water proofing products grow hereon.

While outlook for the decorative paints segment remains good and both players are expected to post similar growth in earnings, Berger's rich valuations may cap fresh gains in the stock.

Therefore, after a good set of Q3 results announced last month and despite a strong earnings outlook, most analysts have a 'sell' rating on Berger Paints.

The industrial segment, however, remains under pressure, owing to the struggling automobile sector. Kansai Nerolac, which has a higher share in industrial paints, reported a 7.6 per cent year-on-year decline in net sales and a 2 per cent fall in pre-tax profit in Q3. Asian Paints and Berger, though, have a small exposure to this segment.

Asian Paints' higher dividend yield of 0.6 per cent, in comparison to Berger Paints' 0.3 per cent, is also working in its favour.

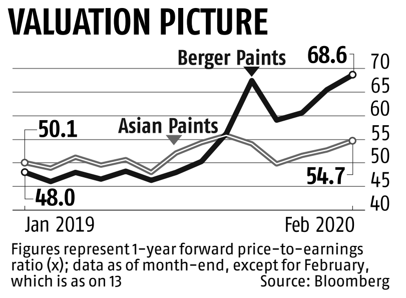
In this backdrop, analysts prefer Asian Paints over Berger.

HEAD-TO-HEAD

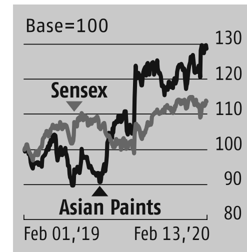
Figures in %	Asian Paints	Berger Paints
Net sales (5-yr CAGR)	7.6	9.4
Net profit (5-yr CAGR)	11.9	14.8
Ebitda margin (Dec '19 qtr)	21.9	17.5
RoE FY20E	27.4	25.8
Asset turnover	1.8	2.0
No. of dealers FY19*	60,000	25,000
FY19 market share in Decorative paints*	44-45	13-14

Ebitda: earnings before interest, tax, depreciation and amortisation; RoE: return on equity; RoIC: return on invested capital; E: estimates; * as estimated by analysts, CAGR: compound annual growth rate
Source: Companies, brokerage reports, *BS* Research

VALUATION PICTURE



Figures represent 1-year forward price-to-earnings ratio (x); data as of month-end, except for February, which is as on 13
Source: Bloomberg



Compiled by BS Research Bureau

Expense cap notified for PMS firms

JASH KRIPLANI
Mumbai, 13 February

Sebi has issued guidelines for portfolio management services (PMS) providers, stating how investors should be charged and added more performance reporting standards that required to be followed.

The regulator said operating expenses (excluding brokerage), over and above the fees charged to clients, shall not exceed 0.5 per cent per annum of the client's average daily assets under management. Further, it capped the exit load that a PMS provider can charge when clients redeem their investments.

During the first year, a maximum of 3 per cent of the redeemed investment may be charged towards exit load.

In the second year, exit load is capped at 2 per cent and at 1 per cent for the third year.

Sebi laid down the guidelines in addition to the PMS regulations formalised last month, in which the minimum investment amount in PMS was increased to ₹5 million from ₹2.5 million.

Further, PMS providers will have to give the option to on-board clients directly without an intermediary engaged in distribution services. The option should be prominently displayed.

It also laid down performance standards. This entails reporting performance net of all fees and expenses (including taxes). The move is aimed at given investors an indication of how fees and other expenses could impact client returns.

When computing performance, the provider shall account for investments in liquid fund and cash holdings. Any change in investment approach that could affect performance shall be clearly disclosed in marketing material.

In addition, performances reported on websites and marketing paraphernalia should be the same as those reported to Sebi.

Finally, the investment approach should include various details such as investment objective, appropriate benchmark to compare the performance with, description of investments (equity, debt, unlisted or listed securities), associated risks, and other salient features. The guidelines will come into effect from May 1, 2020.

Sebi cracks whip on errant brokers

To curb the growing menace of misuse of client securities by brokers, Sebi has developed an inhouse online system that could put an end to the practice. Under the new system, Sebi collects details of clients' securities and updates the same with trades conducted in their accounts. Later, the holding balance of the client matched with the demat account balance. Any mismatch between the two creates alerts that are sent to the bourses.

Sebi has already detected three instances of mismatch and directed the stock exchanges to reconcile the same with the concerned brokers.

