Budget hints at PSB turnaround

FE BUREAU
Mumbai, February 2

AT A TIME when public sector banks (PSBs) continue to accrue bad loans on their books, the Budget for FY21 and the Economic Survey for FY20 have offered hope for their turnaround. While the finance minister said the government would consider providing capital to PSBs as and when required, for now they are being considered fit to stand on their own.

Finance secretary Rajeev Kumar explained that PSBs are now in control of the legacy bad-loan situation. Further, the plan to amalgamate 10 PSBs into four will help achieve cost optimisation. "All these banks, having done the NPA (non-performing asset) reduction, provision coverage and recoveries, are in a position to go to the market to take care of their own capital needs," Kumar said at the post-Budget press conference, adding, "The amalgamating banks will see a whole lot of expenditure optimisation and efficiencies."

He pointed to the example of Bank of Baroda, which, after amalgamating with Dena Bank and Vijaya Bank, is saving ₹1,900 crore a year in cost synergies. State Bank of India's record profit in Q3FY20 is a sign of revitalisation in the PSB segment.

Analysts have taken these as early signs of a turn to self sufficiency and profitability for PSBs. Kotak Institutional Equities (KIE) said on Sunday there was an expectation of recapitalisation to bolster the credit growth. "However, given that CAR (capital adequacy ratio) levels have improved for banks, we don't see a near-term requirement for the same," KIE analysts said.

Karthik Srinivasan, SVP and group head, financial sector ratings at Icra, said unlike past Budgets where the capital allocation for the banking sector had been in focus, there has been no allocation for PSBs in FY21. "We expect most of the PSBs to turn profitable in FY21 and raise capital from the markets for their growth requirements," he said.

Some help could come from the proposed amendments to the Income Tax Act which will allow amalgamating banks to spread their losses over a period of time and avail of related tax benefits.

Moreover, a road map for improving operating efficiencies at PSBs has been outlined in the Economic Survey. The Survey bats for the use of data analytics in corporate lending, geo-tagging of collateral and a greater embrace of fintech by PSBs to improve profitability. A transformation of human resources (HR) strategies to give greater ownership of PSBs to their employees has also been sought in the Survey.

In a foreword to an SBI note on the Budget for FY21, chairman Rajnish Kumar said, "The proposal to carry out governance reforms to bring in transparency and greater professionalism in PSBs is a good move. This must be looked in the light of the proposal made in the Economic Survey."

Budget silent on key demands from real estate industry

RISHI RANJAN KALA
New Delhi, February 2

HITS & MISSES

- Budget proposes extension of benefit to avail additional ₹1.50 lakh interest deduction on home loans for first-time home buyers by a year till March 2021
- One-year extension to claim 100% tax deduction on profits from affordable housing projects until March 2021 for developers
- Lays more stress on alternative segments in real estate like warehousing and data centres
- Budget has failed to address the issue of liquidity crunch and did not offer any incentives to boost sales

THE BUDGET HAS proposed to extend the additional ₹1.5-lakh tax benefit on interest paid on affordable housing loans to March 2021. Besides, it has also proposed to extend by one year the date of approval of affordable housing projects for availing of tax holiday on profits earned by builders.

Another move, which could marginally benefit the industry, is the proposal to change the way in which capital gains on property deals is computed. Currently, while taxing income from capital gains, business profits and other sources in respect of transactions in real estate, if the consideration value is less than the circle rate by more than 5%, the difference is counted as income both in the hands of the purchaser as well as seller. In order to minimise hardship in real estate transaction and provide relief to the sector, the limit of 5% has been increased to 10%.

Credai national president Jaxay Shah said the industry is eagerly waiting for the rental housing policy and the ₹45-lakh limit to be removed in the definition of affordable housing.

Dhruv Agarwala, group CEO of Housing.com, Makaan.com and Proptiger.com, said the move would make property transactions less burdensome in areas where market rates are 5-10% below circle rates.

However, the real estate industry and analysts have largely termed the Budget disappointing, as it failed to address key issues plaguing the sector, which not only stares at a piling inventory and weak demand, but also fewer avenues to raise capital.

"Marathon Budget 2020 has set a positively direction tone, but failed to announce much-awaited economic stimulus to fuel kick-start of the $5-trillion economy. Labour-intensive real estate sector, which had pegged hope on additional liquidity infusion, tax reforms and rental housing, were overlooked in the Budget," Naredco president Niranjan Hiranandani said.

JLL India CEO and country head Ramesh Nair said the Budget continues to focus on affordable housing and infrastructure, more specifically, urban infrastructure and logistics.

"However, we do not see any significant impact on the realty sector. Keeping in mind the limited fiscal room available to the government, focus of the Budget is to increase liquidity and enhance consumer demand through extension of benefits and simplification of personal income tax," Nair said.

Anarock Property Consultants chairman Anuj Puri said the Budget misses on quick-fixes the real estate sector urgently needs and focuses more on a long-term vision. "Apart from affordable housing and PIT relief, no major benefits came in for resolving the current housing mess. For instance, a hike in the ₹2 lakh tax rebate on housing loan interest rates under Section 24 of Income Tax Act could have kick-started healthier demand for housing, especially in affordable and mid-segment categories."

