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Business Standard

THE MARKETS ON THURSDAY		Chg#
Sensex	41,170.1▼	152.9
Nifty	12,080.9▼	45.1
Nifty futures*	12,079.0▼	1.9
Dollar	₹71.7	₹71.6**
Euro	₹77.3	₹77.5**
Brent crude ($/bbl)##	50.02##	59.1**
Gold (10 gm)###	₹41,575.0▲	₹106.0

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

COMPANIES P2

VALUATIONS OF INDIAN UNICORNS STAGNATE

COMPANIES P2

TATA GROUP M-CAP SOARS 40% IN 3 YRS UNDER CHANDRA

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

GOVT TAKES A CALL TO SAVE STRESSED TELECOM SECTOR

After back-to-back parleys this week between the top management of telecom firms and the government, a consensus seem to have emerged on the need to save the financially stressed sector. While Vodafone Idea Chairman Kumar Mangalam Birla and Chief Executive Ravinder Takkar have been doing the rounds in the DoT and Ministry of Finance over the last few days, Bharti Airtel Chairman Sunil Mittal joined in as well to seek relief for the telecom industry, faced with a bill of ₹1.47 trillion in pending dues linked to adjusted gross revenue. 6 ▸

Hindujas, Cerberus to place joint bid for YES Bank stake

Hinduja Group is partnering private equity firm Cerberus Capital Management in seeking to pick up a stake in embattled YES Bank, according to people familiar with the matter. Representatives of Cerberus and the UK-based Hinduja group, run by brothers Gopichand Hinduja and Ashok Hinduja, met RBI officials earlier this month regarding the bid. BLOOMBERG

COMPANIES P3

GST profiteering: HC stays penalty against Nestlé

Coming to the rescue of fast-moving consumer goods giant Nestlé, the Delhi High Court has again stayed a National Anti-Profiteering Authority order to recover ₹73 crore by March, for not passing on the benefit of a GST rate cut to consumers.

States get ₹20,000 cr as GST compensation

The Centre has released ₹19,950 crore as GST compensation to states and union territories for October. Generally, the Union government releases compensation for two months and this is the first time it has given compensation for one month.

ECONOMY & PUBLIC AFFAIRS P4

MPC waits for opportune time for a rate cut

When the Monetary Policy Committee (MPC) members met earlier this month, they decided to keep the repo rate unchanged as they wanted to maximise the impact of future rate cuts, show the minutes of the meeting. The MPC focused on letting the economy show signs of improvement, following the growth-supportive measures of the government.

MARKETS CLOSED TODAY

Stock, currency, commodities and bond markets will remain closed on Friday on account of Shivratri.

GMR to sell 49% stake in airport biz to French firm

₹10,780 cr deal values GMR Airports at ₹22,000 cr; pact with Tatas cancelled over airline ownership norms

ARINDAM MAJUMDER
New Delhi, 20 February

GMR Group has signed an agreement with Groupe ADP of France to sell a 49 per cent stake in its airport-holding company. The group will raise ₹10, 780 crore from the deal, which will help it pare debt. The deal values GMR Airports at ₹22,000 crore.

GMR had in March 2019 signed a definitive agreement with a Tata group-led consortium to sell 44 per cent in the company. In January this year, it decided to divest a 49 per cent stake. But despite getting clearance from the Competition Commission of India (CCI), the deal faced hurdles because it violated a clause that prevents airline groups from holding more than a 10 per cent stake in Delhi International Airport Limited (DIAL).

The Tatas hold a majority stake in Vistara and AirAsia India. GMR holds 64 per cent stake in DIAL.

The new deal will give a fresh lease of life to GMR Group's debt-restructuring plan, which was held up due to the regulatory hurdle for the Tata deal. GMR Infra has a debt of ₹25,660 crore in its books.

"The partnership with Groupe ADP is in line with GMR's business direction to become a global airport developer and operator," G M Rao, chairman of GMR Group said. "We have been on a journey of defining airports of the future with key focus on passenger experience by leveraging enhanced technology and offering superior amenities. With Groupe ADP, GMR will have smoother access to global markets, opening up newer avenues for business growth."

According to the company, the first tranche of ₹5,248 crore will be immediately received by the company.

"This money will help deleverage the group further and result in improved cash flows and profitability," the company said.

The structuring of the deal will unfold in two phases: The first phase will be realised in the coming days for a 24.99 per cent stake. The second phase, for 24.01 per cent, is subject to certain regulatory conditions, for obtaining approvals from the Reserve Bank of India. It will be concluded during the upcoming months, Groupe ADP said.

Analysts said the current deal seemed to be better than the earlier one as it would wipe out additional corporate debt of ₹18 billion and would alleviate all the concerns surrounding the corporate debt.

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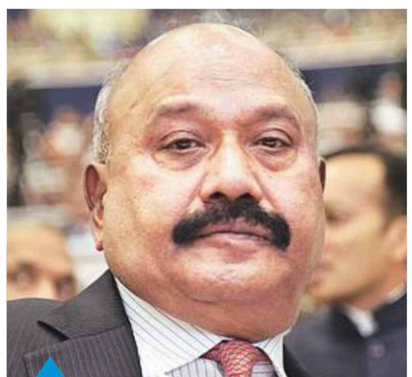


"WITH GROUPE ADP, GMR WILL HAVE SMOOTHER ACCESS TO GLOBAL MARKETS, OPENING UP NEWER AVENUES OF BUSINESS GROWTH"

G M RAO, CHAIRMAN, GMR GROUP

FLYING HIGH

AIRPORTS OPERATED BY GMR GROUP: IGI Airport (New Delhi), Rajiv Gandhi International Airport (Hyderabad), and Philippines' Mactan Cebu International Airport (in partnership with Megawide)

AIRPORTS DEVELOPED AND MANAGED BY GROUPE ADP: Paris-Charles de Gaulle, Paris-Orly, and Paris-Le Bourget

336.5 million
Combined number of passengers handled by GMR Airports and Groupe ADP in 2019, 'the highest across the world'

AXIS BANK IN TALKS TO BUY STAKE IN MAX LIFE

Axis Bank has entered into an exclusive agreement with Max Financial Services and Max Life Insurance to explore a long-term strategic partnership with the life insurance arm. The deal will involve Axis Bank acquiring a significant stake in the life insurer but the amount has not been finalised yet. The boards of Max Financial Services and Max Life Insurance Company on Thursday gave a go-ahead to both the companies to explore options with Axis Bank. 6 ▸

CAA PROTEST FALLOUT

Govt likely to defer key socio-economic survey

SOMESH JHA
New Delhi, 20 February

In the possible first blow to the country's statistical system arising out of the protests against the Citizenship Amendment Act (CAA), the government may defer a key socio-economic survey because surveyors are facing the wrath of people who see it as a data collection exercise for determining their citizenship.

The decision to recommend the postponement of the National Statistical Office's 78th round of survey on "domestic tourism expenditure" and "multiple indicators", which began last month, was taken at a meeting of an expert committee, known as the working group, according to three persons in the know.

"An expert group met on Wednesday and recommended deferring the survey due to various challenges being faced by field investigators in various parts of the country. The government has to take the final call now," a person aware of the development said.

Turn to Page 13 ▸

THE FINE PRINT

78TH ROUND OF NSO SURVEY
Domestic Tourism Expenditure and Multiple Indicator Survey

PERIOD
January-December 2020

OBJECTIVES
Collect info on tourism expenditure and for developing indicators of Sustainable Development Goals, 2030

TOPICS COVERED
Food insecurity, household characteristics and facilities, education and skills, migration, purchase or construction of a residential place, documents such as birth certificate, use of mobile/internet connections

STATUS
An expert committee has recommended deferring the survey due to protests against CAA, NRC

POWER DEMAND GROWTH LOWERED, BUT NOTHING OFFICIAL ABOUT IT

The Ministry of Power has refused to acknowledge a report by the Central Electricity Authority (CEA), its technical arm, which estimates around 20 per cent lower growth in demand than earlier forecast, sources said. This is after the demand estimates were revised and calculated using another 'econometric' methodology to arrive at more accurate results. **SHREYA JAI** writes 4 ▸

Every penny counts as GST officers send demand notices to companies

Desperate push to meet collection target; firms receive notices for as low as ₹2

DILASHA SETH
New Delhi, 20 February

₹5.9858630140000004! This is not a figure from an S Ramanujan-G H Hardy conversation but a demand notice given by tax officials to a company on paying interest because the goods and services tax (GST) return had overshot the deadline.

After directions from the Central Board of Indirect Taxes and Customs (CBIC) to recover goods and services tax interest, totalling ₹46,000 crore, field officials are busy sending notices for recoveries, which sometimes are in single digits.

One such client in equity information services has been asked to deposit ₹5 (after rounding off the liability cited above) as interest, another ₹2.

A company received notice for paying ₹zero, which is the approximate figure for its interest liabilities.

The strong stance regarding interest collection is aimed at meeting the challenging GST indirect tax revenue target for FY20.

"Records indicate that you have filed your GSTR 3B return for the period ... after due dates in which you have not calculated and paid interest liability under section 50 of CGST Act 2017 ... you are advised to deposit interest amount of ₹5 ... (else) appropriate legal action for recovery of interest due to delayed filing of return shall be initiated," read one such notice.

Central GST collection grew by 10.4 per cent in the April-January period and has to grow by 21 per cent in the last two months of the current fiscal year to meet the revised estimate, which was scaled down by ₹1 trillion from the Budget Estimates (of 2019-20) in the recent Budget (of 2020-21).

Experts say issuing such notices would make payers fearful and ease of doing business would suffer.

Turn to Page 13 ▸

TAX MOP-UP WOES

CGST numbers (FY20)

₹5.26trn Budget estimate

₹5.14trn Revised estimate

₹4.14trn Apr-Jan collection

10.4% Apr-Jan collection growth

21.0% Required growth rate for Feb-Mar

Sources: Budget documents; govt

High-powered meet today to salvage stuck power projects

DEV CHATTERJEE
Mumbai, 20 February

Lenders, burdened with ₹1 trillion of bad loans in the power sector, are looking forward to a new government scheme, which could salvage stranded thermal power projects and help banks recover their stuck capital.

Senior officials of the power ministry are meeting all stakeholders, including executives of NTPC, distribution companies, and banks, in New Delhi on Friday to take a call on the scheme. Floated by the new and renewable energy ministry, the scheme seeks to bundle supply from renewable power projects with thermal power projects.

"The option being discussed is to bundle renewable power with thermal power, which will help remove difficulties of intermittent power supply by renewable power sources and, at the same time, salvage stalled thermal power plants and our loans," said a banker privy to the discussions. "The bundling will help all stakeholders including consumers, power generators, distribution, transmission companies, and banks," he said. Turn to Page 13 ▸

FEELING STRESSED

₹2.36 TRILLION
Total value of 34 stressed power projects

₹1.76 trn* Stranded loans

₹60,489 cr Equity value

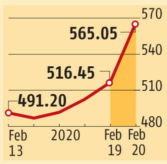
Note: Figures as of March 2018
*A few projects have completed debt resolution; Source: Parliamentary Standing Committee on Energy report/IEEFA

A WIN-WIN DEAL

- New scheme to bundle renewable energy with thermal power
- Scheme to help banks recover debt from thermal firms
- Power producers will have to sign fresh PPAs after bidding

STOCKS IN THE NEWS

Max Financial Services

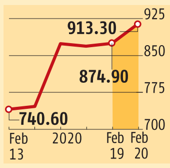


Axis Bank to explore long-term strategic partnership with Max Life

₹565.05 CLOSE

▲9.39% UP*

Muthoot Finance

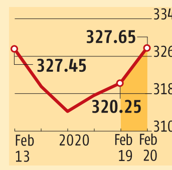


Overtakes IDBI Bank, PNB, AU Small Finance Bank in market-cap ranking

₹913.30 CLOSE

▲4.39% UP*

State Bank of India

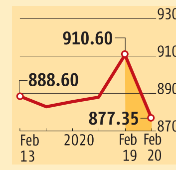


SBI Cards' initial public offer opens on March 2 and closes on March 5

₹327.65 CLOSE

▲2.31% UP*

Escorts

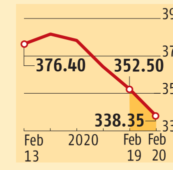


Said no investigation being undertaken currently by ED

₹877.35 CLOSE

▼3.65% DOWN*

Sobha



Slips 25% in Feb on rising debt, weak operational cash flow concerns

₹338.35 CLOSE

▼4.01% DOWN*

*OVER PREVIOUS CLOSE

Media convergence looks set for a new game of thrones

SURAJEET DAS GUPTA
New Delhi, 20 February

This week saw Mukesh Ambani consolidate the media assets of Reliance Industries, giving distribution and its broadcasting network a big push. With this, the battle of supremacy between Ambani and Subhash Chandra, occupying the media convergence space of broadcasting, distribution, over-the-top (OTT) channel, content, and movies, will only intensify.

Unlike other big international players such as Disney (which has only a minority stake in DTH Tata Sky) and Sony (which does not have a cable or DTH distribution company), Ambani and Chandra span the entire media convergence space.

Reliance announced the merger of its various content, distribution, and media properties in its listed subsidiary Network18 this week. The merger does not include media assets such as Balaji Telefilms, Eros International, or Saavn (in which it has stakes), nor the Jio OTT platforms.

But the merger does include cable companies Hathway and Den Networks, which Reliance had acquired earlier and which will be merged into two wholly-owned subsidiaries of Network18.

The revenue of the proposed new consolidated entity is projected to be ₹8,000 crore, much smaller than the ₹15,400 crore revenue of Chandra's Essel Group's media assets. These include Zee Entertainment Enterprises, Siti Networks and Dish TV (which Essel wants to sell off).

Even in terms of market capitalisation, Zee alone has a market cap of ₹24,000 crore compared to ₹15,000 crore of the merged Reliance entity.

Nonetheless, in this battle, Reliance enjoys some other key advantages that enable it to take on Essel. It has a captive consumer base of 375 million mobile customers which it can tap for media services ranging from broadcasting to OTT and even fixed broadband. Its stocks of cash are high and it boasts a stronger balance sheet.

In contrast, the Essel Group has had a fraught time with the serious financial challenges it has experienced in paying back the debt it took to finance its foray into infrastructure, pledged with Zee shares.

Even after becoming a minority shareholder in the flagship company (with 5 per cent), Essel still has to pay over ₹2,500 crore in debt. It hopes to manage this by selling off half its stake in Dish TV.

According to CLSA estimates, the Zee network with around 23 per cent viewership share is a close second to Star at 26 per cent. But the consolidated TV18 network share is around 12 per cent and has a large gap to fill. However, JP Morgan has estimated the consolidated company to have a 13 per cent share of viewership and Zee insists that its share stands at 18.2 per cent.

What's more, given the launch of new channels in Bhojpuri and Punjabi among others, Zee's share should inch up even further.

OTT play

In the OTT space, Voot, which is part of the Reliance consolidated entity, claims to have 100 million active monthly users. Jio TV, which is not part of the consolidated entity but is one of the most popular OTT platforms according to analysts, has 130-150 million active subscribers but is available only for its own subscribers. Clearly, both of them are bigger than Zee5, which is pegged at 76.4 million.

The Essel Group's OTT platform has one differentiator though — it is moving aggressively towards subscriptions. It has over a million individual subscribers and as many as 3.5 million B2B subscribers (through tie-ups with telcos, etc). These figures stem from Essel leveraging its massive library of 300,000 hours of programming.

Reliance knows it has some catching up to do but it has a plan. It has content from Colors and Viacom 18 Motion Pictures, which make films. Reliance will continue to own entities like Jio Studios (making films) and the movie rights which it buys for OTT platform Jio TV.

That apart, it has stakes in Eros and Balaji and has bought over Saavn (music). Together, these are helping Reliance build a content powerhouse to rival that of Essel.

Distribution edge

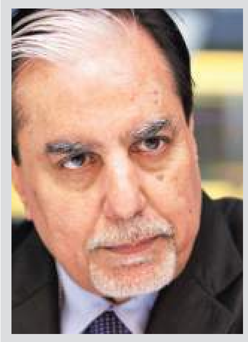
Reliance is far ahead of Essel's Siti Networks in distribution. As a result of acquiring Hathway and Den, Reliance now has control over 15 million homes, leaving Siti, with 11.3 million customers.

What's more, the efforts of Den and Hathway are being supplemented by Jio, which is rolling out high-speed fibre-to-the-home (covering over 20 million homes).

Jio already has one million homes tied up (the cable companies have around 0.5 million fibre broadband homes, too), but analysts say it is now also leveraging the two cable companies so that they can upgrade their captive customers to Jio Giga fibre to achieve its target much faster.

Siti has some catching up to do but it also plans to invest in fibre broadband. With Essel planning to sell Dish TV, Zee's distribution leverage, say some analysts, could be under challenge.

WAR OF TITANS

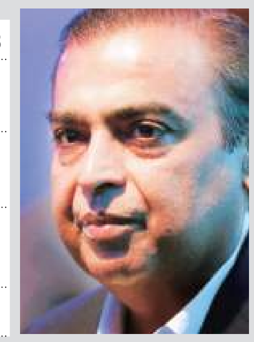


Subhash Chandra

Essel Group		Network18
18.2	% viewership of broadcasting network	13.0
11.3	Total number of homes with cable (mn)	15.0
76.4 (Zee5)	OTT active subscribers per month (mn)	100 (Voot)
15,517*	Revenues (₹ cr)	8,000

*Zee, Siti Cable & Dish TV

Source: Companies, JPMorgan, industry estimates



Mukesh Ambani

IN BRIEF

Victoria's Secret to be sold at $1.1-billion valuation

L Brands is close to selling a controlling stake in its Victoria's Secret brand to private equity firm Sycamore Partners in a deal that values the lingerie brand at $1.1 billion, *Wall Street Journal* reported citing unidentified people familiar with the development. Sycamore Partners is expected to buy 55 per cent in Victoria's Secret in a transaction that with L Brands and retain 45 per cent in a separate firm that will include the young-adult focused Pink chain. L Brands' billionaire founder Leslie Wexner will step down as chairman and chief executive, *WSJ* said. **BLOOMBERG**

AG&P to invest $1.5 billion in South India

Singapore-based Atlantic Gulf and Pacific (AG&P) has said that it would invest around $1.5 billion in South India on various projects. The facility is expected to commence commercial operations by the fourth quarter of 2021. **BS REPORTER**

Samsung expands premium phone line-up in India

Samsung said it will bring its Galaxy Z Flip to India later this month for about ₹1.10 lakh. The device, which was launched earlier this month in the US, will compete in the ultra-premium smartphone category that is estimated to be about 3 million units in size in India. **PTI**

Future Lifestyle to raise over ₹600 cr from promoters, IFC

Future Lifestyle Fashion said its board had approved raising over ₹600 crore from its promoters and International Finance Corporation (IFC) for reducing debt and enhancing stake in subsidiaries. They also approved raising ₹400 crore through non-convertible debentures on private placement basis in a year, the company said. **BS REPORTER**

HMSI launches BS-VI compliant Shine motorcycle

Honda Motorcycle on Thursday launched BS-VI compliant version of its Shine bike model price starting at ₹67,857 (ex-showroom). The Shine is powered by a BS-VI compliant 125cc engine, HMSI said. **PTI**

Adani Gas gets oil regulator nod for demerger, stake sale to Total

The Adani family-owned Adani Gas has secured a nod from oil regulator for its demerger from its parent and the subsequent sale of a stake in the company to French energy giant Total SA after it made a formal application for the same, sources said. The Petroleum and Natural Gas Regulatory Board (PNGRB) had threatened to cancel the 13 city gas distribution licences Adani Gas had won in the 9th bid round in 2018 for allegedly perpetrating a "fraud" by not disclosing material facts of the demerger. **PTI**

Valuations of star Indian unicorns hit speed bump

Analysts say consumption has slowed down, which is hurting start-ups

PEERZADA ABRAR & NEHA ALAWADHI
Bengaluru/New Delhi, 20 February

The valuations of unicorns like Swiggy, Oyo, Paytm, and Ola have remained flat even after large fund-raising rounds. Analysts believe the firms are focusing more on building robust unit economies and not following the growth-at-all-costs model.

