TUESDAY, 4 FEBRUARY 2020
20 pages in 1 section
MUMBAI (CITY)
₹9.00
VOLUME XXIV NUMBER 122

www.business-standard.com
Business Standard

ECONOMY & PUBLIC AFFAIRS P6
RBI GUV NAMED ASIA-PACIFIC CENTRAL BANKER OF THE YEAR

ECONOMY & PUBLIC AFFAIRS P18
ZELLWEGER WINS BAFTA BEST ACTRESS AWARD FOR *JUDY*

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

THE MARKETS ON MONDAY

		Chg#
Sensex	39,872.3 ▲	136.8
Nifty	11,707.9 ▲	46.1
Nifty futures*	11,703.2 ▼	4.8
Dollar	₹71.4	₹71.4**
Euro	₹79.0	₹78.7**
Brent crude ($/bbl)##	55.2##	56.3**
Gold (10 gm)###	₹40,654.0 ▲	₹26.0

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

MANUFACTURING PMI AT 8-YR HIGH

The manufacturing sector, which was blamed for dragging down the economic growth for the current fiscal year, rose to an eight-year high in January. The IHS Markit India Manufacturing PMI rose from 52.7 in December to 55.3 in January, its highest level in just under eight years. 6 ▶

Electricity supply up after 5 months of fall

The country's electricity supply rose 3.25 per cent during January after five continuous months of decline, government data showed, in a relief for power producers. Power supply rose to 106.36 billion units in January, up from 103.01 billion units last year, an analysis of daily load despatch data showed. REUTERS

ECONOMY & PUBLIC AFFAIRS P4

Index to weigh states for disaster fund allocation

To address the political slugfest that follows each time the Centre allocates money for disaster relief, the 15th Finance Commission has attempted a transparent methodology for disaster management. A Disaster Risk Index (DRI) has been prepared to assign scores to each state based on probability and vulnerability. **JYOTI MUKUL** writes

COMPANIES P3

RIL-BP JV shuts India's first deepwater gas field in KG

The Reliance Industries-BP joint venture said on Monday it had completed the cessation of production from the D1/D3 field in its KG-D6 block. The field was India's first deepwater gas field to be put on production in April 2009. It was expected to cease production in 2015. However, the company made specific investments to extend its life.

COMPANIES P3

Nirma in talks with Bain, Apollo for Emami bid

Nirma is considering partnering either Apollo Global Management or Bain Capital to bid for the Centre's stake in Emami Group, according to sources. Nuvoco Vistas, a cement unit of detergent maker Nirma, has held separate discussions with the private equity firms for a potential offer for Emami Cement, said sources.

G-secs without foreign limits in first half of FY21

India may get included in global bond indices soon

ARUP ROYCHOUDHURY
New Delhi, 3 February

The Centre is looking to issue in the first half of 2020-21 a special series of government securities (G-secs) that will not have any limit for foreign portfolio investors (FPIs). Global bond indices may include Indian G-secs after such issuances, which will bring in more foreign capital.

"We should be able to do it reasonably fast, possibly within the first half of the coming fiscal year," Principal Economic Advisor Sanjeev Sanyal told *Business Standard*.

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 as well," Sitharaman had said on Saturday.

Sanyal said while the FPI limit on most bond issues would not be raised above 6 per cent, there would be some in which there would be no limits.

"One of the conditions for being included in global bond indices is that there should be no restriction on the purchase and sale of G-secs for any investor class," he said.

Sanyal said after multiple rounds of internal consultations among stakeholders, a technical way was found.

The tenure of these special series of bonds, as well as the amount, is being decided by the Department of Economic Affairs.

If the criteria are met, some global bond indices that could embrace Indian G-secs include the Bloomberg Barclays Global Aggregate Index, FTSE Russel Asia Pacific Government Bond Index, and JP Morgan Government Bond Index-Emerging Markets.

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BOND INDICES WHO MAY BE INTERESTED

	Assets under management
FTSE Russell Asia Pacific Govt Bond Index	$2.8 trn
Bloomberg Barclays Global Aggregate Index	$2.5 trn
FTSE Russell Asian Government Bond Index	$2.4 trn
FTSE Russell World Government Bond Index	$2.2 trn
JP Morgan Government Bond Index – Emerging Markets	$228 bn

Source – Finance Ministry note

INVESTING IN FUTURE

- Govt working out the details of tenure and size of such issuances
- Analysts say such issuances have to be substantial in size

PHOTO: SANJAY K SHARMA

Resources being prudently used, unlike UPA: FM

SOMESH JHA
New Delhi, 3 February

Finance Minister Nirmala Sitharaman said on Monday that money being received from widening fiscal deficit is not being splurged, quite contrary to what had happened in the UPA regime.

