Special-series bonds could be over 10% of borrowing target

Amount of debut issue and subsequent tranches will be finalised by FinMin, RBI in end-March

ARUP ROYCHOUDHURY
New Delhi, 23 February

India is planning a massive debut issue of special-series government bonds, upwards of ₹10,000 crore, in the first half of 2020-21. This will be followed by multiple tranches, which could combine to be more than 10 per cent (₹80,000 crore) of the FY21 gross borrowing estimate of ₹8.1 trillion, helping India get a substantial weight after its inclusion in global bond indices.

"The Finance Ministry's view is that the share of special-series bonds in a year should be more than 10 per cent of the total borrowing requirements. The amount of the debut tranche and subsequent tranches will be decided by the Reserve Bank (RBI) in consultations with the government," a top official told *Business Standard*.

The details of the debut and subsequent tranches will be finalised by the time the Finance Ministry and the RBI announce the April-September borrowing calendar in end-March.

As reported earlier, the Centre will issue a special series of G-Secs, which won't have any limit for foreign portfolio investors. This will be a precursor to get Indian G-Secs included in global bond indices in a bid to attract foreign capital. The foreign portfolio investor limit on G-Secs stands at 6 per cent.

The plan was spelt out by Finance Minister Nirmala Sitharaman in her 2020-21 Union Budget speech. "Certain specified categories of government securities would be opened fully for non-resident investors, apart from being available to domestic investors," Sitharaman had said.

Some of the global bond indices that could embrace Indian G-Secs, if all the conditions are met, include the Bloomberg Barclays Global Aggregate Index, FTSE Russel Asia Pacific Government Bond Index, JP Morgan Government Bond Index-Emerging Markets, and others.

"These indices have conditions which favour scale and size. For example, each issuance should be $400 million at least, and the total quantum of the bonds should be at least $5 billion. For us that is doable," said a second official aware of deliberations regarding the instruments. Ten per cent of the FY21 borrowing target equates $11 billion.

Finance ministry officials have had a number of meetings with the RBI as well as the administrators of global bond indices. Over the coming weeks, there will be meetings with investment banks who may act as potential market makers for the bonds, a second official said.

Government officials as well as bond market analysts said that being part of global bond indices will help the Indian G-Secs attract large funds from major global investors, including pension funds.

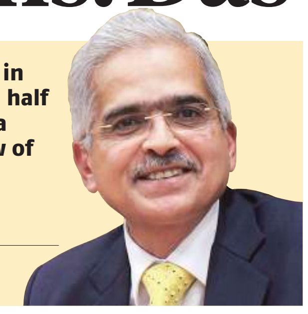
A large number of bond investors, including global pension funds, are passive investors, in that they just follow what is in the benchmark indices. So, once the central government's G-secs are included in these indices, officials expect a chunk of foreign liquidity to come in.

THE LOWDOWN

- The Centre will issue a special series of G-Secs, which won't have any limit for FPIs
- Finance ministry officials have met RBI as well as administrators of global bond indices
- Over the coming weeks, there will be meetings with investment banks who may act as potential market makers for the bonds
- In dollar terms, 10% of FY21 gross borrowing target is approximately $11 billion

Policy transmission getting better, up by 20 bps in 2 mths: Das

PRESS TRUST OF INDIA
New Delhi, 23 February



"The policy framework is in operation for three and a half years. We have initiated a process of internal review of how the monetary policy framework has worked"
SHAKTIKANTA DAS
RBI Governor

Reserve Bank of India (RBI) Governor Shaktikanta Das said monetary policy transmission was steadily improving and was expected to improve further.

"Transmission is improving. If you see it was 49 basis points transmission for new loans in the December Monetary Policy Committee (MPC). In February MPC, it has gone up to 69 basis points. So it is steadily improving," he said.

The RBI is reviewing the retail inflation targeting framework behind policy decision as well as its effectiveness and also plans to hold stakeholders consultations including with the government in June, Das said.