Food delivery platform Swiggy said on Wednesday it had raised $113 million as part of its Series-I funding. Its valuation was $3.3 billion when it raised its previous $1-billion funding in December 2018. According to Paper.vc's calculations, Swiggy's valuation after the latest fund-raising would be around $3.4 billion.

"We are seeing a lag in valuations. There is a greater emphasis at many of these unicorns to focus on profitability," said a person familiar with the development. "The macroeconomic environment is certainly a question and large funding rounds would now work on the basis of how the companies would become profitable. In the past, it was more about sector euphoria."

Profitability has been the biggest challenge for unicorns. Swiggy reported 500 per cent jump in losses for FY19 at ₹2,346 crore against FY18, according to data platform Tofler. Though revenue had gone up 183 times to ₹1,292 crore, total expenses for FY19 remained high at ₹3,638 crore. And, this was attributed to multifold increase in ad expenses, staff expenses, and delivery costs. Sriharsha Majety, chief executive, Swiggy, said the firm was laser-focused on continuing to execute on its vision while building a sustainable path to profitability.

Digital payments firm PhonePe, which was out in the market for large funding round, is likely to take more time for the same as its proposal has not evoked much response, sources said. It was in talks to raise up to $1.2 billion. Having grown swiftly since the acquisition of Flipkart by Walmart, it was looking at a valuation of $10 billion.

The fiasco at SoftBank-backed co-working start-up WeWork pushed the firm's initial public offering (IPO) plans in the US, as investors questioned the $47-billion valuation. Uber's lukewarm IPO last year also contributed to the lag in valuation trend among the unicorns across the Indian start-up ecosystem.

The WeWork debacle has put pressure on SoftBank portfolio companies to show profitability. One of these is Oyo, whose $10-billion valuation has been the subject of much discussion, given reports of irregular and dubious business practices, and complaints from hotels and customers of non-uniform service. Its aggressive expansion plans into international geographies like the US and Japan have been increasingly getting questioned by the industry.

The Gurugram-based firm reported over 4x increase in revenue for FY19 to $951 million, while consolidated losses widened to $335 million because of expansion to overseas markets.

"The overall theme playing out both globally and in India is for companies, especially market leaders, to have a greater focus on economics and understanding the future value that it will create in the ecosystem," said Ankur Pahwa, partner and national leader, e-commerce and consumer internet at EY India.

According to Harminder Sahni, managing director of retail consultancy firm Wazir Advisors, the parameters on the basis of which valuations are done are changing. "Growth-at-all-costs model is something people (investors) are not willing to fund. You can't now say (let me) first become profitable and then you can take me seriously," Sahni said.

Devangshu Dutta, chief executive of retail consultancy Third Eyesight, said the consumption in the country has slowed down and is also playing a role, especially for consumer-focused companies.

"There is a little bit of conservatism in the spending scenario from the consumer and investor point of view," said Dutta. "Also macro-economic indicators are getting published more. If there is a crisis of confidence in the consumer, even if you have money in the bank, you would not spend it so easily and that has an impact on the company's performance and valuations."

STICKY WICKET
Valuation in $ bn

	Current	Last known funding round
Paytm	16.0	10.0 (Jan '18)
Oyo	10.0	5.0 (Sept '18)
Byju's	8.0	5.8 (Jul '19)
Ola	5.8	5.5 (Jan '19)
Swiggy	3.3	3.3 (Dec '18)
Zomato	3.0	2.8 (Feb '19)
Udaan	2.7	1.0 (Sept '18)
Delhivery	1.6	0.37 (May '15)

(Brackets denote last fund-raise period)

Apple mulls letting users switch iPhone apps to rival firms

BLOOMBERG
Los Angeles, 20 February

Apple is considering giving rival apps more prominence on iPhones and iPads and opening its HomePod speaker to third-party music services after criticism the company provides an unfair advantage to its in-house products.

The technology giant is discussing whether to let users choose third-party web browsers and mail applications as their default options on Apple's mobile devices, replacing the company's Safari browser and Mail app, according to people familiar with the matter.

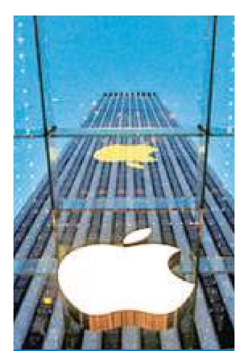
Since launching the App Store in 2008, Apple hasn't allowed users to replace pre-installed apps such as these with third-party services. That has made it difficult for some developers to compete, and has raised concerns from lawmakers probing potential antitrust violations in the technology industry.

The web browser and mail are two of the most-used apps on the iPhone and iPad.

To date, rival browsers like Google Chrome and Firefox and mail apps like Gmail and Microsoft Outlook have lacked the status of Apple's products.

For instance, if a user clicks a web link sent to them on an iPhone, it will automatically open in Safari. Similarly, if a user taps an email address — say, from a text message or a website — they'll be sent to the Apple Mail app with no option to switch to another email programme. The company also is considering loosening restrictions on third-party music apps, including its top streaming rival Spotify, on HomePods, said the people, who asked not to be named discussing internal company deliberations.

Apple's closed system to prohibit users from setting third-party apps as defaults was questioned last year during a hearing of a US House of Representatives antitrust panel. Lawmakers pressed the issue of whether iPhone users can make non-Apple apps their defaults in categories including web browsers, maps, email and music. Being a default app on the world's best-selling smartphone is valuable because consumers are subtly coaxed and prodded into using this more-established software rather than alternatives. An Apple spokesman declined to comment.



Apple's closed system to prohibit users from setting third-party apps as defaults was questioned by the US antitrust panel

Tata group market cap soars 40% in 3 years under Chandra

Analysts say reducing dependence on Tata Consultancy Services remains a key challenge for Tata Sons chairman

SHALLY SETH MOHILE
Mumbai, 20 February

Natarajan Chandrasekaran (*pictured*), chairman Tata Sons, completes three years in the corner office of the holding company on February 21. Going by the market capitalisation (m-cap) of Tata companies, the tenure has been a mixed bag for the man who took over the reins of the salt-to-software conglomerate amid a bitter boardroom battle between Cyrus Mistry and Tata Sons.

In the three years under Chandra, the group's overall m-cap has soared 39.6 per cent to ₹12 trillion. But that is hardly comforting, considering the performance was driven by Tata Consultancy Services (TCS), which, traditionally, has been the group's cash cow. If anything, the dependence on TCS has only increased since 2017 — ₹2 out of every ₹3 generated by the group firms came from the IT firm.

The overall wealth generated by the group firms could have been higher but for companies like Tata Motors, Tata Power, Tata Communications, Tata Tele Maharashtra, which saw sharp erosion in their m-cap.

The overall health was primarily dragged by the group's flagship, Tata Motors, whose m-cap more than halved to ₹57,002 crore from ₹1.45 trillion in February 2017.

Tata Motors' UK subsidiary, Jaguar Land Rover Automotive, has been facing strong headwinds from slowing sales in China and uncertainties related to Brexit, among other factors.

The firm's commercial and passenger vehicles volumes in the domestic market have also been hit by one of the most prolonged slowdowns. Disruptions due to changes in emission and safety regulations and an increase in the cost of ownership due to regulatory changes, too, dented sales.

Tata Power is yet another company that has stymied the group's performance due to high debt burden. Its m-cap in the past three years crimped 39.2 per cent to ₹13,970 crore. According to recent media reports, the firm is looking to raise ₹6,000 crore from sale of assets in India and abroad to strengthen its balance sheet.

Paring the group's debt remains a challenge for Chandra – gross debt for the group was unchanged at ₹3.05 trillion in September 2019 against ₹3.02 trillion in March 2017.

Amid the gloom, some of the consumer facing firms of the group such as Titan, Tata Global Beverages (TGBL), Voltas, Indian Hotels (IHCL), Trent, and Tata Chemicals gave handsome returns to shareholders. While Titan's m-cap zoomed 205 per cent to ₹1.17 trillion, Trent and TGBL saw a jump of 225 per cent and 169 per cent, respectively.

But TCS, whose m-cap saw an increase of 63.8 per cent, dwarfs the good performance of all these companies in terms of wealth generation. Hence, reducing dependence on TCS remains one of the key challenges for Chandra, said analysts.

"The Tata group is just trudging along as it was in the pre-Chandra days, supported by TCS," said Mahantesh Sabarad, head of retail research at SBICAP Securities. "One hasn't seen any material changes under Chandra. Be it financial re-engineering, the group entering the new businesses, cutting excess flab or consolidation, the pace has been slow," he said.

But many don't agree with Sabarad. "There has been a sharp focus on financial performance of companies under Chandra. One can't not take into consideration the overall economic scenario and the group's exposure to China — one of the group's key markets, which was battling an economic slowdown before the coronavirus outbreak. Overall, people are happy with his performance," said a Tata group observer.

TOP 5 & WORST 5 PERFORMERS

(Market cap in ₹ cr)

	Feb 20,'17	Feb 20,'20	Change	% chg
Trent	8,432	27,408	18,976	225.0
Titan Company	38,486	1,17,427	78,942	205.1
Tata Global Beverages	8,930	24,014	15,084	168.9
Voltas	11,536	23,994	12,458	108.0
TCS	4,93,881	8,09,127	3,15,246	63.8
Tata Power	22,977	13,970	-9,007	-39.2
Tata Communications	21,348	11,205	-10,143	-47.5
Tata Tele Maharashtra	1,259	645	-614	-48.8
Tata Motors	1,45,691	57,002	-88,689	-60.9
Tata Motors-DVR	14,172	3,300	-10,872	-76.7
Total group m-cap	**8,61,347**	**12,02,325**	**3,40,978**	39.6

Compiled by BS Research Bureau

Source: Capitaline

Jaguar shelves plan to sell bonds for cash

Jaguar Land Rover (JLR) Automotive has shelved plans to issue a US dollar bond after investors demanded too high an interest rate to compensate for the risk the coronavirus poses to them, people familiar with the matter, said. JLR hired Bank of America Merrill Lynch to meet investors in the US ahead of a potential sale of new bonds, and days after warning the virus outbreak was impacting its supply chain. **BLOOMBERG**

Car sales continue to slip, down 4.6%

Overall vehicle sales skidded by 7.13% YoY in Jan to 290,879 units

ARINDAM MAJUMDER
New Delhi, 20 February

VEHICLE REGISTRATION DATA

	Jan '19	Jan '20	% change
Two-wheelers (in units)	1,389,951	1,267,366	-8.82
Three-wheelers	58,178	63,514	9.17
Commercial vehicles	88,271	82,817	-6.18
Passenger vehicles	304,929	290,879	-4.61
Tractors	43,924	46,170	5.11
TOTAL	**1,885,253**	**1,750,746**	-7.13

SOURCE: FADA

Sales of vehicles have continued to decline, with automobile dealers saying that confidence is yet to return among buyers as many customers are holding back their decision to buy cars.

However, green shoots are visible especially in rural areas, with tractor sales showing an uptick. Retail sales of vehicles declined by 7.13 per cent year-on-year (YoY) in January to 290,879 units, according to the data released by Federation of Automobile Dealers Associations (FADA), the apex body of auto dealers on Thursday.

Retail sales are typically subdued in January after a brisk business in December. However, subdued consumer sentiment and persistent slowdown in the economy have added to the drop in demand this year.

"Auto sales continued to be in the negative territory in January, except for three-wheelers, with many consumers not buying any vehicle," said FADA President Ashish Kal, adding that the transition to BS-VI emission norms also delayed purchases.

Retail sales of passenger vehicles, the largest component of the pie, fell by 4.61 per cent YoY in January to 290,879 units, according to FADA data.

January was the second consecutive month of decline in showroom sales of passenger vehicles after two months of marginal recovery in October and November, when automakers had offered record discounts to entice customers. However, with a dip in economic activity and overcapacity with fleet owners on account of an increase in freight carrying capacity of trucks, sales of heavy commercial vehicles slumped 6.89 per cent to 82,187 units in January.

Most manufacturers witnessed decline in wholesales last month as production was reduced to control inventory of BS-IV emission norm-compliant vehicles and gradual increase in dispatches of BS-VI compliant units at dealerships. The new emission norms will be effective from April 1.

"With weak demand situation, liquidation of inventory of BS-IV vehicles is the top focus for dealers and FADA has already appealed to all manufacturers to switch over completely to BS-VI vehicles.

The past 14 months have seen one of its toughest times in auto sales. Therefore, FADA has requested original equipment manufacturer's (OEM's) that any BS-IV vehicle billed further, which is not against specific customer orders, to be returned to avoid financial loss to dealers," Kale said.

GST profiteering: Nestlé gets stay from Delhi HC

DILASHA SETH
New Delhi, 20 February

Coming to the rescue of fast-moving consumer goods giant Nestlé, the Delhi High Court has again stayed National Anti-profiteering Authority's (NAA's) order to recover ₹73 crore by March for not passing the benefits of the goods and services tax (GST) rate cut to consumers.

The stay, granted through an order issued on February 10, was given on grounds that Nestlé had already paid ₹16.58 crore of the total demand of ₹89.73 crore.

The NAA had in December upheld profiteering allegations on the ground that the firm had not passed on the benefits of reduction in GST in respect of various products.

Nestlé had challenged the order on the ground that the NAA had passed the same suo motu and not on the basis of written complaint, which was impermissible. Besides, it argued that while the matter was heard by four members, the NAA order was signed by only three members and was passed beyond the mandatory period of three months.

The NAA noted that the methodology adopted by Nestlé to pass on GST rate cut was "illogical, arbitrary, and illegal, which has resulted in unfairness and inequality while passing on the benefit of tax reduction".

M S Mani, partner, Deloitte India, said the absence of a prescriptive methodology for determining profiteering had made it difficult for conducting businesses.

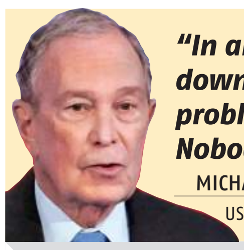
"They will hope for some relief considering the practical challenges faced during the initial period of GST introduction," he said.

The stay was given on grounds that Nestlé had already paid ₹16.58 crore out of the total demand of ₹89.73 crore

According to the anti-profiteering rules under GST, "benefits of input tax credit should have been passed on to the recipient by way of commensurate reduction in prices". The next date of hearing is May 20.

A Nestlé India spokesperson told *Business Standard* earlier that "...the benefits largely have been passed on by way of reduction of MRP or by way of increase in grammage. On SKUs (stock-keeping units), where it was not practicable to pass on the benefits, say for example Nescafé single-serve packs for ₹2, or Maggi noodles ₹5 packs, the benefit has been passed on other pack sizes within the same product category".

The Delhi HC on Tuesday also stayed a show-cause notice by NAA to Johnson & Johnson for allegedly profiteering by not passing on the benefit of rate cuts. J&J argued that the calculation of profiteering of ₹42.7 crore was based on "arbitrary, unreasonable and capricious methodology".



"In all fairness, the Chinese have slowed down. It is India that is an even bigger problem (in climate change fight). Nobody is doing anything about it"

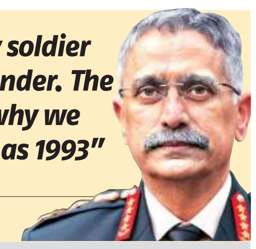
MICHAEL BLOOMBERG
US presidential contender and ex-New York mayor

"What Sandeep Dikshit said openly is what dozens of (Congress) leaders are saying privately. I renew my appeal to the Congress Working Committee to hold leadership elections to energise workers and inspire voters"

SHASHI THAROOR
Congress leader

"Army does not discriminate (against) any soldier based on religion, caste, creed, or even gender. The outlook has always been like this, that's why we started inducting women officers as early as 1993"

GENERAL M M NARAVANE
Army chief



IN BRIEF

Westinghouse to sign N-pact with India during Trump visit

US energy firm Westinghouse is expected to sign a new agreement with state-run Nuclear Power Corporation of India for the supply of six nuclear reactors during US President Donald Trump's visit next week, officials said, aiming to kickstart a long-running project. The agreement will lay out timelines and the lead local constructor for the reactors to be built at Kovvada in Andhra Pradesh and also address lingering concerns over India's nuclear liability law. The United States has been discussing the sale of nuclear reactors to energy-hungry India since the 2008 civil nuclear energy pact and last year the two governments announced they were committed to the establishment of the six reactors. REUTERS

'Trump's popularity rises in India'

The popularity of US President Donald Trump in India is on the rise but some of his policies and trade attitudes do not garner the same warm reception, a latest Pew Research survey said on Thursday ahead of his maiden presidential trip to the country. In the 2019 Global Attitudes Survey of 2,476 respondents conducted from June 24–October 2, 2019, in India, Pew said the majority of Indians have confidence in Trump to do the right thing when it comes to world affairs. "And while Trump himself receives positive marks from the Indian populace, Indian public opinion toward some of his specific policies and trade attitudes do not garner the same warm reception." PTI

LPG prices may come down next month, says Pradhan

Union Minister Dharmendra Pradhan on Thursday said LPG prices may come down next month. Last week, cooking gas LPG price hiked by ₹144.5 per cylinder due to spurt in benchmark global rates of the fuel. He also directed SAIL to draw up an action plan to enhance production and ensure safety at its plants. PTI

India gives licences for importing 500k tonnes of palm oil

India has issued about 70 licences for importing about 500,000 tonnes of refined palm oil from three countries — Nepal, Indonesia and Bangladesh, sources said. PTI

HDFC Bank's SME book doubles to ₹1.48 trn in under 3 years

Private sector lender HDFC Bank doubled its SME book to over ₹1.48 trillion by December 2019 from ₹74,000 crore in March 2017, cornering over 9 per cent of the around ₹16-trillion market, at a time when credit flow to the segment has been tepid. The RBI data shows the system-wide SME loan book stood at ₹15.7 trillion as of June 2019, up 10 per cent over the 12-month period. With a loan book of over ₹1.48 trillion, HDFC Bank is the clear No. 2. PTI

India ranks 77th on sustainability index: UN report

India ranked 77th on a sustainability index that takes into account per capita carbon emissions and ability of children in a nation to live healthy lives and was placed 131st on a ranking that measures the best chance at survival and well-being for children, according to a UN-backed report. PTI

MPC paused to get max impact from future cuts

Minutes of the meeting show Das felt economy needs more monetary stimulus as inflation outlook remains uncertain

ANUP ROY
Mumbai, 20 February

"CONSIDERING THE OVERALL EVOLVING GROWTH-INFLATION SITUATION, IT WOULD BE PRUDENT TO CONTINUE THE FOCUS ON GROWTH IN THE CONTEXT OF THE EXPECTED MODERATION IN INFLATION"

SHAKTIKANTA DAS
RBI governor

"THE ENDEAVOUR NOW SHOULD BE TO IMPROVE TRANSMISSION OF THE CUMULATIVE 135-BP RATE REDUCTION EFFECTED SINCE FEBRUARY 2019 AND SEIZE THE OPPORTUNITY WHEN IT OPENS UP TO ACT JUDICIOUSLY AND EFFECTIVELY TO SUPPORT THE ECONOMY"

MICHAEL PATRA
RBI deputy governor

When the Monetary Policy Committee (MPC) members met earlier this month they decided to keep the policy repo rate unchanged as they wanted to maximise the impact of any future rate cuts, show minutes of the meeting.