It is being spent on creating assets and improving logistics, connectivity, health sector in remote areas, she said at a FICCI event. "I am going to tell you that when India had real tough economic situation, money was splurged by the government then in expectation that the economy would rise from the bottom that it had reached. These are all fresh in our minds," she said. "Now, money is being clearly directed where it should go," she said. For instance, the money to be received from the health cess would go for creating the health infrastructure in aspirational districts, which do not have hospitals as such, she said.

On being asked why the markets were not happy on the Budget day, the FM said: "But I see them being happy today (Monday). Monday is the true working mood, and today's mood is that they are happy. Aren't they? Not exuberant but happy somewhat."

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"I SEE THEM (MARKETS) BEING HAPPY ON MONDAY. MONDAY WAS THE TRUE WORKING MOOD. NOT EXUBERANT, BUT HAPPY SOMEWHAT"

Nirmala Sitharaman,
Finance minister

Fund-raising via IPOs, QIPs hits coronavirus wall

Indians, airlifted from Wuhan, undergo tests at a quarantine facility in New Delhi PHOTO:PTI

LARGE IPOs IN THE PIPELINE

Company	Estimated issue amount (₹ cr)
SBI Cards & Payment Services	9,600
Bajaj Energy	5,450
Samhi Hotels	2,000
Penna Cement Industries	1,550
Home First Finance	1,500
Equitas Small Finance Bank	1,000
Puranik Builders	1,000
Emami Cement	1,000
Burger King India	1,000
ESAF Small Finance Bank	976.2

Source: PRIME Database

ASHLEY COUTINHO
Mumbai, 3 February

The outbreak of coronavirus is likely to impact fund-raising activity this financial year, with Indian firms cancelling or postponing roadshows in the Asia-Pacific region, specifically financial hubs of Singapore and Hong Kong, said three people familiar with the matter.

Roadshows are integral to fund-raising — foreign investors get to meet the promoters and query them face-to-face on company prospects. These are typically held a month or two or even a few weeks prior to the scheduled fund raise. Singapore and Hong Kong, besides the US and Britain, are key for Indian firms that embark on roadshows.

"Corporates don't want to travel to these geographies because of the global alert and health risks," said a senior investment banker, on condition of anonymity.

The brake in roadshows comes amid a busy fund-raising calendar for India Inc. Initial public offerings (IPOs) of equity worth ₹17,300 crore have approval from the Securities and Exchange Board of India (Sebi); another ₹24,000 crore awaits approval. Plus, the central government plans share sales to meet its 2019-20 disinvestment target.

Some prominent names in the queue for public share sales are SBI Cards & Payment Services, Home First Finance, Bajaj Energy, Easy Trip Planners, Equitas Small Finance Bank, Shriram Properties, Mazagon Dock Shipbuilders, ESAF Small Finance Bank, IRFC and Apeejay Surrendra Park Hotels. Avenue Supermarts is expected to launch a ₹7,000-crore qualified institutional placement this month, with the aim of reducing the promoter stake.

The timelines of some of these could get impacted. "The unrest in Hong Kong had impacted shows in the region and the outbreak of coronavirus could lead to outright cancellations. We haven't cancelled any roadshows in Singapore so far, but are keeping a close eye on the situation and will take a decision based on what transpires in the next few days," said Amishi Kapadia, group president and global head for merchant banking at YES Securities.

"We are avoiding roadshows in Hong Kong but are meeting investors in Singapore, the US and UK. Some of the meetings are being converted into video or conference calls. So, it's not really impacting deal timelines," said Jibi Jacob, head of equity capital markets at Edelweiss Investment Banking.

But video calls are not feasible for firms that plan to raise ₹1,000 crore or more, say experts. "Investors are interested in meeting the promoters face-to-face, not just poring over numbers. They want to see how the promoters present themselves and understand their vision, even quiz them one-on-one. These are things you just can't do over a call or video conference," said a senior investment banker.

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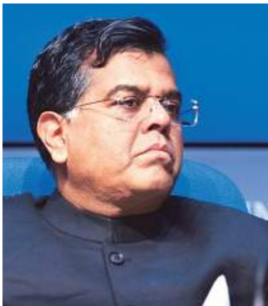
TSI PAGE 13

WUHAN VIRUS: 3rd CASE REPORTED IN INDIA; CHINA TOLL OVER 360

VIRUS FEARS WIPE $393 BN OFF CHINA'S STOCK MARKET

BUREAUCRAT-SPEAK



"WE ARE GOING TO MAKE A SERIOUS EFFORT TO RATIONALISE CENTRALLY SPONSORED SCHEMES... INDEPENDENT OF WHAT THE FC HAS RECOMMENDED"

T V SOMANATHAN
Expenditure secretary
PAGE 4

"BUYERS OF AIR INDIA, BPCL WILL NOT GET A FREE HAND TO SHED EXCESS STAFF AS THE GOVT WILL BUILD IN CERTAIN PROTECTIONS TO EMPLOYEES IN THE SHARE SALE AGREEMENT"