To keep inflation under specified level, the government in 2016 had decided to set up MPC headed by RBI governor entrusted with the task of fixing the benchmark policy rate (repo rate).

The six-member panel, which had its first meeting in October 2016, was given the mandate to maintain annual inflation at 4 per cent until March 31, 2021 with an upper tolerance of 6 per cent and a lower tolerance of 2 per cent.

"The monetary policy framework is in operation for three and a half years. We have initiated a process of internal review of how the monetary policy framework has worked," Das told *PTI* in an interview.

"We have commenced an internal review of the working of the monetary policy framework, and going forward by the middle of the current calendar year, that's by June or so, we will be holding a round table with all analysts and experts and other stakeholders to do further consultations including the government at the appropriate time," he said.

Obviously, RBI has to interact with the government because the framework is a part of the law, he said, adding, "so, naturally government has to take a view." With regard to monetary policy transmission, the governor said, it is steadily improving and is expected to improve further.

On February 6, the six-member MPC headed by Das, for the second meeting in a row, kept repo rate unchanged at 5.15 per cent but maintained accommodative policy stance which implies it was biased in favour of cutting rate to boost growth.

Prior to going for status quo on rates in December, the central bank had slashed rates five consecutive times that resulted in a cumulative 1.35 per cent decline in repo rate.

On RBI aligning its financial accounting year with that of union government, Das said, the current financial year will end in June while next financial year starting July one would end on March 31.

So, the current year will go on till June. It will have 12 months. Next accounting year will start on July 1 and end on March 31, he said.

So the central bank would prepare a truncated balance sheet for a period of nine months (from July 2020 to March 2021). Following next year, the full fiscal year of the RBI will start from April 1, 2021.

With this move, the RBI will do away with nearly eight decades of practice.

Trade wants GST Council to change late payment rule

EXIM MATTERS

T N C RAJAGOPALAN

The Central Board of Indirect Taxes and Customs (CBIC) has asked its field formations to collect about ₹46,000 crore as interest on delayed payment of goods and services tax (GST) on the basis of gross tax liability, i.e. the tax liability without adjusting the input tax credit (ITC) available in the electronic credit ledger. This move has caused a lot of heartburn in the trade.

The government contends that if a tax payer is required to pay tax of ₹1 crore but has available ITC of ₹99 lakh and delays payment of the due tax of ₹1 lakh after adjusting the ITC, then interest must be paid on the gross tax liability of ₹1 crore.

This position has been upheld by the Telangana High Court in the case of Megha Engineering and Infrastructures. [2019 (26) GSTL 183 (Telangana)], on the basis of the law as it stands.

The contention of the trade is that the interest should be collected on the net tax liability of ₹1 lakh in the above example, which is the amount payable in cash after adjusting the available ITC. The GST Council, in its 31st meeting on December 22, 2018, had accepted this stand and recommended charging interest only on the net lax liability. The central government has also got the relevant Section 50 of the Central GST Act, 2017 suitably amended last August.

However, it has not yet notified the amendment but has assured that the same will be given effect as soon as the two remaining states, Telangana and West Bengal, amend the relevant State laws.

The CBIC says this amendment will operate prospectively and so, all interest on delayed payment of tax till the amendment takes effect will be on the basis of gross tax liability.

The trade says once the GST Council has conceded the unfairness of charging interest on gross tax liability, there should be no hesitation in giving retrospective effect to the amendment.

Meanwhile, the Madras High Court, in the case of the case of M/s Refex Technologies (2020-TIOL-382-HC-MAD-GST) has held that the amendment allowing payment of interest on the basis of net tax liability is clarificatory and therefore, retrospective in its operation.

When the tax payers started receiving the notices for interest, some approached the courts and the Gujarat High Court, in the case of Amar Cars, stayed the notice demanding such interest and asked the government to respond.

The overall sense in the trade is that the aim of the government is to garner revenue by any means, even when it knows that there is no merit in asking for interest on the basis of gross tax liability

The overall sense in the trade is that the main aim of the government is to garner revenue by any means, even when it knows that there is no merit in asking for interest on the basis of gross tax liability.