The MPC, which met on February 4 and announced its decision on February 6, focused on having banks pass on the past rate cuts and letting the economy show signs of improvement following the growth-supportive measures of the government.

Unlike the previous policies, the six members of the MPC were not unduly alarmed on the inflation front, and took comfort in the fact that inflation expectation surveys showed households expected moderation in prices. The members also deliberated on the coronavirus outbreak and its economic risks.

Even though the consumer price index inflation spiked to 7.35 per cent in December, much higher than Reserve Bank of India's (RBI's) comfort level of 6 per cent, it was largely because of onion prices rising 328 per cent, which alone accounted for a 210 basis-point (bp) increase in headline inflation despite its small weighting (0.64 per cent) in the overall bucket, the members noted. According to the RBI survey, "the three-month ahead inflation expectation is expected to moderate by 60 bps and one year by 70 bps".

The members also noted the government measures and the tax cuts would help the economy, but not in the short term.

Governor Shaktikanta Das said some green shoots were visible. "Monetary transmission and bank credit flows have improved, but they need to become stronger. While the macroeconomy needs further monetary stimulus, the inflation outlook continues to be uncertain," said Das.

He added barring the intensification of global risks, there was policy space that needs to be timed optimally and opportunistically to maximise its impact on growth.

RBI's executive director and newly inducted member in the MPC, Janak Raj, said the recent rise in food prices should boost rural wages and help strengthen rural demand. While the stress in the automobile sector seems to be gradually receding, the real estate sector remains stressed.

If the coronavirus crisis prolongs and spreads, "it will have ramifications for the global economy and its net impact on the Indian economy might be negative even if oil and other global commodity prices decline", Raj said.

"Weak demand conditions warrant further monetary policy easing, while elevated inflation and the highly uncertain inflation outlook call for a cautious approach. More data are needed for greater clarity," Raj said.

Deputy Governor Michael Patra said there was no definitive evidence that the downturn is bottoming out.

According to external member Chetan Ghate, the September corporation tax cuts did not result in any discernible increase in net profits in the third quarter across several firms in RBI's Industrial Outlook Survey. The profit margin expectations for the fourth quarter were also pessimistic.

"If growth hasn't revived with a 135-bp cut, and a tax stimulus amounting to 1.2 per cent of GDP, then the need of the hour is more structural reform," Ghate said.

Another external member Pami Dua said while there were some signs of a modest revival, overall economic activity continues to remain weak.

External member Ravindra Dholakia favoured preserving policy space for action at an appropriate time.

Govt won't make power demand data official

CEA report says demand is set to grow at 5%, lower than previously projected

SHREYA JAI
New Delhi, 20 February

The Ministry of Power has refused to acknowledge a report by the Central Electricity Authority (CEA), its technical arm, which estimates around 20 per cent lower growth in demand than earlier forecast, sources said.

This is after the demand estimates were revised and calculated using another 'econometric' methodology to arrive at more accurate results.

Under the Electricity Act, 2003, the CEA is tasked with formulating Electric Power Survey (EPS), which forecasts short- and long-term electricity demand. Every two years, the CEA revises the demand forecast in the EPS. The revisions are done based on the prevalent economic situation in the country. The last EPS came in 2016 and has been revised since.

The current one was supposed to be released between March-May 2019, but was delayed as the findings were not accepted by the ministry of power, said an official. The CEA changed the methodology and finalised it in August 2019. However, the ministry of power did not make it public.

This was a deviation from previous practice because in the past the ministry released the survey with the addition of its own comments on the findings.

The report was, however, made available on the CEA website recently. "But the ministry has not acknowledged it officially," sources said.

According to senior government sources, the ministry has decided not to accept the report as it did not want to give the numbers official sanction. A questionnaire sent to the ministry did not elicit any response.

The new report, prepared by the CEA along with consultancy KPMG, has calculated India's energy requirement to grow at 5.22 per cent from financial year 2021-22 (FY22) to FY27. This is at an optimistic GDP growth rate of 8 per cent over this period.

The report has pegged India's energy demand at 1,477 billion units (BU) in FY22, and 1,905 BU in FY27. In an earlier report, which was also not accepted by the Centre, the energy demand was 1,566 BU and 2,047 BU for the same period. During April-December 2019, India's energy demand was 951 BU.

The last EPS revision in 2016 led to infighting between departments as it predicted a fall in demand. The CEA had then reduced the projection to 239 Gw by 2022 from earlier 289 Gw. While the 2018 report brought it down to 225 Gw in 2022, the revised report in 2019 reduced it further to 202 Gw (under the optimistic scenario of GDP growth rate of 8 per cent). The ministry had attributed the fall to surplus power supply and lower demand from several states.

At a lower GDP growth rate of 6.5 per cent, the peak power demand is even lower at 195 Gw. India's current installed capacity is 367 Gw. Advance estimates for FY20 that the GDP growth of the country will be 5 per cent.

There is no new thermal power generation being planned in the country, except for state-owned NTPC, which is constructing 20 Gw of coal-based capacity. Besides, there is an envisaged capacity 175 Gw of renewable power that is sought to be built by 2022.

Investment in India's power sector is at a standstill. It is, instead, saddled with ₹2-trillion worth of non-performing assets. At the same time, barely any state has signed long-term power purchase agreements in the past decade owing to financially sick status of their power distribution companies (discoms).

The National Infrastructure Plan of the government has estimated ₹1.5-trillion investment in renewable energy and ₹1.1 trillion in thermal power by FY21.

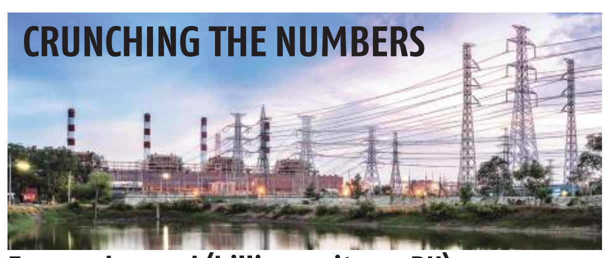
"Downward revision in power demand is a clear indication of slowing economic growth and thereby will impact investment in the sector," said an expert, who has not read the report. He, however, said the peak demand would also flatten in coming years because of increasing share of renewable projects as they have low plant load factor or operating ratio.

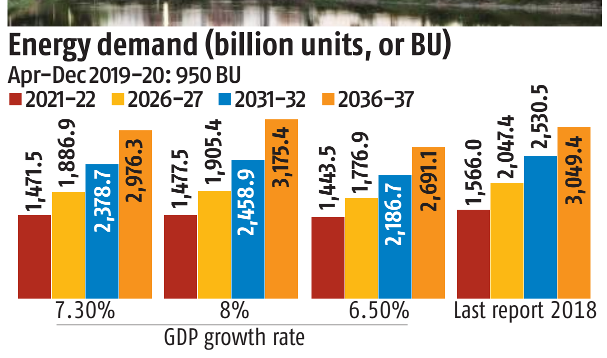
Clarifying on the data, the report said while the policies and schemes such as Make in India, dedicated freight corridor, and power for all are likely to dramatically increase electricity consumption, rooftop solar programme, Perform, Achieve and Trade (PAT), Bachat Lamp Yojana (BLY), and Standards & Labeling programme may reduce demand for grid electricity.

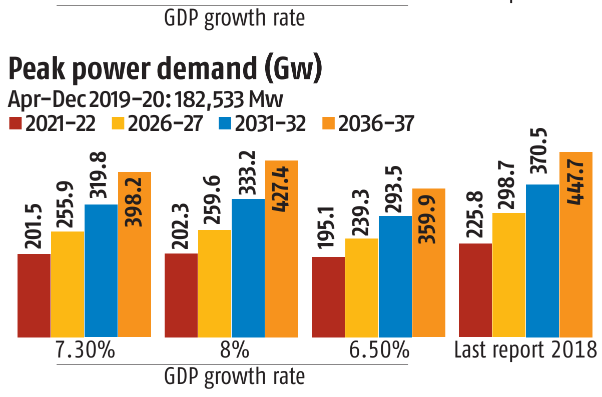
"Other advanced technologies such as electric vehicles could alter demand. Also, with growing global concerns due to climate change, there has been increasing focus on gradually reducing dependence on fossil fuels and raising the share of renewable energy sources in the energy mix," it said.

The report also cited the share of off-grid renewable such as solar pumps, which would decrease demand for grid electricity in the future.

CRUNCHING THE NUMBERS







Source: Long-term energy demand forecasting report by Central Electricity Authority

DHFL reports pre-tax loss of ₹167 crore in Q3

But lender sees net profit of ₹934 cr from tax adjustment of ₹1,973 cr

SUBRATA PANDA
Mumbai, 20 February

Troubled mortgage lender Dewan Housing Finance (DHFL), which is under insolvency proceedings, has reported a pre-tax loss of ₹167.80 crore in the third quarter (Q3) of 2019-20 (FY20), compared to a pre-tax profit of ₹471.5 crore in the year-ago period. In the September quarter, the company had reported a pre-tax loss of ₹7,584.43 crore. However, the company has reported a net profit of ₹934.35 crore in the quarter ended December 2019 (Q3FY20), compared to a net profit of ₹313.6 crore in the year-ago period on account of a tax adjustment to the tune of ₹1,973 crore for the first nine months of FY20.

The company, however, said it has not provided for interest of ₹527.62 crore on borrowings since insolvency commencement based on the opinion of legal advisors.

"Under the insolvency and bankruptcy code, the treatment of creditors under the resolution plan is according to debts due as on the insolvency commencement date and therefore, no interest is accrued and payable after this date. If the interest was accrued on borrowings, the profit for the quarter and nine months would have been lower by ₹392.39 crore," said the company.

STOCK JUMPS 4.98%
Price in ₹

The interest income of the lender declined 28 per cent to ₹2,384.12 crore in Q3FY20, compared to ₹3314.49 crore in Q3 of 2018-19. Similarly, income of the company dropped 26.8 per cent to ₹2,436.90 in Q3FY20, compared to ₹3,331.93 crore in the year-ago period. The company has said its wholesale loan portfolio aggregating to ₹48,347.57 crore has been 'fair valued', based on internal valuations at ₹42,361.51 crore, thereby resulting in a fair value loss aggregating to ₹5,986.06 crore. Of the total fair value loss of ₹5,986 crore, ₹4,852.06 crore has been accounted up to September 30, 2019, and balance loss of ₹1,133.99 crore has been charged to the statement of profit and loss for the quarter ended December 31, 2019.

"The recoverability or otherwise of these loans is yet to be ascertained and hence, the appropriate provision has been made as a prudent measure," the company said in an exchange filing.

The auditors have pointed out that with the company incurring losses to the tune of ₹6,089.12 crore during the nine months ended December 2019, the net worth has eroded substantially. The auditors have also expressed that there exists a mismatch to the extent of ₹3,018 crore that is yet to be identified and mapped to individual parties and the underlying securities available, if any, out of the available surplus security cover.

Also, investigations relating to financial irregularities are ongoing. The SFIO and the ED are investigating the matter.

DoT to bar foreign telecom vendors in tit-for-tat response

PRESS TRUST OF INDIA
New Delhi, 20 February

The Department of Telecom (DoT) will bar telecom vendors of those countries that would disallow or exclude Indian suppliers from providing network gears used for wifi, fixed line and cellular networks, including 5G services, in their respective local markets, according to an official order.

The order is part of the government's Public Procurement (Preference to Make in India) order 2017 which envisages to source domestically manufactured products to encourage 'Make in India'.

"Any foreign government which is not allowing Indian suppliers to participate and/or compete in procurement of telecom equipment, provision of clause 10 (d) of Public Procurement (Preference to Make in India) order 2017 be invoked in relation to the aforesaid telecom items," the order sent by the DoT to all central government departments and public sector units on February 19 said.

This include wifi access points, routers, optical fibre cable, enterprise routers and related technology, integrated broadband systems, broadband transmission equipment, modems etc.

The section 10 (d) of the order states that if nodal ministry finds that Indian suppliers of an item are not allowed to participate or compete in procurement by any foreign government then it may restrict or exclude bidders from that country from eligibility for procurement of that item and other items relating to that nodal ministry.

The Department for Promotion of Industry and Internal Trade identifies DoT as the nodal department for implementing the provisions related to procurement of goods, services or works related to the telecom sector.

'If all goes well, there will be a recovery by end of 2021'

Private-sector lender Lakshmi Vilas Bank (LVB) is exploring avenues to raise capital. While reports stated that investors including DBS Bank, Capri Global, Indostar Capital Finance, and Tilden Park have shown an interest in the bank, LVB interim Managing Director and Chief Executive Officer **S SUNDAR** told **T E Narasimhan** a couple of investors had shown an interest but nothing had been finalised. Edited excerpts:

T E NARASIMHAN
Chennai, 20 February

Q&A

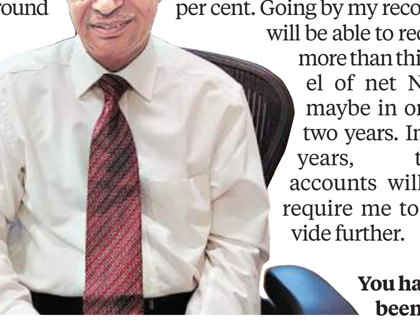
S SUNDAR
Interim MD & CEO, LVB

The fresh slippages in Q3 were lower than the recoveries. How do you see that?

If you look at the non-performing assets (NPAs) in the third quarter, there was an addition of ₹257 crore and the recoveries were ₹267 crore. We were very confident of recovering another ₹200 crore. Unfortunately, due to some reason, we could not achieve that, but hope to recover it this quarter. I am confident that I should be able to complete the deal (with investors) and raise a portion of capital during the current year.

The RBI has put LVB under prompt corrective action (PCA). When do you see a turnaround?

Since 2018 the bank has received ₹1,435 crore as capital. Provisions for NPAs were ₹2,500 crore during the same period. The existing capital and funds raised have gone on to meet the provisioning requirements and that created problems. We will be able to recover a substantial amount. If that happens, the NPA problem could be arrested. Of the gross NPAs of ₹4,081 crore, about ₹1,400 crore should be in the NCLT. Insolvency is a slow process, but media reports have stated around 60 per cent of the NCLT cases are expected to be settled in the next few quarters. If that happens, I will be able to recover more. I am confident the economy should bounce back in 2020-21. If everything goes well, there will be a recovery by the end of 2021.



How much capital do you need?

We need ₹1,500-2,000 crore for growth, the capital adequacy ratio, and provisioning. Current gross NPAs are ₹4,081 crore and net NPAs ₹1,463 crore. The provision coverage ratio is almost 69 per cent. Going by my records, I will be able to recover more than this level of net NPAs, maybe in one or two years. In two years, these accounts will not require me to provide further.

You have been in talks with some investors. What is the status? What kind of fund raising are you looking at?

The board has authorised us to have discussion with prospective investors. These talks could cover not only raising capital through rights, preferential issues, or qualified institutional placements, it can even extend to a merger, or offering a controlling interest. Either we should get a huge chunk of capital coming in, or else a merger could be a better proposal. That was why the Indiabulls Housing Finance merger was considered. Had it been through, these problems would have been solved. We are analysing all the proposals. There has been a lot of enquiries and talks at different stages. We are trying to see some reasonable capital coming in before March 31, though not the entire quantity.

Axis in talks to buy stake of Max Life

SUBRATA PANDA
Mumbai, 20 February

Private sector lender Axis Bank has entered into an exclusive agreement with Max Financial Services and Max Life Insurance to explore a long-term strategic partnership with the life insurance arm.

The deal will involve Axis Bank acquiring a significant stake in the life insurer, but the quantum has not been finalised yet.

The boards of Max Financial Services and Max Life Insurance Company on Thursday gave the go-ahead to both companies to explore options with Axis Bank.

According to Insurance Regulatory and Development Authority (Irdai) norms, any entity holding more than 10 per cent stake in a life insurance company is termed a promoter. If the stake is less than 10 per cent, the entity will hold the status of investor.

Axis Bank already holds 2 per cent in Max Life Insurance. Max Financial, which is the holding company of Max Life, holds 72.5 per cent in the life insurer, with Mitsui Sumitomo holding 25.5 per cent stake in the life insurer. Max Life is the largest non-bank-owned life insurer in the country.

Axis Bank is a bancassurance partner of Max Life Insurance, wherein it sells the latter's products as a corporate agent. The new premium generated through this arrangement has aggregated to over ₹12,000 crore over a period of 10 years, while maintaining high persistency.

Apart from Axis Bank, Max Life's bancassurance partners include YES Bank and Lakshmi Vilas Bank. Axis also has similar partnerships with state-owned life insurance behemoth Life Insurance Corporation and Bajaj Allianz Life Insurance Company.

Amitabh Chaudhry, managing director and chief executive officer of Axis Bank, said: "We constantly keep assessing strategic opportunities and we see a potential for greater participation in the under-penetrated life insurance space."

He added: "We have had a long-standing bancassurance relationship with Max Life and the ongoing discussions are a step further to deepen and strengthen this strategic partnership. The successful completion of the proposed transaction is expected to create significant value for all stakeholders." Max Group Founder and Chairman Analjit Singh said: "The strategic interest of Axis Bank in Max Life will lead to the much-awaited permanence and allow both companies to work towards an enduring future for policyholders and other stakeholders. We also believe that the potential transaction will provide a fillip to the life insurance sector overall."