TUHIN KANTA PANDEY
DIPAM secretary
PAGE 2

"THE TELECOM ADJUSTED GROSS REVENUE DUES HAVE NOT BEEN FACTORED IN BY THE GOVERNMENT IN ITS UNION BUDGET AS THE MATTER IS SUB-JUDICE"

ATANU CHAKRABORTY
Economic affairs secretary
PAGE 2

"DOING AWAY WITH EXEMPTIONS AND DEDUCTIONS HAS BEEN THE STATED POLICY OF THE GOVT; IT ALSO GOT REFLECTED IN THE CORPORATION TAX CUT"

P C MODY
CBDT chairman
PAGE 4

TAX

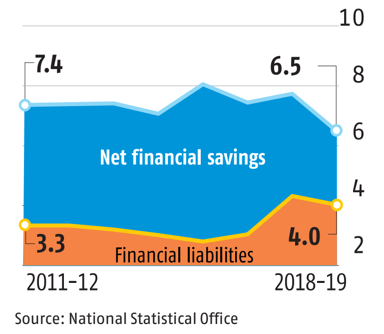
PROPOSED DTC MAY BE IMPLEMENTED IN PARTS BY GOVT

The wait for the proposed Direct Tax Code (DTC) could get longer because the Centre is of the view that the recommendations on it are too "radical" and require more deliberation. It is also in favour of implementing in parts the proposals made by the task force. "Instead of making the report public, the government would pick some recommendations and implement them," said a source. **SHRIMI CHOUDHARY** reports 18 ▶

HOUSEHOLD SAVINGS DIP TO 6.5% OF GDP

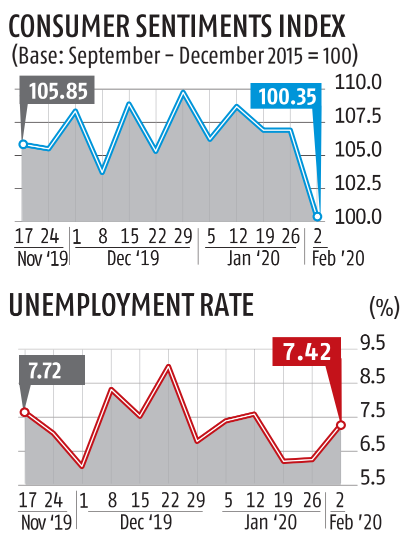
Net savings by Indian households dropped to 6.5 per cent of gross domestic product (GDP) in 2018-19 (FY19) — the lowest in at least eight years. The drop has been quelled by both a drop in gross financial savings as well as a rise in liabilities, shows the data recently released by the National Statistical Office (NSO). But more importantly, the decline in gross savings has surfaced despite the new revised methodology adopted by the NSO scaling up financial savings. The Reserve Bank of India (RBI) uses a methodology which captures savings more accurately.
ABHISHEK WAGHMARE writes 18 ▶

LIABILITIES RISE AS SAVINGS DIP
as % of GDP



Source: National Statistical Office

THE CMIE TRACKER



Source: CMIE

LESS MONEY FOR EMPLOYMENT 10 ▶

RESULTS RECKONER

Quarter ended Dec 31, 2019; common sample of 603 companies (results available of 695)

SALES		
Dec 31, '18	23.0%	₹10.34 trillion
Dec 31, '19	2.0%	₹10.55 trillion
PROFIT BEFORE TAX		
Dec 31, '18	-20.6%	₹88,491 cr
Dec 31, '19	66.1%	₹1.47 trillion
NET PROFIT		
Dec 31, '18	-33.6%	₹54,341 cr
Dec 31, '19	97.4%	₹1.07 trillion

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

'M&M doesn't want to be patriarchal, wants to buck the trend'

ANAND MAHINDRA, chairman of the $21-billion Mahindra group, tells **Pavan Lall** why it's okay to have less than 51% shareholding and the reason he pays more attention to smaller businesses in the group. Edited excerpts:

Q&A

Why have you been stepping away from the group's affairs?
That might be one view; another could be 'he should have left sooner'. My whole style is to gradually step away and allow for empowerment. Family businesses have to put competent people in charge, who believe they can get to the top. If you don't remove the glass ceiling, you won't get the best talent. I'm not vanishing and I'm there for anyone to tap. Of course, you cannot assume all my experiential wisdom is positive.

You've missed out on the small SUV, and M&M's market share largely contracted. Would that have been different if you were more plugged in?
It would be a stretch to presume that these misses happened because of my pulling away. You have hits and you have misses. It's up to a board to decide if the hits are more than the misses. There is no executive who will have only hits. I think the outcomes are unrelated. Also, while we missed the first mover advantage we did make up with the XUV 300.

Everyone needs to step away from their firms at some point, and allow different structures and people to grow. Mahindra doesn't want to be patriarchal and we want to buck the trend.