As the law stands, the government may have a right to demand interest on gross tax liability but it must recognise the unfairness of the demand, hold up such demands and amend the law retrospectively providing for interest on net tax liability, say the tax payers.

The wise way forward for the government is to persuade the GST Council to allow interest payment on net tax liability retrospectively, get necessary amendments made in the GST laws and give effect to the same quickly. Meanwhile, demands on the basis of gross tax liability can be held in abeyance.

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Rangarajan for supply-side shocks to contain inflation

PRESS TRUST OF INDIA
New Delhi, 23 February

Former RBI governor C Rangarajan (*pictured*) has said the Reserve Bank of India (RBI) alone could not contain inflation as supply-side shocks are needed to be managed by the government.

In a paper titled 'The New Monetary Policy Framework - What it Means', Rangarajan talked about the limitations of the RBI's monetary policy in containing inflation.

"The inflation mandate as already mentioned must provide for a range and a time frame for adjustment which should not be too short. Nevertheless, monetary policy must act irrespective of what triggered inflation. Obviously, supply-side management is needed in situations of supply stock and that should be the responsibility of the government," he said.

Rangarajan said the adoption of inflation targeting by India had given rise to many doubts and concerns. The new policy framework requires the RBI to maintain consumer price inflation at 4 per cent with a margin of + or - 2 per cent.

"Thus in a sense, it is flexible targeting. The amendment to RBI Act also provides for the setting of a MPC which will determine the policy interest rate in order to abide by the inflation mandates," he said. The focus on inflation targeting by monetary authorities hardly mean a neglect of other objectives such as growth and financial stability, he noted.

SBICAP Ventures vetting 18 realty projects for ₹3K-cr funding

ABHIJIT LELE
Mumbai, 23 February

SBICAP Ventures is vetting last-mile funding to 18 stuck residential projects with a potential disbursal of ₹3,000 crore. The total value of these projects is ₹22,000 crore. Irfan Kazi, chief investment officer of SBICAP Ventures, said investment panel of fund had met four times.

The disbursement in two projects — one in Mumbai and other in Bengaluru — having 640 housing units has been done. The fund had looked at 300 projects across the country, Kazi told media on the sidelines of a real estate summit organised by the Confederation of Indian Industry (CII). It is a category II alternate investment fund formed under the special window announced by the Centre to provide last-mile funding for stalled affordable and middle-income housing projects. SBICAP Ventures, a subsidiary of SBI Capital Markets, and the Union government are investment fund managers.

The fund achieved its first closure in December 2019 with commitments for ₹10,530 crore. The government, SBI, LIC, HDFC, and other leading public sector institutions are among those that have put money into the fund. Further investments will be brought in through institutional and private investors to generate a corpus of ₹25,000 crore.

The company is in talks with some global investors, including sovereign funds, for investment.

STATSGURU

Three years of IBC

THE INSOLVENCY AND Bankruptcy Code (IBC) has completed more than three years in operation, and the data is available now. An analysis of the Insolvency and Bankruptcy Board of India (IBBI) data gives insights into how the system has evolved.

The amount recovered by financial creditors has varied, and does not show a clear improvement. In fact, the recovery rate was just 12 per cent in the quarter ending December 2019, the lowest in at least two years (Chart 1).

Further, the IBBI data processed by EY India shows that bigger cases — with higher claims by financial creditors — take more time to get resolved (Chart 2). Also, the average recovery rate rises with time, but only till the upper limit of 330 days (Chart 3). After the 330-day period, there is no clear trend as to how fast or efficiently the cases get resolved, aside from this important fact: The most delayed cases are the ones with the highest claims.