The proposed transaction will be subject to regulatory approvals and corporate authorisations, satisfactory completion of due diligence, and execution of definitive documentations. According to sources, Max Life and Axis Bank had earlier approached Irdai for a deal, but it did not materialise as the insurance regulator had some reservations.

HDFC Life and Max Life had agreed to merge in 2016, but the deal did not go through.

In the first nine months of FY20, the value of new business written by Max Life stood at ₹576 crore, with year-on-year growth of 24 per cent.

More on business-standard.com

"The strategic interest of Axis Bank in Max Life will allow both companies to work towards an enduring future for policyholders and other stakeholders"

ANALJIT SINGH
Founder and chairman, Max Group

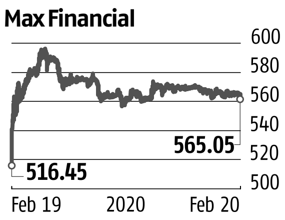
"We have had a long-standing bancassurance relationship with Max Life and the ongoing discussions are a step further to deepen and strengthen this strategic partnership"

AMITABH CHAUDHRY
MD and CEO, Axis Bank

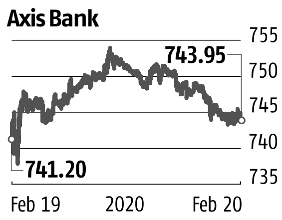
TAKING STOCK

BSE price in ₹

Max Financial



Axis Bank



Compiled by *BS* Research Bureau

Source: Bloomberg

Govt takes a call to save stressed telcos

No relaxation likely on AGR, but ministries fine-tuning plans to offer relief to firms

MEGHA MANCHANDA
New Delhi, 20 February

After back-to-back parleys this week between the top management of telecom companies and the government, a consensus seems to have emerged on the need to save the financially stressed sector.

While Vodafone Idea Chairman Kumar Mangalam Birla and Chief Executive Ravinder Takkar did their rounds of the Department of Telecommunications (DoT) and North Block over the last few days, Bharti Airtel Chairman Sunil Mittal joined in as well to seek relief for the telecom industry faced with a bill of ₹1.47 trillion in pending dues linked to adjusted gross revenue (AGR).

There's no official word yet from the DoT on what measures were being planned to offer relief, but a senior official on Thursday said, "We are doing everything to save the health of the sector." A source said the DoT and the Finance Ministry were looking at many steps to bring back the sector on track and that a ''monopoly'' situation was not desirable. A telecom fund to give loans to operators is among the measures being discussed.

Bharti Airtel Chairman Sunil Bharti Mittal at Telecom Minister Ravi Shankar Prasad's office, on Thursday. Mittal said the sector required 'rationalisation' in levies PHOTO: PTI

The Union government is of the view that there can be a debate on the quantum of payment and penalty but not on the fact that the companies have to make the payments.

In fact, Tata Teleservices, which paid ₹2,197 crore as full and final in AGR dues on Monday, will be issued a notice seeking full payment of dues as per the Union government's calculation. The company's dues are estimated at around ₹14,000 crore. To press its point, the DoT is expected to issue notices to all telcos to pay their dues by March 17.

Mittal, who met Telecom Minister Ravi Shankar Prasad on Thursday, said the sector was heavily taxed and required "rationalisation" in levies. He didn't comment on AGR dues issue.

To cross-check the AGR dues claims of the telcos, the government has decided to verify their accounts during the last few years in a random fashion. In the case of Tata Teleservices, DoT would ascertain whether the full payment claims made by the company were genuine or not. On the issue of invoking bank guarantees of the companies in case of payment default, DoT is awaiting legal opinion it sought on the AGR issue. The department, under the unified licence agreement, can invoke bank guarantees and convert it into a cash security if the service provider violates any term of the licence. The ministry has sought views on whether the guarantees should be invoked before March 17 (next date of the SC hearing).

"The government has to ensure that the telecom companies comply with the order of the Supreme Court. They have started making payments and have so far paid ₹15,700 crore," the official said. The government has to ensure that the health of the sector is not impacted and that the Union government meets its obligation towards the customers, according to the official.

Unpaid licence fee of telcos amounts to ₹22,589 crore, while interest and penalties took the total liability to ₹92,641 crore, said *PTI* quoting sources

It is learnt that during the meetings with the government this week, many telcos conceded they should have paid their dues after 2011, rather than waiting so long. In 2011, the matter was shifted from the SC to the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) for interpretation of the heads and computation thereof.

The AGR dispute started in 2003. On October 24, 2019, the SC ruled that AGR for telcos should include all revenues accrued to carriers, including that from non-core activities, upholding the DoT's stance. The firms paid 90 per cent of the amount due to the government in 2003. They were supposed to pay the remaining 10 per cent to the government, along with interest, penalty and interest on penalty.

On February 14, SC had rejected the modification applications of Bharti and Vodafone Idea seeking relaxed payment scheme for the AGR dues. The top court directed the companies to make payments immediately, prompting the DoT to issue letters to telcos last Friday that payments must be made by the same midnight.

IL&FS to seek lenders' nod for road asset sales via e-voting

AMRITHA PILLAY
Mumbai, 20 February

Resolution for IL&FS's five road assets hangs in the balance as bid validity for these projects is set to expire by month-end. In a last-ditch effort to finalise the sale of these assets, the group will now seek lenders' approval through e-voting.

"The bids for the five road projects will expire on February 29. As the next date of hearing for IL&FS at the National Company Law Tribunal is not before that, the group is trying to get lenders' approval through e-voting," said a person privy to the development. The person added: "The e-voting process for some of these projects commenced earlier this month. For all five, it is expected to conclude before the deadline." An IL&FS spokesperson confirmed the e-voting.

According to an affidavit, the group reached out to bidders, seeking extension of bid validity. However, they rejected the proposal in the absence of clarity on the timeline of issuing letters of intent.

In December 2018, a public bid process was initiated for sale of 14 road assets. In August 2019, the group received binding bids for 10 of these assets, for a combined bid value of about ₹13,000 crore. Of the 10 projects, IL&FS group decided to go ahead with bids for only five, as the remaining were significantly lower than the fair market value. In October, the new management decided to consider monetising the remaining nine assets under the Infrastructure Investment Trust (InvIT) model.

The bid validity for 5 projects is set to expire on February 29

The Chenani-Nashri Tunnel, Hazaribagh-Ranchi Expressway, Jorabat Shillong Expressway, Pune Sholapur Road Development Company, and Jharkhand Infrastructure Implementation Company are the five assets for which bids were higher than fair market value.

"The bid value for these five projects is ₹7,489 crore, against a debt of ₹10,500 crore and fair market value of ₹7,200 crore," said the person quoted earlier. The group is now seeking lender approval to finalise the sale of these five projects, before the binding bids expire.

In October, the government-appointed management committee for the group said it expected at least half the group's debt to be resolved, recovered, or restructured — and to complete a significant portion of this by March 2020.

A lender approval will help IL&FS's new board to take timely steps to expedite the resolution for these assets, subject to receipt of nod from retired Supreme Court judge DK Jain, and other regulatory approvals.

Turning a threat into opportunity

Special measures required for sectors affected by coronavirus

CHANDRAJIT BANERJEE

The impact of the Coronavirus, now named COVID-19, is being felt globally as it has started disrupting trade, supply chains, and commodity demand, causing fears of a possible economic slowdown. The International Monetary Fund stated that while it was too early to assess the full impact of the coronavirus epidemic amidst great uncertainties, the virus may damage global growth in 2020. There are significant consequences of the outbreak for the Indian economy across various sectors, given India's high import dependence on China. At the same time, we must be careful to avoid overreaction and panic, as the outbreak is confined largely to China.

To assess the impact and stress points across sectors, Confederation of Indian Industry (CII) undertook an extensive consultation exercise with its members and affiliated associations and our office in Shanghai conducted a quick survey of Indian companies operating in China. We found that with many Indian companies spread across major Chinese cities and provinces, supply chain disruptions and restrictions on people are strongly impacting Indian companies based in China.

Further, in India, industries and markets across the board are in a difficult position. The sectors most likely to be affected by the outbreak include shipping and aviation, pharmaceuticals, mobiles, electronics and solar power, among others.

Tanking freight rates due to the epidemic have impacted cargo movement service providers in the Indian shipping industry, with dry bulk cargo movement registering a sharp drop since January 2020. Further, realisation per day per vessel has declined by more than 75-80 per cent in dry bulk trade. In addition, cargo is stalled as ships are not being permitted to dock and unload. The government should consider issuing an official advisory so that shipping companies can put up their position as a genuine case of delay in goods delivery with clients.

The Indian aviation sector is likely to lose out on its gross revenue targets as the outbreak has led to cancellations and temporary suspension of flights operating from India to China and Hong Kong. To deal with the potential tourism losses, providing a limited period open skies policy to western bound destinations till October 2020 could encourage more inflows from that direction.

The Indian pharma industry is heavily reliant on imports of bulk drugs such as APIs and intermediates. In FY 2019, India imported around ₹249 billion worth of bulk drugs, accounting for 40 per cent of domestic production. The outbreak continues to disrupt supplies of pharmaceutical ingredients which has led to shortages and increased prices for generic drugs in India.

Fast and close coordination between various ministries and concerned departments to expedite approvals, active measures by the government to procure key starting materials (KSMs) and APIs, permitting brown API units/firms with limited capacity utilisation to produce APIs which are being imported are some recommendations that could help the sector. Registration certificates already issued for imports may be extended for delayed deliveries. Some factory units which have been shut down could be permitted to restart operations on provision of self-certification for environmental clearances.

The Indian solar components market is dominated by Chinese companies, which supply around 80 per cent of the requirements, including solar cells and modules. Indian developers are faced with shortages of raw materials required for solar panels/cells due to delayed supplies by Chinese vendors. Many upcoming solar projects may be stalled while output may also suffer. An extension of the timelines of projects would provide relief to renewable energy companies. It is also suggested to utilise the green cess to offer incentives for domestic manufacturers of these modules till the crisis tides over.

For the electronics sector, enhanced availability of credit and relaxation in NPA regulations can help avoid enterprises defaulting on their obligations. RBI can play an active role to reduce financial stress by calling on lenders to adopt a sympathetic stance. Additionally, it is suggested that the borrowing limits should not be reduced.

While there is uncertainty about the duration of the current crisis situation, we believe that the disruption can continue for two quarters or so. Meanwhile, it is essential to avoid price rise owing to restrictions in supply of critical goods for consumers. Once shipments are restarted, the government must ensure that all paperwork is conducted at great speed to clear goods at the ports to alleviate stress on enterprises.

The coronavirus crisis is also a chance for India to make progress on its Make in India aspirations and also export for the world. Business conditions must be conducive to position India as a viable competitive alternative to China which Indian industry is fully capable of.

In the medium run, we must ensure that Indian manufacturing can reach close to the price points that Chinese manufacturers provide. Indian industry enjoys the capability inside the factory gate but outside-the-fence factors such as ease of doing business, cost of capital, land availability, and others need to be competitive. Right-pricing of transport and energy will make Indian goods more competitive in global markets.

The author is director general, Confederation of Indian Industry

CHINESE WHISPERS

Everyone's invited

To the question whether opposition political leaders had been invited to the *Namaste Trump* event to welcome US President Donald Trump (*pictured*) in Ahmedabad on February 24, the Ministry of External Affairs on Thursday said the event at a cricket stadium was organised by the Donald Trump Nagrik Abhinandan Samiti. It said this organisation would be finalising the list of invitees. In Ahmedabad, Municipal Commissioner Vijay Nehra said fewer than 200,000 people were expected to line up along the 22-km route of the roadshow of the US president and Prime Minister Narendra Modi in the city. On Tuesday, Trump had said: "He (Modi) says between the stadium and the airport, we'll have about 7 million people. So its going to be very exciting. I hope you all enjoy it." That would be the total population of Ahmedabad (7 million), a civic official said.

House banter

Amid the acerbic debates and a heated exchange of words between the Treasury and Opposition Benches in the Uttar Pradesh legislature, occasional light-hearted banter provides the much-needed relief to House members and eases the frayed tempers of the policymakers. In a recent episode during the ongoing Budget session, the Samajwadi Party (SP) expressed dissatisfaction at the reply of the Adityanath government to a question it posed. Thereafter, the leader of the Opposition, Ram Govind Chaudhary, announced he would be staging a two-minute walkout in protest. Since Chief Minister Yogi Adityanath was due to speak shortly thereafter, House Speaker Hriday Narayan Dikshit advised Chaudhary to just take a round of the floor of the House and return to his seat instead of walking out. This amused the members across the party divide, including Adityanath and Chaudhary.

Gearing up for May 2021

The West Bengal Assembly polls are scheduled for May next year. The opposition is looking at putting together a "third front" in the polls against the ruling Trinamool Congress and the challenger, the Bharatiya Janata Party (BJP). This "third front" is likely to comprise the Left parties and Congress, which is a repeat of what happened in 2016. In that election, this alliance had split the anti-incumbency vote between itself and the BJP. The effectiveness of this "third front" will be tested in the upcoming civic elections in West Bengal. The CPI(M) and Congress are working on fielding candidates who are below 35, and even apolitical ones who are popular and have a clean image.

Required: Institutional capacity

The UK's National Infrastructure Commission provides some lessons

INFRA TALK

VINAYAK CHATTERJEE

July 10, 2014: Finance Minister Arun Jaitley's first Union Budget speech in Parliament. He reads out Para 110 in Section V on Infrastructure:

"India has emerged as the largest PPP market in the world with over 900 projects in various stages of development. PPPs have delivered some of the iconic infrastructure like airports, ports and highways which are seen as models for development globally. But we have also seen the weaknesses of the PPP framework, the rigidities in contractual arrangements, the need to develop more nuanced and sophisticated models of contracting and develop quick dispute redressal mechanism. An institution to provide support to mainstreaming PPPs called 3P India will be set up with a corpus of ₹500 crore."

May 26, 2015: The NDA Government constitutes a nine-member committee headed by former finance secretary, Vijay Kelkar. This Committee submits its report "Revisiting and revitalising PPP model of infrastructure development" on November 19, 2015. The committee strongly endorses setting up "3P India" which, it holds, in addition to functioning as a centre of excellence in PPPs, will enable research, review and roll out activities to build capacity. The committee emphasises the need to further strengthen the three key pillars of PPP frameworks, namely, governance, institutions and capacity, to build on the established foundation for the next wave of implementation.

December 31, 2019: The finance minister releases the report of the task force on National Infrastructure Pipeline (NIP) for 2019-25. At a press conference, she says "to achieve the GDP of $5 trillion by 2024-25, India needs to spend about $1.4 trillion over these years on infrastructure. The challenge is to step-up annual infrastructure investment so that lack of infrastructure does not become a binding constraint on the growth of the Indian economy".

It has been recognised quite early that to push the infrastructure agenda hard as a key driver of economic growth, it is not enough to have a visionary project-pipeline and financing; there is also a need to create the required institutional capacity.

Here, the National Infrastructure Commission (NIC) of the United Kingdom, set up as recently as October, 2015, holds some lessons for India.

What is the charter of UK's NIC ?

As an operationally independent agency under the UK Treasury, it functions as a think-tank focussed on the long-term infrastructure priorities of the country and provides advice and recommendations to the government on infrastructure challenges and strategy. It has a secretariat of approximately 50 staff led by a chief executive.

It takes a long-term view. The NIC publishes a National Infrastructure Assessment once every parliament term, setting out the long-term infrastructure needs of the country, spanning a period of 30 years, along with recommendations to the government on how those needs can be met.

But it also keeps an eye on immediate needs. A purely long-term blue skies view runs the risk that the recommendations will simply be ignored by a government focussed not on the next 30, but on the next five. The NIC, therefore, publishes sector-specific reports on more pressing infrastructure needs.

It moves beyond a narrow sector focus. In transport for instance, it examines solutions in multi-modal terms with an eye for the interdependencies between road, rail and metro transport.

The NIC charter makes the relationship, rights and responsibilities with the government clear. The government has a duty to formally respond to recommendations made by the NIC and make it clear which ones it accepts and rejects, along with reasons. The NIC monitors progress on recommendations. It publishes an annual monitoring report which keeps track of the government's progress made on its earlier recommendations. In this way, it acts as a reality check on the gap between aspirations and actual achievement.

It builds bridges with other institutions. The NIC is required by its charter to engage with other stakeholders such as policy makers, infrastructure experts and other relevant bodies such as sector regulators. This is important because one of the biggest problems with institutions similar to the NIC in India, has been a lack of buy-in on recommendations from external institutions by ministry mandarins looking to guard their own turfs.

The NIC has to engage with the public. It is required by its charter to engage with the public while preparing its reports. Given that the public is the biggest "customer" and user of most infrastructure projects, this is critical in building consensus. The NIC is financially independent. While it is technically under the Treasury, it is funded by a "multi-year financial settlement" with the government which enables it to have visibility on funding across years at a time, rather than have to negotiate budgets every year.

So is its operational independence. Its charter makes it clear that it "will have complete discretion to determine independently its work programme, methodologies and recommendations, as well as the content of its reports and public statements."

NIC has the ability to hire good talent. A weakness of Indian institutions has been that they have turned into sinecures for retired bureaucrats. The NIC pulls in not just civil servants, but also professionals from the infra sector, from local governments, and from regulators.

Rebooting Indian infrastructure is crucially dependent on building institutions similar to the NIC in the UK. The principles on which UK's NIC was established show the way.

The author is the chairman of Feedback Infra

INSIGHT

Argentina's crisis

The problem with Macri's economic programme was not excessive gradualism or insufficient central bank independence but faulty design in at least three respects

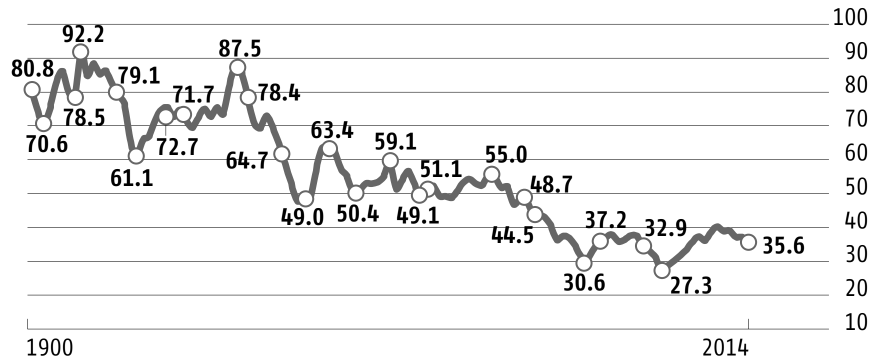
CARLOS LUQUE, SIMAO SILBER & ROBERTO ZAGHA

In December 2019, President Mauricio Macri left Argentina in crisis. The outcome was unexpected. Macri was popular at the start of his four-year mandate. His government's objectives were sound and ambitious: eliminate poverty, accelerate growth (cumulative 11 per cent in four years), reduce fiscal imbalances, and reduce inflation from over 20 per cent to 4-6 per cent in 2019. His policies were orthodox: floating of the exchange rate, central bank autonomy, inflation targeting, fiscal austerity, and elimination of all restrictions on the capital account. Macri's programme was strongly supported by foreign investors, the International Monetary Fund or the IMF, other international organisations (World Bank, Organisation for Economic Co-operation and Development), and the economic media.