"CHINA CAN'T BE SEEN AS THE ONLY POWERHOUSE IN MANUFACTURING AND THERE HAS BEEN SOME DESULTORY DIVERSIFICATION WITH PLACES LIKE MYANMAR AND VIETNAM. BUT INDIA CAN REALLY TAKE ADVANTAGE OF THIS"

Anand Mahindra
Chairman, Mahindra group

As the Indian corporate landscape evolves, how do you see the Mahindra conglomerate model adapting in the next decade?
I wish there was a better word and the difference is a technical one. A conglomerate by definition is a grab-bag of businesses under the same legal entity. We are one holding company that owns stocks in other firms. So, we are not a conglomerate, we are a federation. We are both like a holding company and a PE (private equity) company incubating some businesses and as for a federation the goal is to value-create going by listing our companies.

You said the group was like an enlightened or adventure capitalist that had transitioned to an aggressive PE-style player. What is it now?
We are not simply a PE player because they claim to have synergies but never really do. Whereas what we do is each of our companies that we incubate and list and invest in has a strong corporate centre that truly synergises them all. So, what is the role of the head of M&M? It's not just to run an operating business but to oversee the management of the portfolio companies.

But you're still a group. Will the entities that you create be hampered because your goal will be to keep group control?
If that was the goal, we would have never acquired Satyam because it took us below 51 per cent in ownership. If you look at the number of companies we are in, we will willingly go below 51 per cent if we are creating more market cap overall. For us, growth is like an entrepreneurial engine.

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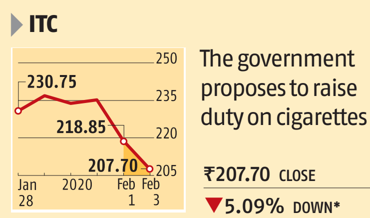
STOCKS IN THE NEWS

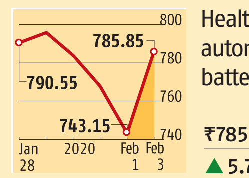
ITC



The government proposes to raise duty on cigarettes

₹207.70 CLOSE ▼5.09% DOWN*

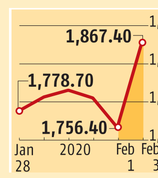
Amara Raja Batteries



Healthy volume growth in automotive and industrial batteries business in Q3

₹785.85 CLOSE ▲5.75% UP*

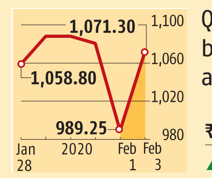
Asian Paints



Top gainer among Nifty 50 index stocks

₹1,867.40 CLOSE ▲6.32% UP*

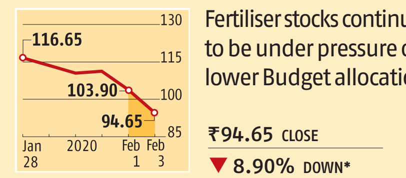
Godrej Properties



Q3 consolidated profit before tax up 145% at ₹88 crore; YoY

₹1,071.30 CLOSE ▲8.29% UP

Deepak Fertilisers & Petrochemicals



Fertiliser stocks continued to be under pressure on lower Budget allocation

₹94.65 CLOSE ▼8.90% DOWN*

* OVER PREVIOUS CLOSE

IN BRIEF

Ambani's sons quit RInfra board in just four months

Reliance Group Chairman Anil Ambani's (*pictured*) sons have resigned from Reliance Infrastructure's (RInfra) board. The resignation comes in less than six months from the appointment made in October last year. In a statement sent to the BSE on Saturday, RInfra said Jai Anmol Ambani and Jai Anshul Ambani have resigned from its board. The company mentioned the date of cessation on January 31, and did not share reasons for resignation. The firm did not share any details on the new role the brothers will assume. AMRITHA PILLAY

WeWork India adds 2 co-working spaces with 4,350 desks

Co-working major WeWork India has expanded its operations by adding two new centres in Mumbai and Bengaluru comprising 4,350 seating capacities to meet growing demand of flexible workspace. In Mumbai, the coworking centre is located at Nesco IT Park and will have 3,400 desks. The total area leased in these two centres is 1.15 lakh sq ft. PTI

US private placement market revives as ATL raises $310 mn

Adani Transmission raised $310 million in the US private placement market by placing 30-year paper last week. Indian firms, led by Indian Oil, Indian Railways, Tata Chemicals and Reliance raised funds from the US private placement market. But since then, the American investors were reluctant to invest in the Indian paper after their bad experience with Reliance Energy paper. BS REPORTER

GMR signs pact to run Bidar airport in Karnataka

GMR Hyderabad International Airport (GHIAL) has signed a concession agreement to commission, operationalise and maintain the Civilian Enclave at Bidar Airport in North Karnataka. The agreement was signed under the centres Regional Connectivity UDAN (Ude Desh Ka Aam Nagrik) Scheme, a press release from GMR said on Monday. PTI

SpiceJet offers free tickets to voters flying to Delhi

SpiceJet said it is offering "hundreds" of "free" tickets, where the base fare will be waived but taxes and other surcharges have to be paid, to select people who want to fly to Delhi to vote in the upcoming assembly elections. PTI

SA firm seeks govt help to sell 10% stake in MIAL

DEV CHATTERJEE
Mumbai, 3 January

After the Bidvest Group, Airport Company of South Africa (ACSA) has sought help from the ministry of external affairs (MEA) and the ministry of civil aviation to sell its 10 per cent stake in Mumbai International Airport (MIAL).