"This system is likely to timely detect the misuse of clients' securities collected by brokers as collateral or received in pay-out of securities," Sebi said in a release. The new system deployed by Sebi follows growing instance of misuse of client securities by brokers. In recent times, clients of brokers such as Karvy and BMA Wealth have cried foul over misuse of their securities.

Most brokers explored the loophole in norms that allowed acceptance of client securities as collateral, by way of pledge. This was done by way of transfer of securities in the name of brokers. However, once a broker moved the client securities, the truthful owner of the security couldn't track the use of those securities, often leaving them in the dark.

With inputs from Samie Modak

Valuation comfort in small-cap funds

Be prepared for high volatility in this category

SARBAJEET K SEN

If you had invested in small-cap funds towards the end of 2017 or the start of 2018, there would have been significant erosion in the value of your investments over the past couple of years. The SmallCap Index fell 23 per cent in 2018 and 8 per cent in 2019. Lately, however, there has been recovery. Small-cap funds have delivered an average return of 16.44 per cent over the past six months.

The recent upturn has prompted experts to recommend this category to investors. Investors, however, should know that this category is only for investors who have considerable risk appetite. Risk-averse investors should not enter it despite the potential for high returns.

Experts cite valuation comfort in this space, compared to large-caps. While valuations of small-cap stocks are not as expensive as they were at the beginning of 2018, they are also not as cheap as they were in 2013.

YOUR MONEY

"Valuations are close to the long-term average," says Arun Kumar, head of research, FundsIndia.

Another positive of small-cap stocks is that they have a high correlation with the economic growth cycle. If the economy recovers and moves to a higher growth trajectory, these funds could outperform the large-cap category.

By the same token, however, when the economy slows down, these stocks tend to get hit the hardest. Investors who get the cycle wrong may have to stay invested in these funds for a longer period than they had bargained for.

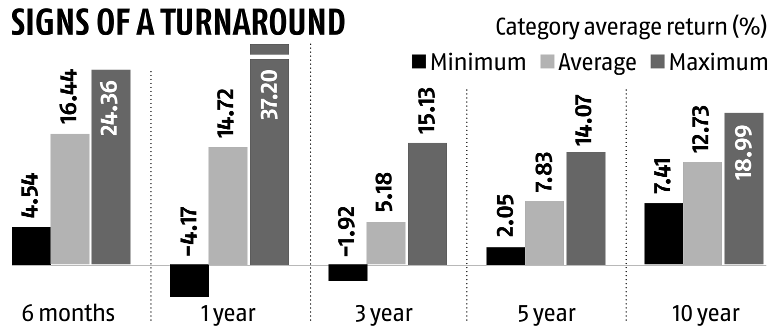
Only those who are prepared to digest the high volatility should enter this category. "Investors choosing small-cap funds should be prepared for higher volatility and they should have a minimum five-seven-year time horizon to counter it," says Kumar.

These funds are not for all investors. "Investors who are new to equity investing, whose time horizon is less than seven years, or those who get bothered when they see large swings in the value of their portfolio should stay away from small-cap funds," says Prateek Mehta, chief business officer, Scripbox. He suggests that such investors should stick to a portfolio consisting of a mix of large-cap, multi- and mid-cap funds to meet their goals. Investors need to pay heed to a small-cap fund's track record before investing in it. "Long-term outperformance against the benchmark is an important factor to look at. A fund that has consistently outperformed the index is likely to be a good bet," says Mehta. One should also give preference to a fund manager with a long track record of handling this fund category since its nature is very different from that of large-caps. "Choose a fund with an experienced fund manager, a long track record across market cycles, relatively lower declines, reasonable size, and belonging to a reputed fund house," says Kumar.

Allocate a maximum of 20 per cent of your equity portfolio to small-cap funds. "Considering their long-term potential for extra returns but also their significant volatility, investors with high-risk appetite may have around 10-20 per cent of their equity allocation in the small-cap segment." Mehta advises a more conservative 10 per cent allocation to these funds. Investors with a larger portfolio may spread their allocation across two or three funds. Finally, no matter how attractive small-cap valuations may seem, avoid investing lump sum money in these funds. "It is difficult to time your investments in small-cap funds, so take the systematic investment plan or systematic transfer plan route," says Mehta.