The Budget also missed any major announcement for easing liquidity in real estate – a major worry for most developers. It also did not announce any measures pertaining to implementation of land reforms, Puri said.

Knight Frank India chairman and MD Shishir Baijal articulated: "Lowering of income tax rates with removal of exemptions may not lead to any meaningful boost to consumption. However, removal of exemptions under the new income tax regime, implying no tax benefit on principal and interest for home loans would be a dampener for the sector..."

Developers expect more investor interest in infra projects

ANWESHA GANGULY
Mumbai, February 2

TAX SOPS ANNOUNCED in the Budget are expected to boost investment into the cash-strapped infrastructure sector, industry players said. The government on Saturday announced 100% tax exemption on long-term capital gains, dividend and interest on investment into infrastructure made by sovereign wealth funds (SWFs). It also brought tax treatment of unlisted infrastructure investment trusts (InvITs) at par with listed ones. The roads sector may significantly benefit from the announcements.

SWFs, including Singapore's GIC, Abu Dhabi Investment Authority (ADIA) and Qatar Investment Authority, have made several investment commitments for infrastructure projects in India. Last year alone saw four major investment announcements by SWFs. ADIA, along with the NIIF and another investor, committed to buy a 49% stake in GVK Airport Holdings, which runs the Mumbai airport. GIC, in partnership with the Tata Group and another investor, will invest ₹8,000 crore into GMR Airports, which runs India's busiest airport in New Delhi.

In the roads sector, IRB Infrastructure Developers last year signed a ₹4,400-crore deal with GIC. GIC, along with private equity player KKR, committed a ₹2,000-crore investment into Sterlite Power's InvIT, IndiGrid.

Exemptions for SWF which are conditional upon a three-year lock-in period, could "spur investments in a big way," in the roads sector, said Virendra D Mhaiskar, chairman and managing director, IRB Infrastructure Developers. "Tax exemptions to sovereign wealth funds will help restore their confidence. Interest in funding BOT or TOT projects would be humongous," Mhaiskar said. GIC has already invested around ₹750 crore into IRB's projects.

The exemptions, which are applicable for investments made on or before March 2024, will help draw sovereign investors for upcoming projects, Mhaiskar said. However, private players or foreign pension funds like the Canada Pension Plan Investment Board may feel left out. "The proposal of tax exemption to sovereign funds for investments in infrastructure has a bite in its tail. As per the definition, many of the large institutional investors active in India today will not qualify such as pension plans or investment arms of various governments, as these entities do not qualify as 'specified persons' under Section 10 (23FE)," said Shagoofa Rashid Khan, partner, Cyril Amarchand Mangaldas.

Another change made in the Budget fine print is that unlisted InvITs would be treated at par with listed one with effect from the next financial year. Listed InvITs already enjoy tax pass-through benefits on income earned by business trusts.

"(It) would be very good for our private listed InvIT platform with GIC affiliates... the beneficial tax regime which was earlier available to listed InvITs, has now been extended to private unlisted trusts regulated by Sebi. This does away with the need to list these trusts and will help operations significantly," Mhaiskar said. The tax treatment rationalisation is also likely to pique private investment interest into roads and other infrastructure projects.

PARENTS UNDER OBSERVATION

Second coronavirus case in Kerala

The 22-year-old travelled on the same flight which the first case took

SHAJU PHILIP
& ABANTIKA GHOSH
Thiruvananthapuram/New Delhi, February 2

Passengers evacuated by Air India from Wuhan being screened at the Delhi airport. As many as 323 people were airlifted on Sunday PTI

ONE MORE STUDENT belonging to Kerala who recently returned from Wuhan University in China tested positive for the novel coronavirus on Sunday, taking the confirmed cases of the virus in the country to two. Officials said the 22-year-old, belonging to Alappuzha, had travelled along with the first positive case, now under isolation in Thrissur.

"They have common travel history from Wuhan to Kochi via Kolkata. After reaching Alappuzha, the 22-year-old was under home quarantine and was later shifted to the medical college after he developed minor symptoms, such as sore throat and fever. The symptoms are not serious although he has tested positive," officials said.

Kerala health minister K K Shailaja said the student had been under observation since January 24, and a sample sent to the National Institute of Virology (NIV)-Pune had tested positive. The 22-year-old is admitted to the isolation unit at Alappuzha Medical College, and officials are looking into others who might have had contact with him during his travel leg from Kochi-Alappuzha. His parents have also been put under observation.

"Surveillance and control measures have been strengthened across Kerala in the wake of the confirmation of the second case of coronavirus in the state. Those suspected to be exposed to the virus should stay in isolation for saving theirs as well as other's lives," Shailaja said, reiterating the state's experience of successfully containing Nipah in 2018.

Meanwhile, the first person who tested positive, also a medical student, is said to be recovering fast. "Her samples are being sent to the NIV-Pune for a repeat test to analyse the present status of the infection," an official said.