The South African company warned that its board is concerned about making future investments in India, considering the legal and regulatory delays.

In a communication to the MEA, group executive (business development) of ACSA Charles Shillows said it is an investor in MIAL since 2006.

After successful completion of the project, the company decided to exit the investment in January 2019 when the Adani Group approached it to sell stake.

ACSA decided to sell its stake to the Adani Group as it wants to re-deploy funds in other markets such as Africa, South America and in Asia, including in greenfield airports in India.

But the GVK Group, which owns majority stake in MIAL, decided to move court against the sale, citing its right of first refusal.

The matter is currently pending in courts and this is leading to delay.

"However, our sale process has been frustrated due to numerous litigations, and regulatory approvals, leading to inordinate delay in such sale," Shillows said.

As a foreign long-term strategic investor in India, ACSA said it is keen to invest in upcoming opportunities such as Jewar airport, where it bid with a local partner.

"However, inordinate delays due to the legal process, and unfavourable regulatory approvals have led to concerns on future investments in India," he said.

He added that these are critical issues, which have raised concerns at the board level on future investments in India – one of the world's fastest growing aviation markets.

When contacted, a GVK spokesperson said, "We expect to close the transaction with Bidvest and ACSA when they stop litigation. They are trying to scuttle our right of first refusal, and instead must agree to conclude the transaction in line with the shareholder agreement."

In March last year, Bidvest announced sale of its 13.5 per cent stake to Adani Group for ₹1,250 crore. At the same time, it offered its stake to other shareholders of MIAL as per the right of first refusal agreement signed with MIAL shareholders.

GVK had agreed to buy back Bidvest's stake but failed to arrange for funds within the 30-day period in April 2019. The group then moved Delhi high court seeking a stay on the stake sale to Adani Group, but the high court rejected GVK's plea in July last year. A Division bench then sent the matter to an arbitration panel.

An arbitration tribunal in January this year ruled against Bidvest on airport stake sale. Both Bidvest and ACSA said GVK wants to buy the stake, but is neither giving the money nor depositing it in an escrow account.

EXIT HURDLE

- ACSA had agreed to sell MIAL stake to Adani in Jan 2019
- ACSA wants to re-deploy funds to Africa, South America and Asia
- GVK moves court against Bidvest, ACSA sale on Right of first refusal
- ACSA says its sale process delayed due to litigation, lack of regulatory approvals
- ACSA board concerned over future investments in India

ITC's investors fume on slower growth & taxes

VISHAL CHHABRIA & ISHITA AYAN DUTT
Mumbai/Kolkata, 3 February

ITC, which is known to not only bounce back stronger from adverse situations but also take on the might of large multinationals, is once again being put to test. It is not only the slower growth for the December quarter (Q3) that indicates near-term pressure for the company; there are headwinds that cloud ITC's medium-term prospects as well.

Investor concerns are not without reason, considering the cigarette business accounted for 84.7 per cent of ITC's consolidated earnings before interest and tax (Ebit) in 2018-19.

In Q3, too, the company posted a mere 5.7 per cent increase in consolidated revenue, with the cigarette business growing just 5.3 per cent, over the year-ago period. Standalone revenue growth at 5 per cent is the lowest in seven quarters. Worse, operating profit (excluding other income) also grew by just 5.2 per cent on a consolidated basis; 3.6 per cent for standalone entity (the slowest increase in 12 quarters).

After results, five analysts have downgraded the stock, while one has upped her rating. Of the 25 analysts polled by *Bloomberg*, 16 have a 'buy', 8 a 'hold' and one a 'reduce' rating of ITC, and their average target price is ₹279.28.

Even the promising FMCG (consumer products excluding cigarettes) business clocked a muted growth of 3.5 per cent year-on-year (YoY). In spite of the slowdown, investments in brand building and gestation costs of new categories also reflect in the financial results of the FMCG segment.

The company, however, has been able to push up margins in both cigarette and FMCG businesses, given their profit has grown ahead of the top line. Consolidated Ebit of the cigarette business, for instance, was up 6.5 per cent YoY in Q3, partly aided by price hikes, while the same for FMCG was up 36.5 per cent, helped by measures to improve profitability and a low base.

If slowdown in financial performance wasn't enough, the Union Budget has dealt a blow to the cigarette business by raising taxes in an unorthodox way.