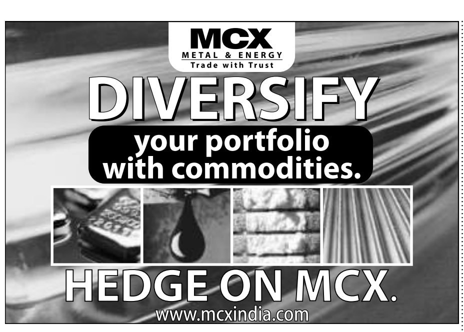
SIGNS OF A TURNAROUND

Category average return (%)



* Less than 1 year returns are absolute returns, rest are compound annualised
Source: mutualfundindia.com

COMMODITIES



PRICE CARD

As on Feb 13	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,707.0	-3.5	1,976.7	4.0
Copper	5,747.0	-1.3	6,322.7	3.4
Zinc	2,140.0	-13.8	2,397.3	-13.2
Gold ($/ounce)	1,574.2*	7.6	1,770.5	7.4
Silver ($/ounce)	17.6*	3.9	20.0	3.8
ENERGY				
Crude Oil ($/bbl)	55.2*	-12.5	53.2	-15.0
Natural Gas ($/mmBtu)	1.9*	-28.8	1.9	-28.0
AGRI COMMODITIES ($/tonne)				
Wheat	195.8	6.4	290.9	-3.1
Maize	182.2*	1.4	253.6	-7.2
Sugar	434.6*	30.0	487.7	0.9
Palm oil	695.0	9.4	1,116.9	11.2
Cotton	1,500.7	6.0	1,574.3	0.5

* As on Feb 13, 20 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.3 & 1 Ounce = 31.1032316 grams.

Notes:
1) International metals, Indian basket crude, Malaysia Palm oil, Wheat LIFFE and Coffee Karnataka robusta pertains to previous days price.
2) International metal are LME Spot prices and domestic metal are Mumbai local spot prices except for Steel.
3) International Crude oil is Brent crude and Domestic Crude oil is Indian basket.
4) International Natural gas is Nymex near month future & domestic natural gas is MCX near month futures.
5) International Wheat, White sugar & Coffee Robusta are LIFF E future prices of near month contract.
6) International Maize is MATIF near month future, Rubber is Tokyo-TOCOM near month future and Palm oil is Malaysia FOB spot price.
7) Domestic Wheat & Maize are NCDEX future prices of near month contract, Palm oil & Rubber are NCDEX spot prices.
8) Domestic Coffee is Karnataka robusta and Sugar is M30 Mumbai local spot price.
9) International cotton is Cotton no. 2-NYBOT near month future & domestic cotton is MCX Future prices near month futures.

Source: Bloomberg Compiled by BS Research Bureau

Exporters of jewellery seek 6-mth extension

DILIP KUMAR JHA
Mumbai, 13 February

Faced with around $2 billion of payment receivables stuck with jewellery importers in China due to the coronavirus spread there, the Gems and Jewellery Export Promotion Council (GJEPC) has sought a six month extension in credit from lenders.

Currently, the latter grant credit for six months (180 days in trade parlance) on export consignments from India. The trade says this is insufficient at this juncture.

"The Chinese new year (a peak consumption season) was a whitewash in terms of jewellery sales in China as people remained indoors amid fear of virus spread. Shops and factories remained closed for weeks, resulting in receivables getting stuck for two months. We, therefore, have written to leading banks and the ministries concerned to grant another six months for receivables. The overall impact of coronavirus on India's gems and jewellery would depend on how long factories and shops are shut in China," said Colin Shah, vice-chairman of GJEPC, on the sidelines of the India International Jewellery Show here on Thursday.

Lenders have ₹40,000 crore of cumulative exposure to the sector. State Bank of India is estimated to have extended a cumulative ₹6,000 crore; Indian Bank has exposure of ₹7,000 crore.

China takes nearly 30 per cent of India's gross annual jewellery export of around $40 billion. Of the $12 billion China takes, about $6.5 billion is for domestic consumption; the other $5.5 billion is redirected after local labelling and branding to developed countries.

Industry sources said jewellery sales during the Chinese new year remained upbeat; these are 25-30 per of annual sales in China. Jewellery retailers normally start preparations for the occasion and place orders with suppliers in India at least four or five months in advance. Indian jewellery exporters also book Chinese orders and execute consignments for display in Chinese stores at least a month in advance.