Air India brought in a second plane-load of Indian citizens from Wuhan on Sunday, with the 323 flying into Delhi and subjected to screening and quarantine along with the crew. Ambassador of India in China Vikram Misri tweeted that the flight also had seven Maldivians on board.

Only asymptomatic individuals are being allowed to board the evacuation flights by China, as per international protocol to contain the spread of the disease.

Govt's fresh advisory: Anyone with travel history of China since January 15 can be quarantined

PRESS TRUST OF INDIA
New Delhi, February 2

THE GOVERNMENT ON Sunday issued a new travel advisory asking people to refrain from travelling to China in view of coronavirus outbreak in its Hubei province and said travellers on return from the neighbouring country could be quarantined.

In its advisory, the health ministry also said anyone with travel history of China since January 15 could be quarantined.

The decision of issuing a new travel advisory was taken at a high-level review meeting held by the Cabinet secretary on the preparedness to deal with novel coronavirus which has now spread to 25 countries.

Secretaries of health, external affairs, home affairs, civil aviation, dept of health research, and representatives from ITBP, AFMS and NDMA attended the meeting. As on Sunday, 58,658 passengers from 445 flights have been screened for nCoV symptom. A total of 142 symptomatic travellers picked up by the IDSP have been referred to the isolation facilities. As many as 130 samples have been tested of which 128 have been allowed to be negative so far. India has so far reported two positive cases of nCoV from Kerala.

E-visa for Chinese suspended

INDIA ON Sunday temporarily suspended e-visa facility for Chinese travellers and foreigners residing in China in view of the coronavirus outbreak that has killed more than 300 people, infected over 14,000 others and spread to 25 countries.

"Due to certain current developments, travel to India on e-visas stands temporarily suspended with immediate effect," the Indian Embassy announced. — PTI

Voltas Beko to put ₹1,284 cr into white goods unit, eyeing top slot by 2025

M SARITA VARMA
Sanand, January 31

VOLTBEK HOME APPLIANCES (Voltas Beko), Indian air-conditioning major Voltas's joint venture with Turkey-based consumer durables manufacturer Arçelik, will pump $180 million (roughly ₹1,284 crore) into its new home appliances factory in Sanand, Gujarat. It has currently invested ₹700 crore into the Sanand production facility, counting on commanding a 10% market share each in refrigerators, washing machines, dishwashers and microwave ovens within five years.

"Although the Voltas group is fully capable of going about this project on its own, we roped in European company Arçelik as a JV partner because of the cutting edge technology and R&D (research & development) that Arçelik represents," Noel Tata, chairman of Voltas, told *FE*.

"For us, it was also crucial that the two firms match in ethical values," he said on the sidelines of the factory's inaugural ceremony.

The plant in Sanand, with its thrust on robotics and IoT (Internet of Things), claims to be India's first longest continuous assembly line for manufacturing refrigerators. Currently, the factory employs about 500 people.

When in full swing, the assembly line would see packing of one refrigerator in every 15 seconds.

"We use our own patented technology in our appliances and in the number of applications for international patents, we are on par with technology giants like Microsoft," says Hakan Bulgurlu, CEO of Arçelik.

Arcelik, controlled by Koc Holdings that figures in Fortune Global 500 dossier, runs more than 15 home appliances production plants across the globe under several brands including Arcelik and Beko. In Voltas Beko JV, Voltas and Arcelik hold 49% equity each, with their parent companies Tata Group and Koc Holding holding 1% each.

"The pact with Voltas was inked in 2017 and the Voltas Beko brand was launched in 2018," says Levent Çak-ro-lu, CEO of Koc Holding.

Even before the production facility went live, Voltbek has been selling home appliances in India, importing products from Europe.

By 2020 end, its sales are expected to touch 0.5 million units.

Voltbek's Sanand facility targets production of 2.5 million units of consumer durables over the next five years.

After the first phase, involving production of refrigerators, the factory will go for manufacturing washing machines. Making dishwashers and microwave ovens will come in the third phase.

Asked when the current investment in the factory would break even, Pradeep Bakshi, MD & CEO, Voltas, said, "Profit or going break-even is not the top priority. While profit is important, for Voltas Group, the key focus is attaining the number one position in home appliances market like in the air conditioning business. No one recalls the number two anywhere. As the production processes pick up more efficiency, we estimate to carve out 10% market share in each of the home appliance products segment, generating about ₹10,000 crore revenue by 2025."

Future Supply Chain Solutions is the logistics partner.

In the long run, the company may also likely to think of having a second facility to cater to the growing market, Bakshi said. While the pricing would be "on par with LG or Samsung products", there are no immediate plans to export white goods from the Sanand facility since the Indian consumer durable market is seen as growing robustly by 10% in five years.

"Indian consumer durable market would surge from the current ₹70,000 crore to ₹1.4 lakh crore by 2025, especially since consumer finance companies have been proliferating. Compared to China, Indian consumer goods market has been under-penetrated," said Noel Tata.