The results were worse than the most pessimistic forecasts. The GDP growth was negative in three of the four years 2015-19, per-capita GDP in 2019 was 8 per cent below its level in 2015, unemployment over 10 per cent, and the poverty rate the highest in history. From 28 per cent of GDP in 2015, the country's external debt increased to 60 per cent in 2019. The government's fiscal targets were not achieved and from 53 per cent of GDP in 2015, the public debt rose to 76 per cent in 2019. Accumulated inflation during 2015-19 reached 340 per cent.

It has been difficult to accept that the "right" policies generated dismal results. Eighteen months before the unraveling of the economic programme, the IMF approved a $50 billion loan. And a few weeks before Argentina made public its difficulties servicing its external debt, the IMF deputy director announced: "The...authorities continue to show a strong commitment to their economic policy programme, meeting all the applicable targets under the fund-supported programme. ...these policy efforts are starting to bear fruit..."

ARGENTINA'S PER-CAPITA INCOME AS SHARE OF US (1900-2016) (in 2011 $)



Source: Maddison Project Database

What went wrong?

In a recent Brookings Paper, the former governor of the Argentina Central Bank (BCA) argues that the fiscal adjustment was too gradual, and the BCA was not granted enough independence.

This stance is difficult to reconcile with the facts. Notwithstanding violent popular protests, in the first months of Macri's term, the government increased public utility prices by 100-300 per cent, an adjustment equivalent to 3 per cent of GDP over 2016-17 even though at 53 per cent of GDP, the public debt was moderate. The BCA freed the exchange rate and opened the capital account rapidly leading to a 40 per cent devaluation in the first few weeks of Macri's term and unbridled external borrowing thereafter. The BCA also had sufficient autonomy to let real interest rates rise to 10-15 per cent in a world with real rates near zero. The interest cost of the public debt rose from 1.6 per cent of GDP in 2015 to 4 per cent of GDP in 2019 thus pressuring the fiscal accounts.

From the beginning, the Treasury opposed the central bank's anti-inflation programme, arguing that the inflation targets were excessively ambitious, the required real interest rates excessive, inflation targeting ill-suited to the volatility of an economy with high inflation. Such an approach has worked well in economies where inflation has already been controlled. In addition, the economic logic of inflation targeting is to increase interest rates to contain demand when there is evidence that the inflation targets will not be achieved. With the ongoing recession, this did not make sense. It was only after two years of dismal results that the president moderated inflation targets, thereby ending BCA independence.

In fact, the problem with Macri's economic programme was not excessive gradualism or insufficient central bank independence but faulty design in at least three respects.

Contraction of the public sector, supply side reforms, and liberalised capital flows were assumed sufficient stimulus for increased private investment and growth in an economy with high unemployment and excess capacity. It was naïve to expect entrepreneurs to invest in an economy with such significant slack and so much relative price volatility.

Misdiagnosing the cause of inflation was also devastating to the plan. In a country as dollarised as Argentina, floating exchange rate and open capital account, inflation is not driven by excess demand, but by expectations of exchange rate devaluation. The unit of account ceases to be the domestic currency and becomes the dollar. Inflation expectations lose their anchor and reflect the expected evolution of the exchange rate. Interest rates had to reach extraordinarily high levels to prevent depreciation of the currency and contain inflation. High and unstable interest and exchange rates further depressed rather than stimulated private domestic investment.

High real interest rates with an open capital account made it easy to attract foreign capital. Excessive borrowing has meant Argentina has once again gone through an over-borrowing spree. The 2017 100-Year Argentina bond is now trading at half its value. IMF data suggests that the 50 per cent increase in external indebtedness in four years financed capital outflows of residents needing to protect their assets from the uncertainty brought about by high inflation and an erratic exchange rate.

There are many to blame for this dismal outcome, but the burden will be borne by those parts of Argentine society least able to afford it. Argentina's economic debacle came from a plan whose strength was its anchor in economic orthodoxy rather than a sound diagnosis of the problem. Rigidity in implementation reinforced the costs of design flaws. Hopefully these lessons can inform the economic programme of the new president, Alberto Fernández.

Luque and Silber, both professors at the University of Sao Paulo, Brazil, and Zagha, a former World Bank Director for India and Secretary of the Growth Commission, contribute opeds to the Brazilian newspaper Valor Econômico where several articles on the Argentina debacle were published last December

LETTERS

Reform GST

This refers to "Reforming GST" by Naushad Forbes (February 20) in which he has observed the need to simplify, lower and make the goods and services tax or GST comprehensive to fulfill its purpose. I think the one amendment that the GST law needs is to enable the payer pay GST without input tax credit. Some may argue that it will lead to tax on tax but I have a solution for that too. To avoid tax on tax, the GST rate should be first brought down to 2 per cent or 5 per cent for manufacturers when they purchase raw materials. Then when the manufacturers sell the product (except items covered by a GST rate of 28 per cent), a 2 per cent GST should be added in that transaction. In this way, our manufacturers can add the cost of input tax to the cost of manufacturing and whenever they sell their product, they can charge their customers a GST of 2 per cent and deposit the same with the government.

As far as service tax or GST on services is concerned, those should be kept out of the GST's domain altogether. The GST rate on services should be fixed at 18 per cent with no input tax credit. It is simply a consumption tax or an expenditure tax which used to be a direct tax under the Expenditure Tax Act, 1957, that was repealed in 1968 due to low collection and difficulty in implementation. The GST on services is being collected at the rate of 18 per cent even at present and the customers or citizens of India are paying it without any difficulty. The service providers may be exempted from paying GST when receiving services.

Hope this suggestion if accepted may reform GST law.

S C Aggarwal New Delhi

Improve design

This refers to "A defeat or victory for pollsters?" (February 19) by Atanu Biswas. There are constrains which reduce the appeal and validity of opinion polls in India. With about 900 million voters, much would depend on the reach of pollsters. Second, multiplicity of regional parties together with national parties with their strength varying from state to state complicates the sample design unlike in countries where the fight is between two main parties.

Y G Chouksey Pune

Correction

In the review of *Sixteen Stormy Days* by Tripurdaman Singh (February 19), the book details incorrectly mention the publisher as HarperCollins. The book is published by Penguin. The error is regretted

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Taxing targets

Unreasonable I-T demands affect investment climate

It has now become a regular feature of India's fiscal management. First, the government sets an overly ambitious target for revenue mobilisation, and when the figure falls desperately short, the taxman comes knocking. While on the stump for the 2014 elections, the Bharatiya Janata Party attacked the ruling regime for unleashing "tax terrorism", which, it argued, not only created anxiety among the business class and affected the investment climate, but also dented the image of the country. But six years later, the tradition continues.

According to a report in this newspaper, the tax department is sending notices to directors of private limited companies, holding them liable for pending dues. The number of such notices has risen exponentially in recent weeks, and the amount demanded is in the range of ₹5 crore to ₹20 crore. In some cases, directors are expected to pay within 10-15 days. The liability is being imposed under Section 179 of the Income Tax Act. In such cases, bank accounts and properties of directors can be attached if they fail to pay in time. Although the Section is meant for firms under liquidation, it can be applied to all companies. The only way out for directors, according to experts, is to prove that the non-recovery cannot be attributed to gross neglect or breach of trust on their part. Tax notices of this kind, and possible attachment of property, will discourage people from taking up directorship in private limited firms, which constitute about 95 per cent of all companies in India. The action of the tax department is in sharp contrast to the government's stated objective of increasing the ease of doing business. Such notices are at odds with the aim of reducing tax litigation. The government has announced a new scheme to address tax disputes, worth about ₹9 trillion. Unreasonable tax demands will only increase litigation and affect the business environment.

However, the reason for tax notices can be traced to the Budget. Even after a significant downward revision, it will be extremely difficult for the government to meet the current fiscal year's revenue target. It needs to mobilise about 40 per cent of the net tax revenue target in the last quarter of the fiscal year, which is a difficult job. For instance, less than 30 per cent of net tax revenue was collected in the fourth quarter of the last fiscal year.

As the government has invoked the escape clause under the Fiscal Responsibility and Budget Management Act and would not be in a position to let the fiscal deficit expand more, it will have to cut or postpone expenditure if the collection falls short of the target. What is worse is that things are unlikely to change even next year. The government has assumed a revenue growth rate of 12 per cent for the next fiscal year, which is again ambitious. Instead of going through the same process year after year, it is important to make realistic revenue projections and adjust expenditure accordingly. Putting pressure on the tax department with unrealistic targets not only results in harassing taxpayers and litigation but also affects the business environment. This is not to suggest that the government should not collect what is due. But indiscriminate use of law and state power to achieve revenue targets demoralises businesses.

Rocky road for highways

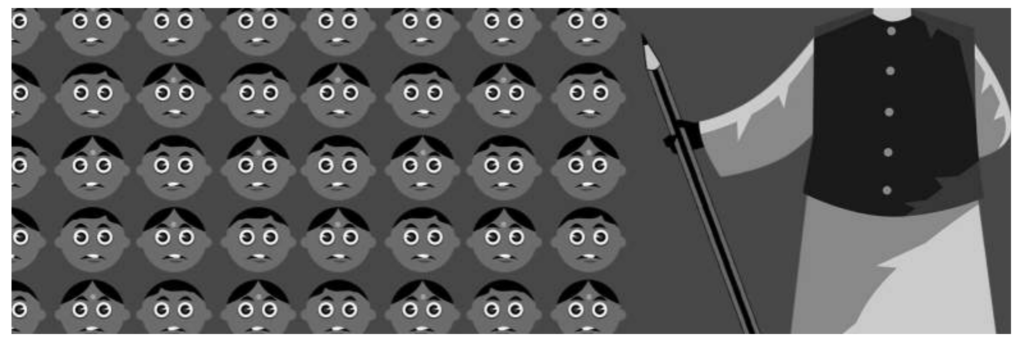
Financing problems hit highways and rural roads

The highways construction sector was one of the successes of the first term (2014-19) of the National Democratic Alliance (NDA) government. The government took on the task of reviving the sector and largely succeeded. However, that momentum is now being lost. Previously, the pace of highway construction had increased in every year of the government's term. But the data from April to January of the ongoing financial year suggests this pace of highway building has fallen by 9 per cent in this period as compared to the previous year. While the pace, about 27 km a day, remains high, this loss of momentum suggests that the current highway building model has run into diminishing returns. This interpretation would be supported by the fact that new projects are not being awarded at the rate that they were previously. The target for new projects in the ongoing fiscal year is 10,000 km and it is likely that only a fraction of that will be awarded.

Of the various agencies entrusted with the task of building highways, the National Highways Authority of India (NHAI) has been consistently outperforming the others, and will meet its proportion of road-building target set for this financial year. That said, other issues have emerged to cloud the NHAI's future. Much of the building is being financed by the NHAI using debt. This has led to a steady increase in its debt burden and the related interest payments. This burden, which is approaching ₹2 trillion, is one reason why the NHAI is awarding fewer projects. Indeed, interest payments account for a significant part of the NHAI's budgetary support. As is the case with such situations, this means that there is even more pressure on the NHAI to borrow from the market. Naturally, as long as it is seen as a quasi-sovereign entity, it would expect to find lenders. But the fact is that appetite on behalf of both project developers and lenders for road projects has dried up. Banks and financial institutions are already struggling through a bad debt problem. And many project developers have found that the shortage of cash means that their payments from the government are constantly being delayed. Given that roads are increasingly being built either through the direct procurement route or the hybrid annuity method, in which the NHAI pays developers 40 per cent upfront and the remainder over 15 years, developers are right to be concerned about the NHAI sitting on payments. This is what threatens to reverse whatever progress has been made on the highway-building programme over the past six years. The government will have to ensure that the NHAI's finances are sound enough for project developers to be confident once again that they will be paid on time.

Roads can neither be built nor maintained on the cheap. The landmark achievement of the first NDA government, under Atal Bihari Vajpayee, was the rural roads scheme, which built half a million kilometres. But many of these roads are now in poor condition, as two-thirds of them are past the period when the original contractor must repair them, and Union budgetary support for their repair has declined since 2015. While this is an issue for states and local bodies to resolve, it is clear that the Union government must take responsibility, since local governments are usually short of funds. A direct transfer from the Union government to local bodies is one option.

ILLUSTRATION: BINAY SINHA



Why India's census is in trouble

Opposition to additional questions on parents in the NPR exercise could make the data less reliable

From April 1, the Union government will begin an exercise that is likely to traumatise the population and exhaust the bureaucracy and the state. Enumerators for the National Population Register (NPR) will fan out across India for six months between April and September to engage with 250 million households to do the census headcount and gather some additional data.

Opponents of the NPR say that the additional questions on parents make the NPR a lethal weapon that will authorise low level administrative officers to mark individuals as doubtful citizens. This will strip them of voting rights, and begin a process that goes through a National Register of Citizens list, a Foreigner Tribunal and ends in a detention centre. The only thing that the prime minister has said about this concern is that the NRC has not been discussed yet, the home minister's many unambiguous public pronouncements on it notwithstanding.

AAKAR PATEL

Let us assume that the government is indeed undecided about implementing a nationwide NRC. And let us assume that the changes to the NPR form have been made in good faith and that these forms, as the home minister has claimed, according to news reports, cannot at this stage be changed. And let us also assume that it is absolutely necessary to have yet another list of people in India (apart from the voters list, Aadhaar and the census).

Even if we assume all this, and give the government the benefit of the doubt, it is difficult to see how proceeding with the NPR exercise makes sense. For one, some states have said that they will not implement it. Kerala has informed the Centre it will not implement the NPR fearing law and order problems. It has also challenged the Citizenship Amendment Act in the Supreme Court. Madhya Pradesh said this week it would not implement it, and in Maharashtra, some allies such as Sharad Pawar's the Nationalist Congress Party are opposed to implementing it.

Other states like West Bengal have encouraged citizens to resist the enumerator and not show them any documents. Yet other states have said they will implement the NPR only partially (Odisha and Bihar), leaving out questions. Union ministers, such as Ram Vilas Paswan, have said that the NPR is problematic. Rajasthan Chief Minister Ashok Gehlot has said that he will not allow citizens to be jailed and instead go to jail himself first. At the federal level, then, it is clear that the incoming data will be incomplete and fragmented.

The polarisation produced by the citizenship laws has resulted in some extreme actions by the state and these actions being publicised. In Hyderabad this week, the officials overseeing Aadhaar exceeded their brief and summoned over 100 people to their office on February 20 to prove their citizenship. Presumably, all of these were Muslim individuals. After this was reported, the Unique Identification Authority of India clarified and backtracked a little, saying that the individuals had been asked to come to them only in May. But the damage was done. Elsewhere, a court in Assam waved away 15 different documents, including voter ID cards and land revenue records from the 1960s, to dismiss a Muslim woman's claim to Indian citizenship. Again, this was heavily publicised. In Bidar, children were interrogated over a school play on the citizenship laws, parents charged with sedition and women jailed, producing global outrage.

As a result of all this and more, in large parts of India there is heavy popular mobilisation against the NPR and the CAA. Tamil Nadu alone saw mass protests in Chennai, Tirunelveli, Vellore, Coimbatore, Thoothukudi, Tiruchi, Madurai, Salem and Krishnagiri on February 18. These were protests that in many cities required the deployment of the entire police force to manage. This is unsustainable in a country the size of India.

The enumerators who will go door-to-door from April 1 will be low level employees, teachers and such, who will have little incentive to pursue the data collection in the face of resistance and hostility. The National Sample Survey (NSS) data is being affected by the anxieties over citizenship. In January, officials in Guntur were attacked while on a routine data collection exercise. The deputy director general of the NSS in West Bengal said data on education, sanitation and employment was difficult to gather because of "mistrust and acrimony."

The former chief statistician of India Pronab Sen said that this was a new sort of problem. In an interview with *The Indian Express* he said that "attacks on field investigators of the NSS is not new. It has happened before, essentially when they asked questions on either household incomes or household assets... so, this has happened earlier, but not too often, because over time people got fairly comfortable knowing that NSS surveys happen." He added that this time it was different. "First, you are going to have the population register starting with the (Census) house-listing operations. The house-listing operation is a key step in our critical analysis because that's the basis on which the entire country is divided into enumeration blocks and then, the Census enumerators are given specific enumerator blocks. So, the enumeration blocks are at the heart of the Census operation. If you have problems in getting that done and if you get resistance to that, the Census is in deep trouble."

He said that we "may well have a situation where you are unable to do the Census properly and if the Census is not done properly, then for the next 10 years, no household survey would be reliable because all household surveys rely on the Census as the frame. If this (Census) runs into problems, and there's a danger that it might, then for the next 11 years, you are in trouble".

What is at stake is credible data for a decade. The state will exhaust itself trying to implement something for which there is no demand from any section, which has resistance from not just parts of the polity, including opposition states, but also mass mobilisation of the sort we have not seen in a long time.

We have not even considered the fact that powerful voices around the world, including the United Nations Secretary General, elements within the European Union and the United States Congress, are concerned and vocal about what is happening in India.

It doesn't make sense for the government to push through with the NPR exercise in these circumstances and the sooner it realises this and makes it public, the better.

The math of index inclusion

The case for a capital-deficit emerging market economy like India to dip into the global savings pool to fund its investment needs is rather obvious. You cannot, however, always choose the quality of money you get. The relatively incremental approach over the years from Indian policymakers towards global debt portfolio capital has reflected their concerns about the potential for such flows to engender volatility in asset prices. That the government has announced in the recent Budget its intention of having its bonds listed on global debt benchmarks is, in that context, a significant and welcome step forward. It is arguably India's best bet to attract the relatively passive and sticky part of global capital looking to invest in fixed income. The choice, however, of a somewhat unconventional strategy of opening up only a limited number of "special securities" to foreign portfolio investors (FPIs), means it will likely take a few years before India can potentially lean on index driven flows to finance a significant portion of the government's budgetary needs.