Richard Liu and Vicky Punjabi of JM Financial, in a February 1 note, said, "In a rather shocking move, the government effectively hiked cigarette taxes by 13-14 per cent. A part ad-valorem GST tax structure necessitates that part of price hikes (to pass on the higher taxes) gets shared with the government, resulting in much higher effective increase in taxes versus what the FM announced."

ON THE BSE
Base=100 (₹ crore)

Chart labels: Hindustan Unilever 121.28; Sensex 109.33; ITC 73.97; 100; Feb 1,'19 – Feb 3,'20; scale 60–140

The hike in taxes is expected to hurt ITC's earnings. Ashit Desai of Emkay Global Research said in a note on Sunday, "Based on our workings, the hike in cigarette duties is likely to result in a weighted average consumer price increase of 6-7 per cent for ITC, with price increases being higher at ₹8 per cent in 64 mm cigarettes."

The move comes at a time when cigarette demand is already under pressure. "A weak demand scenario, high base, and rising salience of illegal cigarettes at the premium end constrained cigarette volume growth to 2 per cent YoY (base of 7.5 per cent YoY), in line with our estimate," said Edelweiss' analysts led by Abneesh Roy.

Not surprising then, ITC's stock has been a significant underperformer vis-à-vis Hindustan Unilever as well as the BSE Sensex in nearly the last two years.

Apple supplier to assemble iPhone parts in S India unit

REUTERS
New Delhi, 3 February

Taiwan's Wistron plans to assemble printed circuit boards (PCBs) for iPhones at its plant in southern India, two sources said, highlighting Apple's push to expand manufacturing.

The local assembly of PCBs by Wistron's India unit will be a first for the contract manufacturer, which began making Apple's low-priced SE model in the southern tech hub of Bengaluru in 2017. It currently assembles the 6S and 7 iPhone models there as well.

A PCB is a bed for key components such as processors, memory and wireless chip sets that are the heart of an electronic device. Once assembled, or populated with components, PCBs account for about half the cost of a smartphone.

Wistron's second iPhone plant, some 40 miles from Bengaluru, is expected to become operational by April, the sources said, adding that it will make iPhone 7 and 8 models, some of which will be exported.

The facility will be capable of producing up to 8 million smartphones annually, they said. The plan is part of Wistron's ₹30 billion ($422.12 million) investment proposal submitted to the Karnataka state government in 2018. Wistron's rival Foxconn, which began making iPhone XR models in India last year, already assembles PCBs for those devices locally.

NTPC raises $750-mn loan in yen

This is the largest-ever syndicated loan raised by any Asian firm in the currency

SHREYA JAI
New Delhi, 3 February

NTPC, the country's largest power generator, has raised a syndicated Japanese yen loan (JPY) worth $750 million (₹5,300 crore).

This is the largest ever syndicated loan raised by any Asian company from the offshore 'samurai' loan market, said NTPC. Also, this is the highest ever single foreign currency loan it raised.

Raised under the automatic route of the Reserve Ban's regulations regarding exteral commercial borrowing, it has been fully underwritten by State Bank of India, Tokyo; Sumitomo Mitsui Banking Corporation, Singapore; and Bank of India, Tokyo.

The facility has door-to-door maturity of 11 years under two tranches, NTPC said.

This is the third bond offering by NTPC on the international markets in the current financial year. In 2019, it raised $450 mn under its $6 billion Medium Term Note Programme. The latter was set up in 2006 and this was the 10th, taking the cumulative amount raised under the Programme to $4.3 billion. In May 2019, it also raised ₹4,300 crore through bonds at an annual coupon of 7.32 per cent.

The company said proceeds from the latest JPY loan would be used to fund installation of flue gas desulphurisation (FGD) systems at its units. This is to be done at its coal-based power plants to reduce their emissionof sulplur oxides.

"It will also be installed in new hydro and thermal power projects, using ultra supercritical technology with low carbon emission," said NTPC. Having some of the country's oldest thermal power plants, it needs to install FGD and other emission control systems to meet new environmental norms.

In its investor meeting last year, NTPC said it had awarded FGD contracts for around 30,000 Mw of its units. The company's current capacity is 58,156 Mw, of which coal-based power is 42,900 Mw.

This is the third bond offering by NTPC in the international markets in the current financial year

AGR dues not accounted for in Budget

But receipts from telcos pegged at ₹1.33 trillion for the next fiscal yr

SOMESH JHA
New Delhi, 3 February

In the Union Budget, the government hasn't included the adjusted gross revenue (AGR) dues, which the Supreme Court has ordered telecom service providers to pay, in its revenues for 2019-20 and 2020-21.

While upholding the AGR definition of the Department of Telecommunications (DoT), SC had in October 2019 asked telcos to pay up past dues estimated at Rs 1.47 trillion within three months. The industry plea, seeking a modification of the order to get more time for paying up the dues, is yet to be heard in the top court.