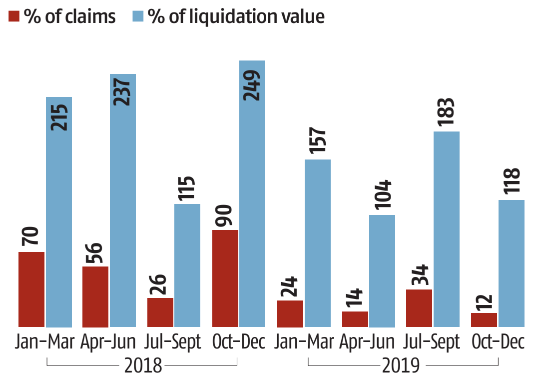
Due to such cases, the average time taken for resolution, and even liquidation, is slowly rising (Chart 4). The data also shows that it is better to admit a company in the IBC process while its in operation, as the recovery rate is better (Chart 5A). A third of the companies not resulting in resolution were already defunct, shows Chart 5B.

Among manufacturing companies that went to the National Company Law Tribunal (NCLT), chemicals and metal firms witnessed more resolutions. Companies in the labour intensive (employment friendly) leather and textile sectors mostly get liquidated (Chart 6).

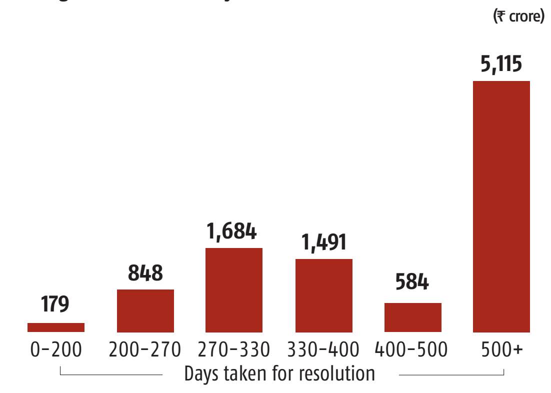
In services, companies in the real estate and construction sector go for appeal or review the most (Chart 7). A resolution is more likely in the power and hospitality sector companies.