The math of index inclusion flows depends mainly on the global fixed income benchmarks that could consider India eligible for inclusion; and, the scale/mode of issuance of the new "special securities". There are two relevant bond benchmark indices that India may be considered for. One is an emerging markets dedicated fixed income benchmark called JP Morgan Global Bond Index–Emerging Markets (GBI-EM), with a market capitalisation of $1.25 trillion and with roughly $225 billion of assets under management (AUM) tracking the index, mostly the global diversified version which caps the weight for an individual market at 10 per cent. The other is the Bloomberg Barclays Global Aggregate Bond Index (Global Agg), which has been with a market capitalisation of as much as $60 trillion, and with about $2.5 trillion of AUM tracking the same. In addition to free accessibility and absence of capital controls; the two indices also have other criteria to determine the eligibility of bonds which can be included. The GBI-EM, for example, only considers fixed-coupon bonds with outstanding of at least $1 billion, and with minimum residual maturity of 13 months. It also considers certain liquidity standards, including firm daily prices, reasonable bid-offer spreads and sufficient trading frequency to prevent stale price quotations. The Global Agg, similarly, only considers bonds with minimum issue size of $300 million. Both indices will take into account operational considerations around the ease of account opening, hedging and repatriation, among other things, while deciding on index eligibility.

SAMEER GOEL

The weight for India in either of the benchmarks will be a function of the size of index-eligible "special securities" as a proportion of the total market capitalisation being tracked by the index. As a rough rule of thumb, for example, every $10 billion of index-eligible securities issued by India can help get an additional 1 per cent weight in the GBI-EM Global Diversified Index. In turn, this can attract just over $2 billion of index tracking global capital from either passive index investors, or assuming active managers are broadly market weight versus benchmark.

It would, therefore, need the government to conduct a minimum 30 per cent (an estimated $45 billion) of its gross borrowings for the coming fiscal year — both issuance and switches — via the freely accessible "special securities" for India to be included in at least the GBI-EM benchmark, to attract an estimated $8 billion of foreign index capital, or around 10 per cent of the net funding needs of the government for the year. To be sure, this is not unprecedented. Even in FY2019-20, the government conducted 30 per cent of its gross issuance, including switches, via just four benchmark bonds. Repurposing, and reissuing, existing bonds as "special securities", instead of issuing new bonds, could help achieve a larger weight in the benchmark indices in a shorter period of time, and increase the potential for more substantial flows. Continuing to use the current benchmark bonds from FY2019-20 as "special securities", for example, could help double the potential weight in the indices and the scale of index tracking flows.

At their full market capitalisation of around $850 billion, Indian government bonds should ultimately be able to reach the individual market cap of 10 per cent in the GBI-EM Global Diversified Index, and around 1.5 per cent weight in the Global Agg Index. In turn, this could be worth potentially $60 billion plus of index tracking foreign portfolio inflows into the local government bond market in India, equal to almost double the current outstanding holdings of offshore investors. How quickly India gets to tap this scale of offshore financing depends, in turn, on the choices made about the size and mode of issuance of the new "special securities". Given the difference in scale of market capitalisation of the two indices, and of the AUM tracking the two, it stands to reason that inclusion in GBI-EM can fetch relatively larger inflows in the near term. The Global Agg, on the other hand, has a slower "glide path" to flows, but with potential for a larger total pool to capture.

The writer is managing director, head of Asia macro strategy, Deutsche Bank

FOREIGN FLOWS

Issuance options	Outstanding stock of bonds ($bn)		Potential weights (% in index)		Flows ($bn)		
	Today	End FY 21*	JP Morgan GBI-EM	Bloomberg Global Aggregate	JP Morgan GBI-EM	Bloomberg Global Aggregate	Total
Introduce new special series of govt bonds	0	45	3.8	0.08	8	2	10
Continue issuing FY20 benchmarks as special securities**	35	80	6.7	0.14	15	3	18
Reopen old securities as FY21 benchmarks and special securities+	50	95	7.9	0.16	18	4	22

*Assuming the govt does 30%of the gross issuance program via special securities;** The four FY20 benchmarks taken here are 6.18% 2024, 7.27% 2026, 6.45% 2029, 7.57% 2033; +Assume reopening of 7.72% 2025, 6.97%2026, 7.88% 2030, 6.57% 2033 (liquid, issued after 2015, large outstanding; Source: Deutsche Bank, Budget, Bloomberg

A survival manual for small businesses

BOOK REVIEW

SANJAY KUMAR SINGH

The challenges that Long Island-based Braun Brush faced at the start of this century are emblematic of what many small businesses in America, and across the globe, are confronted with today. Its response demonstrates how they can find a way out of their troubles.

Braun Brush was founded in 1875 by Emanuel Braun, who created a brush that made it easy to clean milk bottles. When these sold well, he produced more varieties to meet diverse needs. His son Albert added to the lineup of innovative offerings.

After Albert, his son-in-law Max Cheney took over the business. In the early part of the 20th century, the American market was expanding. Virtually anything that was produced sold out easily. Max reduced the variety of brushes and focused instead on producing them in larger numbers and distributing them across the country.

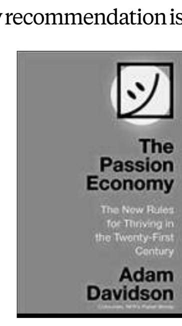
In the 1990s, low-priced Chinese brushes entered the US market. Initially, they were of poor quality, so American manufacturers were not worried. But by 2002, Chinese factories were churning out brushes that were on a par with those of American producers, at a much lower cost.

Max's son Lance had been warning his father since the nineties about the competition from imports. He suggested taking Braun Brush back to its artisanal roots. His father brushed aside his warnings and the company's fortunes plummeted.

When Lance took over the reins, he decided not to produce any brush that Chinese manufacturers were also capable of producing. Braun would henceforth only produce highly customised brushes. One he came up with was for a nuclear plant. The plant had been using brushes that left tiny pieces on the floor that could be dangerous. Lance's brushes left no residues. He developed another that met NASA's exacting specifications. A third one was for Frito Lay, which wanted a brush that would not ever leave a single hair behind. A hair in a packet of potato chips could result in an expensive lawsuit for the company. Max's clients willingly pay a premium for his specialised offerings.

Cheap imports from China and other low-wage countries, robotised factories, and global shipping have sounded the death knell of many a small business. Adam Davidson's book contains stories of those like Braun Brush that have successfully met the challenge posed by this milieu and prospered.

Mr Davidson's key recommendation is that small businesses should not compete headlong against large ones at the high-volume, low-margin, commoditised game. They can only survive by using their expertise to produce value-added products that cater to niche markets. The products they offer must demonstrably save money for clients, help them earn more, or improve their lives, so that they are willing to pay a premium. By catering to a niche audience, a small business circumvents the competition altogether as large businesses do not find it worthwhile to cater to the specialised needs of a small number of customers.



THE PASSION ECONOMY: The New Rules For Thriving In The Twenty-First Century
Author: Adam Davidson
Publisher: Hachette India
Price: ₹599

Embracing this way of doing business, which the author refers to as "the passion economy", may require a business to shed its current customers. Mr Davidson narrates the story of an accountant who disliked auditing. But he had one talent. By poring over the books of a business, he could tell in a trice what the business person was doing wrong. From auditing books, he shifted to becoming a business consultant. This transition, however, meant he had to shed his old customers who wanted accounting work from him and would only pay him by the hour. He had to take on new ones willing to pay him higher rates for his strategic advice.

The book is replete with fascinating stories. A couple of ladies in Vermont wanted to wear men-inspired clothing. The clothes available offered the cut they wanted but were not suited to their body shapes. They started a new line offering precisely that and found many takers.

Another story is of a North Carolina-based textile manufacturer, Glen Raven. Assailed by competition from cheap imports, Allen Gant, Jr., the owner, transformed the company into one whose staff is constantly scouring markets across the globe for specialised needs. Glen Raven moved into manufacturing specialised textiles like headliners for the inside of a car's ceiling that were better than those available. It came up with a mesh for the water-filtration industry that strained out pollutants more effectively. Another innovation was a polyester fabric with an adhesive coating that can be applied to the walls of mines to prevent cave-ins. All these are not exactly a textile manufacturer's bailiwick, but then nothing focuses the mind as wonderfully on innovation as the fear of extinction.

Anyone who intends to start a business will gain immensely from the insights in Mr Davidson's book.

Business Standard
The Smart Investor
MUMBAI | FRIDAY, 21 FEBRUARY 2020
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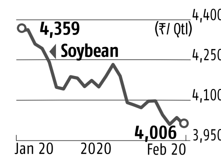
QUICK TAKE: SOYBEAN PRICES TO REBOUND



Soybean prices have fallen 8 per cent over the last one month due to weak demand from the poultry sector on worries of coronavirus threat. Lower production estimate this year, coupled with a revival in the poultry sector, will support soybean prices in the near term

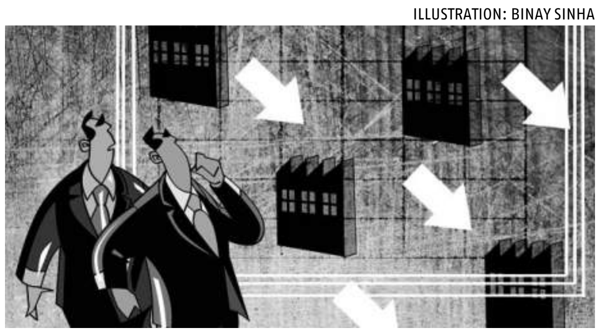
"The first step towards making serious money is the understanding that there is no easy money in the markets"

D MUTHUKRISHNAN
Certified financial planner

Investors sweat as PSU stocks plunge

KRISHNA KANT & DEV CHATTERJEE
Mumbai, 20 February

ILLUSTRATION: BINAY SINHA



With the share of Oil and Natural Gas Corporation (ONGC), one of India's most valued public-sector undertakings (PSUs) till recently, falling to a 15-year low, the focus has shifted to central government-owned firms, which have become some the biggest laggards on the Indian bourses.

The combined market capitalisation of 62 PSUs, at around ₹15.4 trillion, is the lowest in nearly four years, and excluding State Bank of India, it has reached its minimum level since March 2009 (*see adjoining chart*).

The PSUs' market capitalisation is down 17.6 per cent in the current financial year, against a 4.3 per cent rise in the benchmark NSE Nifty50 index during the period.

Excluding State Bank of India (SBI) — now the largest PSU by market capitalisation— the PSU Index is down 21.4 per cent since the end of March last year and 28 per cent in the past three years, making them some the biggest wealth destroyers.

SBI has been an outperformer, with 18.4 per cent annualised growth in market capitalisation in the past three years.

In the past three years, the PSUs' market capitalisation has gone down 7.1 per cent, with the reduction accounted for annually, from ₹19.2 trillion at the end of March 2017 to ₹15.4 trillion at the close of trading on February 18 this year. In the same period, the Nifty50 index appreciated at an annualised rate of 9.7 per cent. Shares of ONGC, which joined the club of value destroyers this week, started falling after its acquisition of Hindustan Petroleum Corporation (HPCL) in January 2018.

Analysts said the main reason for ONGC's stock fall was its weak performance in the December quarter. "The acquisition of HPCL for ₹37,000 crore in cash has not gone down well with the investors. This was the main reason why the ONGC stock is showing a declining trend," said an analyst with a foreign brokerage.

The under-performance has been ascribed to a mix of poor earnings and negative sentiment around government-owned companies.

"PSUs' earnings growth has not been very encouraging in the past few years, but investors are avoiding even those with good earnings due to negative sentiment around government ownership," says G Chokkalingam, founder and managing director, Equinomics Research & Advisory Services.

In the past five years, the combined revenues of the PSUs — including banks and non-bank lenders — grew at a compound annual growth rate of 4.8 per cent, from ₹23.55 trillion in 2013-14 (FY14) to ₹29.74 trillion in 2018-19 (FY19). In the same period, their combined net profit declined from a record high of ₹1.5 trillion in FY14 to ₹60,300 crore during the year ended March last year.

Public-sector banks have seen the biggest decline in profitability in the past five years.

Lenders, including listed NBFCs, to PSUs reported a combined net loss of ₹57,000 crore in FY19, against a net profit of ₹65,500 crore in FY14. Together these lenders have lost nearly ₹1.34 trillion in the past five years.

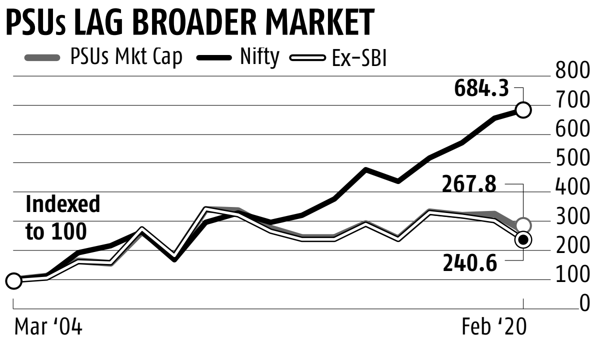
Investors have also been put off by falling cash reserves of non-bank PSUs and their growing indebtedness. The combined cash reserves of PSUs (apart from banks and financials) declined to a 15-year low of ₹85,000 crore at the end of March last year, down 51 per cent in the past five years from ₹1.74 trillion at the end of March 2014.

Many PSUs have been forced to borrow either to fund capex and acquisitions of other PSUs, or pay special dividends, leading to a steady deterioration in their balance sheet.

The net debt-to-equity ratio of non-financial PSUs hit an all-time high of 0.71x at the end of March last year, against 0.62x a year ago and 0.44x at the end of March 2014.

The net debt of PSUs more than doubled in the past five years to ₹6.02 trillion at the end of March last year, against ₹4.98 trillion a year ago and ₹2.96 trillion at the end of March 2014. This, analysts say, has put off investors who prefer low-debt or debt-free companies in sectors such as consumer goods.

PSUs LAG BROADER MARKET



Compiled by *BS* Research Bureau
Source: Capitaline

Zerodha sets sights on MF debut

JASH KRIPLANI
Mumbai, 20 February

The country's largest broking house by clients, Zerodha, is looking to enter the ₹27-trillion mutual fund (MF) industry, with the firm putting in its application for an MF licence with the Securities and Exchange Board of India (Sebi).

"We want to create a platform that can offer differentiated products. We are most likely to be a passive fund-focused asset manager. Within passives, we want to build a suite of innovative products, keeping in mind the interests of investors," said Nithin Kamath, founder and chief executive officer of Zerodha. "These products could even take the form of quant-based funds," Kamath added.

Zerodha already runs an MF distribution platform Coin, which offers direct plans to users.

Kamath says that running Coin has helped his team understand investor behaviour and the kind of products that are suitable for investors.

Passive funds have gained investor traction in recent months, with actively managed funds facing challenges in outperforming benchmarks.

In 2019, half of the actively managed equity schemes had underperformed returns delivered by their benchmarks.

"WE WANT A PLATFORM THAT CAN OFFER DIFFERENTIATED PRODUCTS. WE ARE MOST LIKELY TO BE A PASSIVE FUND-FOCUSED ASSET MANAGER. WITHIN PASSIVES, WE WANT TO BUILD A SUITE OF INNOVATIVE PRODUCTS, WITH INTERESTS OF INVESTORS IN MIND"

NITHIN KAMATH,
FOUNDER & CEO OF ZERODHA

The overall assets managed by index funds have also seen a steady growth in the current financial year. From ₹5,286 crore of assets managed, beginning of this financial year, the asset base has expanded by 50 per cent, close to ₹8,000 crore in January 2020. Further, market participants say that Sebi's move to enable a regulatory sandbox can attract more fintech companies looking to build a differentiated product basket.

"While we need to see final details of how the sandbox framework will work, but we could tap it if it allows to fast track the launch of new products," Kamath said.

Zerodha applied for the MF licence on February 5. Other players — whose applications are still under process — include Srei Infrastructure Finance and Frontline Capital Services.

More recently, Sebi gave in-principle approval for MF licence to broking player Samco Securities and NJ India. The latter is the country's largest MF distributor in terms of commission received. With active clients of over 900,000, Zerodha is the largest broking house in the country.

The capital markets regulator has in the past underlined the need for encouraging competition in the 44-player MF industry.

Currently, MF industry is dominated by top-three fund managers — HDFC MF, ICICI MF, and SBI MF —which account for 40 percentage of industry assets.

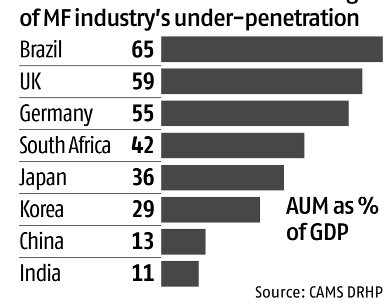
Meanwhile, industry experts had said that given the high levels of under-penetration, there is a huge scope for growth in the MF industry.

India's penetration level is significantly lower to world average of 55 per cent. For India, the assets under management to gross domestic product stands at 11 per cent.

Industry body Association of Mutual Funds in India (Amfi) in its vision document says the country's MF industry has the potential to reach ₹100 trillion of assets in next 10 years. This would entail an over threefold jump from its current industry size.

Further, industry participants also say that entering the MF business can help a broking player diversify its business model to mitigate the cyclicality of broking income, which is linked to market sentiments.