"The AGR dues have not been factored in by the government in its Union Budget as the matter is sub-judice," said economic affairs secretary Atanu Chakraborty on the sidelines of the post-Budget-Ficci event on Monday. He said the AGR dues have not been accounted for either in the current financial year or the next. "We want to be on the conservative side while budgeting our revenues," he added.

In the latest Budget, the government has estimated a revenue of ₹1.33 trillion from telecom services in 2020-21. This is around ₹74,000 crore more than the ₹58,989 crore it expects to earn in the present financial year.

The government hasn't specified the avenues from which ₹1.33 trillion can be realised in the telecom sector.

It is either an ambitious target or the government would look for alternative resources, said analysts.

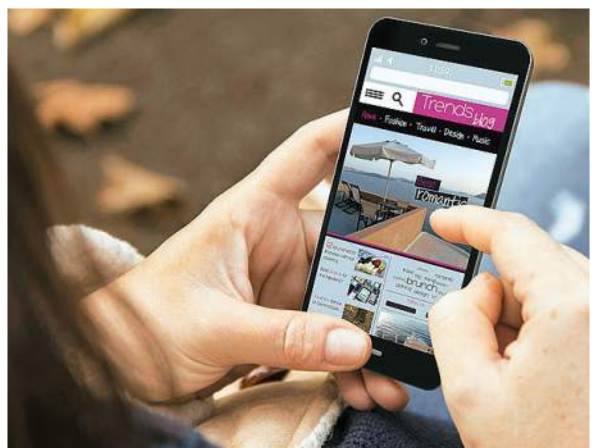
Besides AGR dues, spectrum auction across bands, scheduled for this year, would yield revenues. However, the financially stressed telecom companies are unlikely to bid aggressively in the auction.

Even after the SC deadline for paying up the AGR dues expired on January 23, the DoT did not take any coercive action against the defaulters as their appeals seeking relaxation in payment timelines is pending in the apex court.

The figure of ₹1.33 trillion under the telecom head in the Budget raised apprehensions among telecom operators that they may have to pay a substantial portion of the AGR dues — over 50 per cent of ₹1.47 trillion — in the next fiscal year.

According to Cellular Operators Association of India (COAI) estimates, telcos have to pay around ₹16,000 to ₹17,000 crore as licence fee and spectrum usage charge (SUC) this year.

Even after assuming that revenues will grow sharply due to increase in tariffs and redefinition of AGR, they say it cannot be more than ₹30,000 crore for FY21. But with a moratorium of two years on payment of deferred spectrum for FY21, which is ₹25,000 crore, this money will not be available. Also with negative response on 5G, COAI expects the government to get ₹25,000 crore upfront for fresh spectrum auction next year.



It is yet to be seen as to where the budgeted money would come from in the next financial year

AI buyer won't get free hand to cut excess staff: DIPAM secy

PRESS TRUST OF INDIA
New Delhi, 3 February

Buyers of Air India and Bharat Petroleum Corporation (BPCL) will not get a free hand to shed excess workforce as the government will build in certain protection to employees in the share sale agreement, DIPAM Secretary Tuhin Kanta Pandey said.

Public sector firms often have more people on rolls than their private sector counterparts and companies wanting to take them over would likely right-size them to remove inefficiencies. The Secretary of the Department of Investment and Public Asset Management (DIPAM) said the government would follow two-stage bidding process for selling its holding in Air India and BPCL.

First preliminary interest from potential bidders is invited, followed by them being given access of data room on the companies for due diligence. In the second stage, price bids are invited.

"There will be certain protection to employees and there will be other conditionalities, and this will be listed out in the share purchase agreement"

TUHIN KANTA PANDEY
DIPAM secretary

While in the case of Air India, the expression of interest (EoI) has been invited by March 17, an offer seeking the same for BPCL is likely to be floated in the next few days. Asked if the bidders will get a free hand to right-size the companies after the acquisition, Pandey said, "There will be certain protection to employees and there will be other conditionalities and this will be listed out in the share purchase agreement (SPA)." He did not give details of the conditionalities. An SPA will signed with the acquirer who offers the highest bid for buying out government stake.

The government is selling its entire 100 per cent stake in Air India but wants effective control to stay with Indian nationals. The airline, which started as a Tata Airlines in 1932 and was later acquired by the government, has not made profits since 2007. It has a total debt of ₹60,074 crore, of which bidder has to takeover ₹23,286.5 crore.

In the case of BPCL, the government is selling its entire 53.29 per cent stake in the company that will give buyers ready access to 14 per cent of the oil refining capacity and about one-fifth of the fuel market share in the world's fastest-growing energy market.