News of the coronavirus outbreak first came to light in early January, taking major Chinese trade cities into its grip. The government there had extended the new year leave initially by two weeks but traders shut shop indefinitely amid fear of the virus' spread.

"Since the outbreak, not only gems and jewellery sale but the entire trade has come to a grinding halt. The Reserve Bank of India has granted us a six-month timeline to get export receivables. Another six months would certainly help borrowers mitigate the risk of getting into default for no mistake of theirs," said Sabyasachi Ray, executive director at GJEPC. India's gross export of gems and jewellery fell by about 5 per cent in the first nine months (April-December) of this financial year, due to unfavourable global economic conditions. The fall deepened in January to 9 per cent. This financial year (ending March 31) is set to end with a nearly seven per cent fall, says Ray.

TRACK RECORD

($ million)

	China & Hong Kong A	India total B	Share (%) A % of B
FY15	12,347	38,001	32.5
FY16	10,993	33,256	33.1
FY17	12,976	36,858	35.2
FY18	13,320	38,679	34.4
FY19	11,195	38,920	28.8
FY20#	7,059	26,624	26.5

\# Till Dec 2019; Source: DGCIS, Kolkata
Compiled by *BS* Research Bureau

SBI to ink deal with exporters for credit assessment

SBI will sign a memorandum of understanding later this month with the Gems and Jewellery Export Promotion Council (GJEPC), to use the latter's data bank for credit assessment of their members.

After the $2-billion PNB-Nirav Modi scam broke out in January 2018, the GJEPC created a database of jewellery exporters, revised daily. With a registry of around 6,000 entities, MyKYC, as it is termed, has complete details of jewellery exporters from India and their clients abroad. Even if exporters ship a consignment to own factories abroad, the detail is on MyKYC. "We have tied up with leading trade associations in India, Antwerp, Hong Kong and elsewhere across the world to provide details of jewellers to update MyKYC. SBI and other banks, in addition to the ministries of finance and commerce, were happy with our efforts. We will be signing an MoU with SBI later this month, followed by other PSBs," said Colin Shah, vice-chairman at GJEPC.

DILIP KUMAR JHA

Dairy firms' profits to rise this year: CRISIL

DILIP KUMAR JHA
Mumbai, 13 February

Profit margins of dairy companies are set to improve in the current financial year (ending March 31) due to stabilising of milk procurement prices in the current flush season, after a sharp increase in the past nine months.

A report from ratings agency CRISIL says operating earnings margins of dairy companies for 2019-20 are projected at four to five per cent, as compared to six per cent for the previous year.

For the coming year, 2020-21, it is forecast at six to seven per cent.

The report estimates revenue growth at 12-13 per cent for FY20 and 13-14 per cent for FY21, as compared to 12 per cent for FY19.

Milk prices hikes made it dearer by ₹4-5 a litre between April and December.

In May 2019, the Gujarat Cooperative Milk Marketing Federation (better known as Amul) and Mother Dairy raised the maximum retail price of their full-cream milk pouches by ₹2 a litre.

They followed with a further hike of ₹2 and ₹3 a litre, respectively, in December, taking it to around ₹55 a litre.

Other large dairy processors did likewise, spurred by shortfall in milk production and thereby supply.

Production has been falling since April. It was initially due to high summer temperatures and less availability of water, made worse by delay in monsoon rain.

Then there were floods in parts of the country, which led to poor animal health. Also, waterlogging in pastures kept animals from grazing and damaged crops such as maize and sugarcane, used for fodder. All this led to a decrease in milk yield.

The rating agency forecasts India's milk production to be lower by five to six per cent this year at around 176 million tonnes.

The flush season usually begins in November-December and is estimated to have shifted by one or two months because of a delayed monsoon.

Milk procurement prices are estimated to have risen 19 per cent between April and December 2019.

Retail prices have risen by three to four per cent in the period and should be five per cent higher in FY20.

Dairy companies indicate that prices of value-added products such as butter, ghee and skimmed milk powder are also expected to have risen by close to five per cent by the end of the financial year.

CASH COW

Financial performance (%)

Year	Revenue growth	Ebitda margin
FY15	13.0	6.0
FY16	12.1	5.0
FY17	5.4	5.0
FY18	11.0	5.5
FY19	12.0	6.0
FY20P	12-13	4-5
FY21F	13-14	6-7

P: Projected , F: Forecast
Source: CRISIL Research