NEW FRONTIERS
New entrants look to take advantage of MF industry's under-penetration



Source: CAMS DRHP

Industry body calls for allowing bundling of MF products with loans

Sebi should allow bundling of MF schemes with other financial products like loans as it can help in creating financial discipline in low-income households, an industry body has told Sebi. Bundling, in market parlance, is a marketing method that comprises firms selling several products as a single combined unit, mostly for a lower price than they would charge customers to purchase each item separately. "MF products, mainly through the systematic investment plans route, should be available to investors along with other financial products like insurance and loans. This will help benefit all the parties concerned and create financial discipline in low income households," said FIA Global Chief Executive Officer Seema Prem. **PTI**

Samruddha: SAT backs Sebi order

SAT has upheld Sebi's move to recover over ₹300 crore from Samruddha Jeevan Foods India and its directors in a case related to illegal fundraising. The appeal has been filed by the firm and three directors, questioning the veracity of a Sebi order passed in November 2018, through which a notice of demand to pay ₹300 crore was issued. The recovery proceedings were initiated after they failed to pay over ₹300 crore in dues. **PTI**

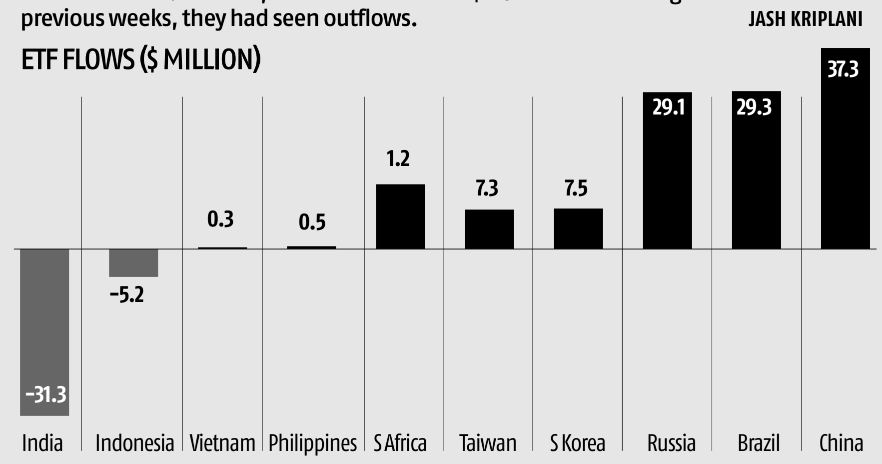
Regulator slaps ban on Resurgere

Sebi on Thursday restrained officials of Resurgere Mines & Minerals from accessing the securities market for up to three years for flouting norms by manipulating the issuance of global depository receipts. It had issued 5.21 million GDRs in June 2010 for raising $53.75 million. Pursuant to a probe, it was found that the firm engaged in a fraudulent arrangement for facilitating financing of its GDR issue and made misleading disclosures to investors. **PTI**

ETF FLOWS IMPROVE IN EMERGING MARKETS, BUT INDIA AN OUTLIER

India saw pull-outs from emerging market (EM) exchange-traded funds (ETFs) during the past week, despite flows in such ETFs having shown signs of revival. The ETFs withdrew $31.3 million for the week ended February 14. China, on the other hand, saw inflows of $37.3 million. Most of the EMs saw positive flows, with Indonesia the only other to see some outflow ($5 million) during the week. According to foreign fund managers, receding worries regarding a major global outbreak of coronavirus led to improved sentiment. "Rising COVID-19 fears, notably around Chinese growth, led to the first cut in a survey of fund manager about global growth, profits, and inflation expectations, held since October 2019," BofA Securities said in its fund manager survey note. The survey pointed out that allocation to EM equities rose 3 percentage points to 36 per cent overweight (OW), the highest OW status since March 2019. Overall, EM ETFs saw flows of $265.8 million during the week. In previous weeks, they had seen outflows. **JASH KRIPLANI**

ETF FLOWS ($ MILLION)

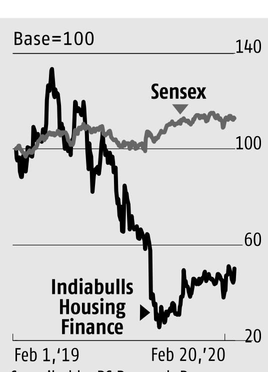


Source: Bloomberg, data for last week

THE COMPASS

Indiabulls Housing: Focus shifts back to fundamentals

Key financials were under pressure in December quarter



Compiled by BS Research Bureau

HAMSINI KARTHIK

The Indiabulls Housing Finance stock was among the top gainers on Thursday, rising nearly 11 per cent after the Ministry of Corporate Affairs clarified that there were no irregularities in deals closed by the lender.

This certainly puts to rest some litigation surrounding the firm, though it also puts the onus back on an improvement in financials for the rally to sustain.

In the December quarter (Q3), net interest income fell 50 per cent and net profit 44 per cent over the year-ago period, indicating that operational conditions remained weak.

The question is how fast they can normalise, given its business reorganisation comes at a time when the underlying demand for real estate — residential or commercial — remains soft. The company has stated plans to remain asset-light and focus on the more-lucrative retail home loans.

Balance sheet (B/S) growth is anticipated to be well off its past growth rates, which was upwards of 20 per cent until 2018-19. Yet, it is working with banks on co-origination of loans, securitisation, and sell-down of assets. The persistent issue over cost of funds only adds to pressure. While incremental cost of funds fell marginally to 8.97 per cent in Q3 (down 12 basis points or bps sequentially), it was still higher than the blended cost of funds at 8.85 per cent.

Though its peers are witnessing a fall in incremental cost of borrowing, the same isn't true for Indiabulls Housing. For now, the fact that nearly 16 per cent of its B/S is maintained as cash continues to provide comfort on the asset-liability management front. Besides, how its 34 per cent non-housing book takes shape with respect to asset quality also needs to be seen. In Q3, gross non-performing asset ratio rose to 1.9 per cent from 1.5 per cent in Q2, and 0.8 per cent a year ago. Analysts at Edelweiss feel issues in realty loans (developer finance and loan against property) and access to liquidity in the current environment will pose operating challenges. Hence, the transition to an asset-light model will be arduous.

"Emerging challenges around realty warrant caution on growth and asset quality," the analysts added. Net interest margin at 3.2 per cent in Q3 was down for the third consecutive quarter. After a sharp drop in 2019-20, Edelweiss estimates earnings to fall 8 per cent in 2020-21.

Therefore, for investors to remain interested, regaining profitable growth momentum is key.

UPL's debt reduction plan may fall short of target

Leverage ratios to fall, sharper cut was expected

Compiled by BS Research Bureau

RAM PRASAD SAHU

The UPL stock gained 17 per cent, spurred by a stellar show in its core markets of India and Latin America (LatAm). Its proposal to cut debt, coupled with further synergy gains from the Arysta acquisition, contributed to the rise.

UPL is planning to raise funds to refinance $550 million (₹4,000 crore) of debt. Net debt at the end of the December quarter stood at ₹29,654 crore.

Moody's views the proposed issuance as credit positive for the company, given it will help achieve its debt reduction target by March 2020, and reduce leverage (net debt to operating profit) to below the 3.5x level, which is the downgrade trigger.

Given that the funds raised will be a combination of debt and equity, analysts expect debt to reduce by $275 million.

Amit Agarwal of Nirmal Bang Institutional Equities says the net debt-to-operating profit ratio, following the issue, will fall from 4.47x to 4.1x in the current financial year, and to 2.8 per cent in 2020-21.

Investors, however, will have some misgivings as net debt will be reduced by only 50 per cent, says the brokerage firm.

Half the issued instruments are considered as equity, which will entail a dip in return on equity. These two aspects seem to have taken some sheen away from a cheerful December quarter for the firm, says Agarwal.

Operating performance in the quarter was led by the LatAm market, which posted its sixth straight quarter of more than 20 per cent year-on-year growth. This was on account of crop protection sales for soybean, as well as market share gains in sugarcane and cotton. The Indian market was another bright spot, growing 42 per cent driven by favourable conditions (rabi crop), new launches, and high-value herbicide sales.

Both markets are expected to do well, going ahead. Close to 55 per cent of revenues comes from these two markets. On the issue of coronavirus, the management indicated that the impact on the company would not be significant, given that most of UPL's manufacturing footprint is based in India.

Supply opportunities could, however, emerge in North America (13 per cent of revenues) as customers look for alternative suppliers to overcome disruptions in supplies from China.

Low oil prices may benefit HPCL

UJJVAL JAUHARI
New Delhi, 20 February

Crude oil prices are on a slippery slope as global demand is likely to be impacted by the outbreak of the novel coronavirus in China. Against this backdrop, the International Energy Agency has lowered its oil demand forecast. The Organization of the Petroleum Exporting Countries (Opec) had cut its outlook for 2020 global oil demand growth by 0.99 million barrels per day a few days ago.

Even as demand growth expectations have been lowered — given the fear of losing market share to the US — the Opec may not consider a production cut, keeping oil prices subdued. Such a scenario is a positive for domestic oil-marketing companies (OMCs) such as Hindustan Petroleum Corporation (HPCL), Indian Oil Corporation (IOC), and Bharat Petroleum Corporation (BPCL).

Lower oil prices will help India's major fuel retailing companies better manage working capital requirement and improve their marketing margins. Brent crude oil, which was hovering around $69 a barrel at the start of 2020, is now at $59-60 a barrel, and is likely to remain subdued in future.

The volatility in crude oil prices over the past one month has hurt Street sentiment as the gross refining margin (GRM) outlook has remained subdued.

Stocks of IOC and HPCL are also down to 11-18 per cent since the start of 2020. BPCL though has been relatively firm (down only 4 per cent) on the hopes of value unlocking due to the government's plan to privatise the company. However, analysts see a silver lining in this.

Though international oil demand and prices may remain subdued, analysts say they see steady demand from India, no major market share losses, and stable marketing margins for OMCs. The country is expected to continue reporting oil demand growth of 4-5 per cent over the medium term, which, along with an oligopolistic structure of the retail market (OMCs control about 90 per cent), should translate into steady marketing margins of ₹2.5-3.5 per litre of retail fuels (petrol and diesel) for OMCs, estimate analysts.

Further, in the current benign oil price environment, structural changes in the pricing of liquefied petroleum gas and kerosene may further assist and the government may bid farewell to underrecoveries in the petroleum sector.

Among OMCs, HPCL, whose earnings are more dependent on fuel retail and marketing, remains the top pick of analysts such as Nilesh Ghuge at HDFC Securities. IOC and BPCL, too, will see gains in their marketing business and on working capital front, but their earnings are more dependent on an uptick in refining margins.

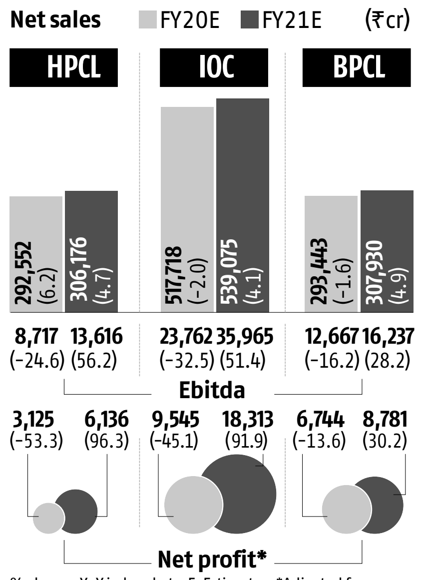
HPCL drives more than 50 per cent of its operating profit from the fuel marketing business, which should supplement its earnings in the current subdued GRM environment.

At ₹222.50, the stock, too, is trading at 35 per cent discount to its historical five-year average. Valuing it at 1.3x (20 per cent discount to FY15-18 post-reform period; factoring in heavy capital expenditure and project execution risk) its 2021-22 estimated price-to-book value multiple, analysts at Motilal Oswal Financial Services arrive at a target price of ₹340. Target prices of Edelweiss and HDFC Securities at ₹322 and ₹315, respectively, also indicate a healthy upside for HPCL.

For IOC, the core refining margins, shutdowns at its Haldia and Mathura refineries for Bharat Stage-VI (BS-VI) upgrade and weak petrochemical pricing outlook remain near-term concerns. During the December quarter, IOC's refining throughput had declined by 7.8 per cent year-on-year because of BS-VI shutdowns at Haldia and Mathura. Refining margins though got some boost with inventory gains as crude oil prices continued rising.

However, in the March quarter, the company may see inventory losses, say analysts. The weak petrochemical price scenario, too, does not inspire. The stock though may also see some rebound, supported by gains in IOC's marketing segment, as analysts feel valuations are inexpensive. The news flow on stake sale will, however, be more important for any upside in BPCL, and analysts say that a successful sale to a strategic investor/buyer can lead to further increase in their target prices (up to ₹609) for stock now trading at ₹471.50.

FUELLING THE OMC BOOKS
Earnings recovery in FY21



% change YoY in brackets; E: Estimates; *Adjusted for one-offs/exceptional items; Ebitda: Earnings before interest, tax, depreciation, and amortisation Source: Edelweiss Research

Jana SFB ready to appoint bankers for ₹1,000-cr IPO

ASHLEY COUTINHO
Mumbai, 20 February

PHOTO: SIDDHANT MISHRA

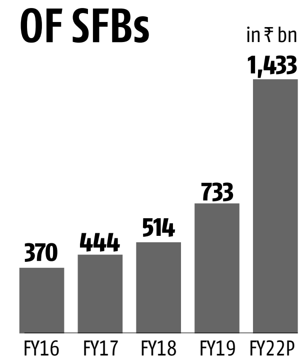
Jana Small Finance Bank (SFB) has begun looking for investment bankers to manage its public share sale, two people familiar with the matter confirmed.

The public offering could be in the range of ₹1,000 crore and ₹1,200 crore and the bank might hit the market in the second half of the year. The firm did not respond to an email seeking its response. SFBs have to list within three years of reaching a net worth of ₹500 crore, according to the RBI norms.

Jana joins the likes of Equitas SFB, ESAF SFB, Utkarsh SFB, and Suryoday SFB through this move. The first two have already filed a draft offer with the regulator, and aim to raise about ₹1,000 crore each. Last year, Suryoday announced plans to raise ₹1,000 crore through an initial public offering (IPO) by mid-2020.

Utkarsh SFB plans to mop up ₹500-600 crore from its IPO. "Ideally, we are aiming at listing by December 2020, but we have kept a buffer of a few months, keeping in view market volatility," said the firm's Managing Director and Chief Executive Officer Govind Singh last year.

ASSET GROWTH OF SFBs



Note: Advances considered for Jana SFB, Utkarsh SFB, and Suryoday SFB; AUM considered for other players; P:Projected
Source: Company reports, CRISIL Research

In December, the ₹750-crore IPO of Ujjivan SFB was well received and got subscribed 166 times the number of shares put on offer. The shares of the bank rose 44 per cent over the issue price.

SFBs aim to cater to the low-income segment, and have grown at 26 per cent annually from 2015-16 to 2018-19 (FY19), in terms of assets under management.

In the past three years, SFBs have shifted their focus from microfinance to other products, but the core customer focus is unlikely to change owing to regulatory norms. Profitability of SFBs, which was impacted in 2017-18 as a result of demonetisation and loan waivers, revived in FY19 as credit costs on new loans trended lower. "A large part of India is still underbanked. Since quite a few of these SFBs focus on microfinance as a big portion of their lending business, there is a lot of scope in tier-II, -III, and -IV cities and semi-urban/rural areas. In tier-I cities, they can focus on auto, home loans, and SME segments," said Deepak Jasani, head–retail research, HDFC Securities.

One for the low-mileage car user

'Pay as you go' motor insurance also works for people with multiple cars

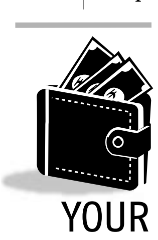
BINDISHA SARANG

Under the Insurance Regulatory and Development Authority of India's sandbox initiative, general insurance companies have started launching usage-based motor insurance policies. Companies like Liberty General Insurance, Bharti Axa General Insurance, ICICI Lombard and some others have started giving these innovative features under their existing private car package policies.

"Usage-based motor insurance is based on the 'pay as you go' model — different from the traditional motor insurance. Through this offering, we expect increased penetration of motor insurance by covering the customers who drive less and generally may not have a preference for own damage covers (OD)," says Sanjeev Srinivasan, managing director and chief executive officer (CEO), Bharti AXA General Insurance.

Offerings

When you come to the new offering with other existing products out there, you will realise that in the present, duration of the policy is monitored by 'time' (annual/multi-year) as scale. With the new offering, the new scale is 'vehicle mileage during policy'. Roopam Asthana, CEO and whole-time director, Liberty General Insurance, says: "Pay for the distance feature has been developed keeping in mind car owners who use their vehicles less frequently. The new feature gives customers even more control over their insurance costs with similar coverage in terms of perils and claims service."



The idea behind such policies seems to be 'lower the mileage, lower is the probability of an accident'. The new offering is currently applicable only to the OD part of the policy. Most insurers' policies come with a top-up feature wherein you have the option of reinstating the OD coverage by increasing the number of kilometres by paying an additional premium, if your kilometre limit gets exhausted.

How is distance measured? It depends on the car you have. Asthana says, "At the time of proposal, the customer has to declare the existing odometer reading, and the same will be available in the policy schedule at the time of claims. The coverage distance can be checked, based on the odometer reading at the time of the accident and the reading collected at the time of proposal. "For newer cars, which means connected vehicles, the data is gathered using technology like telematics.

Ankit Sachdeva, chief technology officer, Easypolicy, says: "There is a major advantage for someone who uses the car for less than 8,000 or 10,000 kilometres a year. He could get an insurance policy for significantly lower cost, at a time for certain kind of underwriting it can even be 25-50 per cent lower of the current premium." If you commute using cabs or public transport on a day-to-day basis and rarely use your personal vehicle or you frequently travel beyond city limits and hence, seldom use your cars, this policy makes sense.

Adds Srinivasan: "Customers who have multiple vehicles and may not use each vehicle as much and, hence, may not have to pay a large premium amount. Through this innovative offering, we expect increased penetration of motor insurance by covering the customers who drive less and generally may not have a preference for own damage covers." Keep in mind that these offerings are part of the sandbox initiative.

For some reason, even if the initiative is dropped in future, the insurer will pass on the benefits which you have been promised. But do check out the policy's terms and conditions.

Yes, there could be privacy concerns for customers when companies use telematics, as it will gather data regarding location, driver's behaviour and other factors. But there's also a social/environmental advantage if there is a significant adoption of this type of policy — it encourages people to use cars less, and not to exceed the mileage limit.

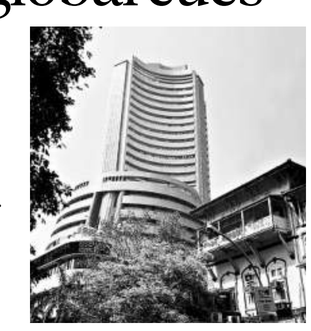
REDUCE INSURANCE COST WITH THE SCHEME

Policy type	Ordinary policy	Pay for distance policy
Year of manufacture	2018	2018
Vehicle insured declared value (₹)	5 lakh	5 lakh
Pay for distance option (km)	-	3,000
Voluntary deduction (₹)	-	10,000
Basic OD premium (₹)	3,940	2,206
Roadside assistance premium (₹)	249	0
OD-premium with add-on (₹)	4,189	2,206
Basic third-party (TP) (₹)	3,221	3,221
CPA premium (₹)	375	375
Total TP premium (₹)	3,596	3,596
Total premium (₹)	7,758	5,802
Goods & services tax (₹)	1,401	1,044
Final premium with tax (₹)	9,186	6,847

CPA: Compulsory personal accident; discount based on the distance limit and voluntary deductible opted has been applied. Information is illustrative
Source: *https://www.libertyinsurance.in*

Indices resume slide on muted global cues

PRESS TRUST OF INDIA
Mumbai, 20 February



Benchmark indices resumed their slide on Thursday as trading sentiment remained at a low ebb on lacklustre overseas cues and lack of buying triggers.

A depreciating rupee and persistent capital outflows also weighed on the bourses, traders said.

After a choppy session, the Sensex settled 152.88 points, or 0.37 per cent, lower at 41,170.12. Similarly, the broader NSE Nifty slipped 45.05 points, or 0.37 per cent, to 12,080.85.

Financial markets will remain closed on Friday on account of Mahashivratri.

During the week, the Sensex fell 86.62 points or 0.21 per cent, while the Nifty shed 32.65 points or 0.26 per cent. Asian Paints, HUL, TCS, Nestle, Tech Mahindra, and Reliance Industries were among the top laggards in the Sensex pack on Thursday, dropping up to 2.30 per cent.

On the other hand, IndusInd Bank was the top gainer, spurting 3.57 per cent, followed by Tata Steel, SBI, ONGC and PowerGrid.

Global markets stayed on the backfoot as investors assessed the economic impact of the coronavirus epidemic. The coronavirus death toll climbed to 2,118 in China.

However, new confirmed cases declined to 394, registering the biggest drop since December when the first case was reported in Wuhan.