ABHISHEK WAGHMARE

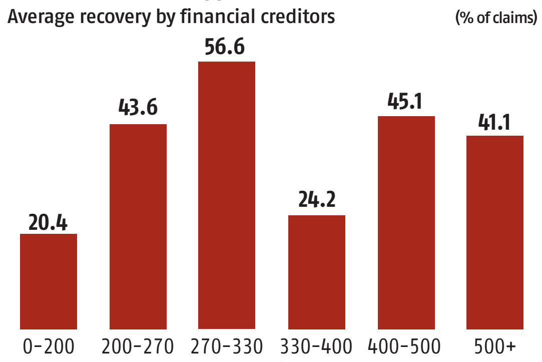
1: RECOVERY RATE DROPS TO THE LOWEST



2: BIG-TICKET CASES TAKE MORE TIME



3: RECOVERY RATE IMPROVES WITH TIME, BUT ONLY WITHIN THE 330-DAY LIMIT



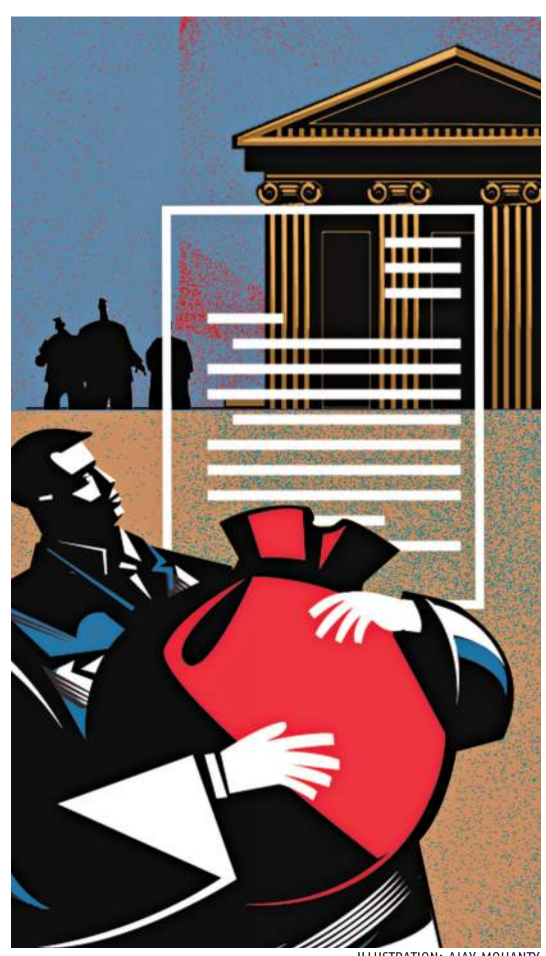
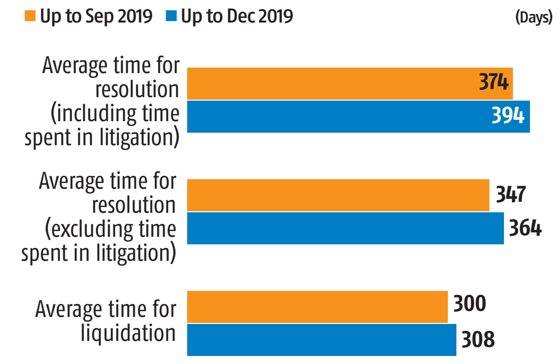
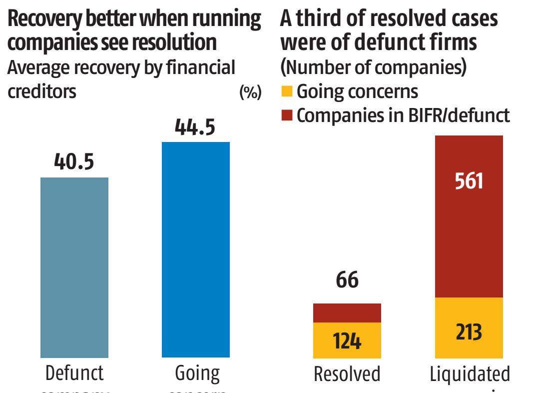


ILLUSTRATION: AJAY MOHANTY

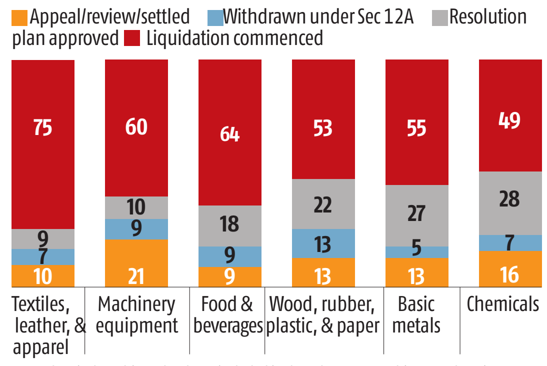
4: RESOLUTION OR LIQUIDATION: PROCESS IS TAKING MORE TIME



5: A STITCH IN TIME SAVES NINE

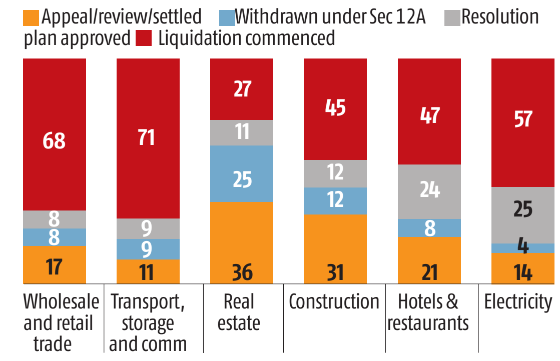


6: MANUFACTURING: LABOUR-INTENSIVE SECTOR FIRMS END UP MORE IN LIQUIDATION



NOTE: Electrical machinery has been included in the sub-sector machinery and equipment

7: SERVICES: REVIEW AND WITHDRAWAL COMMON AMONG REAL ESTATE AND CONSTRUCTION FIRMS



StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Source: IBBI, EY India

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