COMMODITIES

PRICE CARD

As on Feb 20, 20	International Price	International % Chg#	Domestic Price	Domestic % Chg#
METALS ($/tonne)				
Aluminium	1,686.0	-3.5	1,967.6	8.7
Copper	5,745.5	-2.2	6,293.6	2.5
Nickel	12,700.0	-11.3	3,605.9	-10.8
Zinc	2,126.5	-9.9	2,386.3	-10.7
Gold ($/ounce)	1,617.9*	9.9	1,804.5	8.8
Silver ($/ounce)	18.4*	7.2	20.7	6.1
ENERGY				
Crude Oil ($/bbl)	58.7*	-6.2	55.8	-9.4
Natural Gas ($/mmBtu)	2.0*	-23.8	2.0	-23.6
AGRI COMMODITIES ($/tonne)				
Wheat	193.6	5.6	308.4	3.5
Sugar	422.0*	25.4	484.4	0.3
Palm oil	667.5	2.7	1,065.4	5.5
Coffee Robusta	1,262.0*	-6.4	1,800.2	-3.9

* As on Feb 20, 20 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.7& 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

Govt rolls out 1% ad-hoc incentive for garments

Move comes at a time when benefits under MEIS have been withdrawn

T E NARASIMHAN
Chennai, 20 February

The government has introduced a scheme for additional ad-hoc incentive of 1 per cent of free on board (FOB) value for garments and made-ups. This comes at a time when benefits under the Merchandise Exports from India Scheme (MEIS) for exports of such items were withdrawn.

Exporters said the incentive would be added if rebate of state and central taxes and levies scheme (RoSCTL) is less than remission of state levies (RoSL) plus MEIS.

The government issued the notification for the incentive in mid-January, and has now issued the guidelines. This is mainly to compensate for the loss, if any, after removal of MEIS retrospectively from March 7, 2019.

As RoSL and MEIS were simultaneously available along with RoSCTL, many exporters factored in both in their costing. Exporters said the government had at no point issued any notification on this.

The government notified RoSL to mitigate the incidence of state value-added tax (VAT) and other state taxes on export of garments and made-ups. As certain state and central levies did not have rebate, in March 2019 the Ministry of Textiles (MoT) notified RoSCTL for rebate on various state and central taxes and levies on export of the products.

In January 2020, Directorate General of Foreign Trade (DGFT) decided to withdraw benefits under MEIS after the introduction of RoSCTL.

The Centre issued the notification for the incentive in mid-Jan, and has now issued the guidelines. This is mainly to compensate for the loss, if any, after removal of MEIS retrospectively from March 7, 2019

Under RoSL, which was in operation till March 2019, the rebate was provided in the exporter's bank account. However, under RoSCTL and additional ad-hoc incentives schemes, the rebate will be granted in the form of electronic duty credit scrips, similar to those issued under MEIS.

The benefit under the two schemes will be given in a single electronic scrip to be utilised for payment of Customs duties and central excise. The scrips issued under the schemes will be freely transferable.

The benefit of RoSCTL will be available for export of garments and made-ups with 'let export order' (LEO) dates from March 7, 2019, to March 31, 2020, while for additional ad-hoc incentive scheme, the benefit shall be available for exports with LEO dates from March 7, 2019, to December 31, 2019, the MoT notification said.

According to industry sources, the garment sector has pending dues of around ₹7,000 crore from the government under the RoSL, GST, and Technology Upgradation Fund schemes.

Apeda blacklists basmati rice brands Mohsen and Avazah over defaults

DILIP KUMAR JHA
Mumbai, 20 February

The Agricultural and Processed Food Products Export Development Authority (Apeda) has blacklisted two basmati rice brands — Mohsen and Avazah — owned by importers in Saudi Arabia, Iran, and the United Arab Emirates (UAE), with immediate effect. The move follows persistent payment defaults on the part of Gulf-based importers to Indian exporters.

Till two years ago, many Indian exporters were placing orders from Iran, the UAE, Bahrain and other countries in the Gulf and West Asia. They were shipping 1,121 varieties of basmati rice under the two private brands.

Informed sources said that many importers in West Asia and Iran had defaulted on payments to Indian exporters worth $200 million. Importers in West Asia and Iran have shut shop overnight, leaving Indian exporters in the lurch.

"Complaints have been received by Apeda from exporters over non-payment by importers for export of basmati rice from India in private brands — Mohsen and Avazah. It has been decided to blacklist Mohsen and Avazah brands," Apeda said in a statement.

Indian exporters say they used to procure the aromatic rice from local farmers and affix the Mohsen and Avazah labels to the packages before shipping them to importers.

These two brands have been in the Indian government's cross hairs for at least three years, following reports of sporadic payment defaults.

To avoid dissent, Apeda has directed Indian exporters to not apply for registration of contract — a prerequisite for shipping any agricultural consignment — involving these two brands. The government agency has warned basmati rice exporters against issuing registration-cum-allocation certificate (RCAC) for shipment of the aromatic rice under the tainted labels.

"No RCAC will be issued by Apeda for export of basmati rice in Mohsen and Avazah brands to any country with immediate effect," said the Apeda circular. For the period between April 2019 and December 2019, India exported 2.83 million tonnes of basmati rice worth $3 billion.

AGAINST THE GRAIN
Basmati rice exports

Year	Quantity*	$ million
'14-15	3,702	4,518
'15-16	4,046	3,478
'16-17	3,985	3,217
'17-18	4,057	4,169
'18-19	4,415	4,723
'19-20**	2,836	2,977

* Quantity in '000 tonnes; **April-December
Source: Apeda (DGCIS); Compiled by *BS* Research Bureau

More on www.business-standard.com

Shoppers to shopping

Consumers look for quality, differentiated experiences across categories, finds a Kantar study; Amazon, Flipkart say the focus is on relationships

T E NARASIMHAN
Chennai, 20 February

What consumers want and how can companies cut down friction at the digital cash counters? These are questions that never go out of fashion in the ever-evolving landscape of Indian ecommerce. However as a new study by Kantar eCommerce On shows, these may not be the best questions to ask; instead, consumers are saying, stop treating online consumers as a discount-seeking universal mass and ask what the category demands in terms of convenience, trust and quality.

"A few years ago, prices and value were the key drivers. Today, quality is as important an expectation," says Sushmita Balasubramaniam, commerce lead, South-Asia, Insights Division. The evaluation of quality (and convenience and intent to purchase) clearly differs by categories, the study showed. For instance, for consumer goods such as 'soft and hot drinks,' Indian shoppers are very similar to their global counterparts and treat it as a routine purchase, while they are highly exploratory when it comes to fashion.

Similarly, the exploratory mode is on for banking and financial products and within the category, the older group of shoppers behaves differently from the rest. Groceries, the next frontier for ecommerce giants, sees consumers seeking freshness (looking for cues such as daily produce, quality checks and freshness of delivery). But for clothes, buyers go by the platform it is sold on and so on.

Many sizes fit one

It is not just important to treat the mass as a mix of diverse consumer needs and wants but to also look at each customer as a mix of mindsets and behavioural patterns.

Flipkart and Amazon are the dominant platforms for purchase, the study showed but emergence of specialist players like Nykaa for cosmetics or BigBasket for fresh food is changing the game. In terms of customer satisfaction Pepperfry ranked in between Amazon and Flipkart in home decor space, while Nykaa ranked more than the two e-tail giants in beauty and cosmetics, as per the study.

A spokesperson for Amazon India said the company believes in three pillars of customer experience, building wide selections, enabling the platform with processes that can make it possible to provide great value, and ensuring fast delivery. The aim is to build lasting relationships.

Balasubramaniam said, after the initial growth, etailers faced a challenge getting in the next set of consumers, due to multiple reasons, including the advantages that offline retailers enjoy. The offline retailer plays a focal role in many categories and displacing this relationship will take much more than just wooing consumers (with special offers and sales, for instance).

Amazon and Flipkart agree. The spokesperson for Amazon said that customers will only shop with them until they find a better experience elsewhere and the platform is focused on continually developing a better experience. The Flipkart spokesperson said they are focusing on improving efficiencies in deliveries, enhancing the search and discovery functions for its diverse customer base and other innovations.

The voice factor

The relationship with the retailer is important due to shoppers being unfamiliar with online processes and many online portals are now addressing these challenges, said Balasumbramaniam. Voice is the game changer in this context.

Many online portals have voice assistants speaking in many tongues, simplifying the process immensely while addressing issues of trust. Flipkart has one that speaks in Hindi and English while Amazon's Alexa too speaks in many tongues. Apart from infusing a sense of familiarity into the retail process, vernacular voice assistants are also able to understand the nuanced needs of the online buyers and relay them back to the ecommerce data teams. This helps fine-tune the process further.

For instance, Amazon India found that almost 80 per cent of the customers who shopped on Amazon.in during the last festive season came from tier two and three towns and over 50 per cent of its sellers are also from tier two and beyond cities.

Hence, Amazon Pay was developed as a one-stop payment counter, from booking gas cylinders to bus tickets, movie tickets, flight tickets, movie recharges and more.

The focus is also on increasing affordability through services, the spokesperson said. The Flipkart spokesperson said that they have an array of fintech solutions for the consumer and these serve the larger goal of onboarding the next 200 million customers.

CUSTOMER SPEAK

- Focus beyond discounts, it all comes down to product quality
- Set up one-stop solutions, but do not treat all consumers the same
- Behaviour changes according to the category of purchase, follow the cues to offer customised solutions for each

Source: Kantar

FROM PAGE 1

GMR...

"We view this as positive as GMR has been able to enter into a deal at a higher valuation and raising higher cash, which will be utilised to eliminate entire corporate debt. Along with sale of GMR Kamalanga, this will wipe out the entire corporate debt. Key risk is the approval of the deal by regulatory authorities. This is a less problematic than the earlier transaction," said Mohit Kumar of IDFC Securities.

Groupe ADP said the acquisition fit within Groupe ADP's strategy. "This will constitute a growth driver in the medium term, and also a transforming position for the group in one of Asia's and the world's fastest growing country," said Augustin de Romanet, chairman and CEO at Groupe ADP.

Govt likely...

One major challenge faced by surveyors is the lack of cooperation by households, as they are either being shown the door or attacked during their work, putting their lives at risk. People fear that survey officers are collecting data that can be used for determining their citizenship.

The survey, scheduled to be conducted during January-December 2020, is aimed at mapping the multiple indicators of the United Nations' Sustainable Development Goals 2030 for the first time and is collecting information on migration patterns of citizens and purchase of houses, among other things.

What has complicated the matters further are the questions that are being asked in this round of survey. Sample this: Did the person stay in the same place for at least six months? What was the last place of residence? Are household members planning to move out? Which country did the household member last live in?

Then, there are basic questions which are also seen suspiciously by citizens. For instance, a question on their religion, on whether they possess a birth certificate or about a place of residence purchased after March 31, 2014.

The NSO has received complaints from various states, including Uttar Pradesh, Kerala, Maharashtra, Bihar, and Karnataka. But the most affected state is West Bengal, where no household surveys are being conducted at present.

"The 78th round began in a few places but the resistance started pouring in and safety of field officers became an issue. Surveyors were attacked and gheraoed. Even the district administrations said it was not the right time to conduct any survey," a senior NSO officer in West Bengal said.

Every penny...

Businesses registered under GST (other than under the composition scheme) are required to file GSTR-1 for outward supplies for a month by the eleventh day of the following month, and GSTR-3B, which is a summary return for sales and input tax credit (ITC), by the 20th.

Besides a late payment fee of ₹100 a day for central GST and a matching amount for state GST, the law provides for a levy of 18 per cent penal interest. The CBIC has clarified that taxpayers can pay part of their liabilities in cash and the rest through adjustments in input tax credit.

Rajat Mohan, partner, AMRG Associates, said: "Tax authorities need to be cautious and concerned at the plight of taxpayers who are burdened with a new law and plethora of technological glitches."

The CBIC, in a letter on February 10, had asked field officials to initiate recovery proceedings against those who had not cleared interest liabilities.

Then there is the issue whether interest would be charged on gross tax liabilities or net cash liabilities, which take into account the ITC of the companies in the system.

M S Mani, partner, Deloitte India, said businesses would appreciate if clear instructions were issued to the tax authorities to compute interest only on the net amount of the GST payable in cash. "This would also be in line with the recent decision of the Madras High Court."

The Madras High Court, in its recent decision in the case of Refex Industries Limited v. The Assistant Commissioner of CGST & Central Excise, held interest could be levied only on the belated cash component of tax and not on ITC.

The CBIC has asked interest to be collected on gross tax liabilities and not on net cash liabilities despite the decision by the GST Council in December 2018 to this effect.

The board has taken a view that interest liabilities will be calculated on net cash liabilities prospectively and not retrospectively as the change is yet to come into force with amendments from Telangana and West Bengal awaited.

"In this regard, the provisions of Section of Section 50 are very clear that interest liability is required to be paid on the tax liability that is paid belatedly, either through cash or through utilization of input tax credit (ITC). In other words, interest is required to be paid on total tax amount of tax liability as shown in Form GSTR 3B," the CBIC letter said.

High-powered...

If the scheme takes off, it will help banks to make less provision in the coming quarters for the power sector loans.

According to the new scheme, the unpredictable nature of renewable energy like solar and wind often leads to low capacity utilisation of the transmission system. This often leads to distribution companies buying balancing power for grid stability and meet the shortfall. The scheme will lead to "reverse bundling", wherein high-cost thermal power will be allowed to be bundled with cheaper renewable energy, and provide round-the-clock electricity to the distribution companies.

The scheme mandates the electricity producer to supply 51 per cent of the annual energy supplied via renewable power and the rest from thermal sources.

Banks, who are already taking steep haircuts on power sector loans, are hopeful that the scheme will take off. Last week, State Bank of India-led consortium took a 68 per cent haircut on Suzlon's debt worth ₹11,460 crore. Banks have also sold stranded projects by GVK in Punjab to Deutsche Bank and GMR Chhattisgarh to the Adani group – at a huge haircut after their previous promoters failed to repay debt. Deutsche Bank is also in race to takeover Jindal India Power by offering ₹2,400 crore to banks as against its debt of ₹7,600 crore. At least 34 power projects with 26 GW of electricity producing capacity are currently stranded.

Bidders for the new scheme will be asked to sign fresh 25-year power purchase agreements either with the Solar Energy Corporation of India or NTPC. They will also sign power supply sale agreements (PSAs) with customers like the distribution companies or bulk consumers

When contacted, Ashok Khurana, director general of the Association of Power Producers, said the scheme would also help with the utilisation of untied thermal power capacity, considering that the new super critical coal based thermal power plants have quite high ramp rate, which can be effectively utilised to provide combined renewable energy blended 24-hour power.

"The emphasis is not only on the green power but also to ensure that combined power generated improves the safety of the grid and provides clean power to the consumer by optimum utilisation of the grid," Khurana said. "It's a win-win deal for all."

Manufacturers, retailers flock to ministries

ARNAB DUTTA
New Delhi, 20 February

Industry bodies, lobby groups, and key players are flocking to Union ministries and departments amid fears of disruption in business across sectors.

As the government opened its door to the business community, seeking suggestions to minimise the impact of the impending crisis arising out of the coronavirus epidemic, many are using this to peddle their interests.

From a rollback of customs duty on key electronic components to fast-tracking the delivery of goods imported from China, players are looking for incentives.

Several industry bodies like MAIT, the Indian Cellular and Electronics Association (ICEA), and the Consumer Electronics and Appliances Manufacturers Association (CEAMA), which represent major electronics, appliances and handset players in the country, have made representations to the government for a rollback of customs duty on electronic components.

With the supply of components from China in shortage now, the groups want higher duties on components postponed.

The finance minister announced in the Budget a change in the duty structure for a range of components for mobile handsets, air conditioners (ACs), refrigerators, and electric vehicles. Customs duty on key mobile parts like the printed circuit board assembly (PCBA), the display assembly, and touch panel were raised by 10 percentage points. For compressors and small motors — used in ACs, refrigerators, washing machines, and air coolers, among other appliances — customs duty was raised by 2.5 percentage points.

Daegu, the fourth-largest city in South Korea, being sanitised following an outbreak after 90 people, who worshipped at a church there, showed symptoms of infection PHOTO: REUTERS, AP/PTI

While some argue, with no local supply chain existing and these items continue to be imported, mostly from China, higher duty on these will further increase production cost. The data from the department of commerce shows during 2018-19 mobile components worth over ₹50,500 crore were imported from China, while those for ACs and AC parts, the figure was ₹4,000 crore.

Kamal Nandi, president of CEAMA, and executive vice-president of Godrej Appliances, said while the intention was good, it would lead to price escalation in the short run on products like refrigerators, ACs, coolers, washing machines, air purifiers, and chest freezers.

Reduction in goods and service tax (GST) rates on ACs and large-screen TV sets (from 28 per cent to 18 per cent) will help manufacturers and buyers absorb some of the increase in cost and spur demand.

"The government's approach of levying higher duties on imported components to push players towards local manufacturing is flawed. Rather, it should facilitate creating a robust local ecosystem. Manufacturers are now under pressure and it is obvious they will seek duty cuts," said Navkendar Singh, research director, IDC.

However, some industry veterans said companies were trying to influence the authorities by using the ongoing crisis as an excuse. A group of electronics manufacturers, for example, are seeking the removal of bureaucratic or operational hurdles for incoming shipments. This, along with logistical incentives from the government, they argue, will help reduce their cost.

According to Avneet Singh Marwah, chief executive of Superplastronics, a brand licensee for Kodak and Thomson TV, they have asked finance ministry officials for fast-tracking component deliveries, avoiding any hurdles at customs. "A smoother transport corridor, along with priority release of shipments from Mumbai port, will reduce travel time by a couple of days. Given the rising cost and crunch in supply, it is imperative the government incentivises local manufacturers," he said.

Sources said finance ministry officials had given a verbal assurance to manufacturers on the proposal.

The Confederation of All India Traders (CAIT), which represents 70 million traders of the country, is lobbying against e-commerce giants like Amazon and Flipkart. It has approached the prime minister on this.

In a letter to PM Narendra Modi, CAIT has urged close scrutiny of imports of Chinese goods by e-commerce firms.

"Immediate steps are needed to provide a package to Indian traders and small industries to strengthen their production capacity so that the supply chain is not disturbed," it said.

India will send third flight to Wuhan to evacuate 100 more

India will be sending a third flight to Wuhan, the epicentre of the coronavirus outbreak in the Hubei province of China, to evacuate nearly 100 Indian citizens.

The country had recently evacuated over 640 of its citizens from Wuhan. Yet, an unknown number of Indians remain in the area and their number is being ascertained, the ministry of external affairs (MEA) said on Thursday. India is also awaiting a go-ahead from Japan to evacuate its 132 citizens on board the luxury cruise liner 'Diamond Princess', which is docked off the coast of Japan with hundreds of positive cases of coronavirus infection.

SUBHAYAN CHAKRABORTY