Trading in shares of Coffee Day suspended

DEBASIS MOHAPATRA
Bengaluru, 3 January

Market regulator Securities and Exchange Board of India (Sebi) has suspended trading in shares of Coffee Day Enterprises (CDEL) from Monday. Sources in the know said breach of listing obligations by not submitting audited financial statements in time could be the reason behind suspension of trading. The shares of the firm were last traded on Saturday (February 1) when the market was open for the Budget announcements.

Earlier, the market regulator had informed CDEL that delay in declaration of earnings beyond January 29, could lead to halting of trade in the company's shares due to breach of listing regulations. However, the Bengaluru-headquartered firm had sought more time for submission of audited results citing to non-completion of internal investigations.

Nirma in talks with Apollo, Bain for Emami Cement bid

BAIJU KALESH, ANTO ANTONY & P R SANJAI
Mumbai, 3 February

Nirma is considering partnering either Apollo Global Management or Bain Capital to bid for the cement unit of Indian conglomerate Emami Group, according to people with knowledge of the matter.

Nuvoco Vistas Corporation, a cement unit of detergent maker of Nirma, has held separate discussions with the private equity firms for a potential offer for Emami Cement, said the people, who asked not to be identified as the information isn't public.

Nuvoco is among the bidders for Emami Cement, which has picked Arpwood Capital and Credit Suisse Group AG to manage the sale of the unit as *Bloomberg News* previously reported. The company is seeking a valuation of about $1 billion, people familiar with the matter have said.

Nuvoco Vistas Corporation, a cement unit of detergent maker Nirma, has held separate discussions with the private equity firms for a potential bid for Emami Cement

Emami Cement runs three manufacturing plants in India and is setting up another one in Kalinganagar, Odisha, according to its website. The company has more than 50 branches across the country, its website shows. R S Agarwal and R S Goenka, who own Emami Group, are joining tycoons, including Anil Ambani and Subhash Chandra in selling assets to pare debt as a cash crunch in Indian markets has increased funding costs.

Deliberations are ongoing with Nuvoco still exploring options for its bid, the people said. The companies could also decide against an offer, they said. A spokesman for AION Capital Partners, a private equity fund jointly owned by Apollo Global Management and ICICI Venture Funds Management, declined to comment, while representatives for Bain, Emami and Nuvoco also declined to comment. BLOOMBERG

Kinetic Green to raise ₹250 cr

Kinetic Green Energy and Power Solutions, part of the Kinetic & Firodia Group, is planning to raise $35 million (₹250 crore) from private equity (PE) entities to support a ₹200-crore investment plan. Sulajja Firodia Motwani, founder and CEO, Kinetic Green, said so at the announcement of a tie-up with Bharat Petroleum Corporation for e-Drive, an electric vehicle mobility solution based on swappable battery technology. Under their alliance, a range of electric three-wheelers, specifally designed for a two-minute battery swap, will be made by Kinetic Green and hired out to auto-rickshaw drivers. BPC will with the support of IIT Madras provide lithium-ion batteries and set up swapping stations. This model is already being tested in Kochi and Lucknow. The plan is to expand this to seven more cities — Ghaziabad, Nagpur, Pune, Kanpur, Vijayawada, Patna and Chennai. T E NARASIMHAN

Shree Cement to enter western India in next six months

AVISHEK RAKSHIT
Kolkata, 2 February

Shree Cement, second largest company in the segment, will be debuting in the West Indian market in the coming six months, with a 2.5 million tonne per annum (mtpa) grinding unit near Pune.

"It will be our maiden entry into Maharashtra and cater to demand for the western part of the state," H M Bangur, managing director, told *Business Standard*.

Investment in the plant, spread across 65.7 acres, is Rs 625 crore. It doesn't have linkages to limestone reserves and is getting this from a Shree unit near Kodla village in Karnataka.

The idea is to initially sell in the Pune-Ahmednagar-Navi Mumbai-Aurangabad area. "We will see how it works in the next two-three years and then only will get to know if we have set up a capacity the market can absorb," said Bangur.

According to Yes Securities, West India has total installed capacity of 70 mtpa. UltraTech Cement is the largest at 15.3 mtpa in Maharashtra and 12.5 mtpa in Gujarat. Followed by Ambuja Cement with 11.5 mtpa. Shree Cement is poised to enter when demand is recovering and prices have stagnated on the higher side. According to market sources, prices in the western region were hiked by ₹20 a bag (50 kg) to ₹335-340 in early January and another hike of ₹10 is likely in the near term.

In the near past, says ratings agency ICRA, demand in Gujarat was affected by labour and water scarcity; in Maharashtra, it was positively driven by infrastructure and affordable housing.

Asked about the tepid market condition, Bangur said, "Indian cement consumption at 350 kg per person per year, on the average, is half the world's average; it can well be at 600-700 kg. Demand for cement is bound to increase."

Shree has targeted a capacity of 55 mtpa by 2023 and 75-80 mtpa by 2026. The expansion into western India is part of this. Strong in the northern region, Shree has been eyeing a national presence since 2016, when it started to acquire land for forays into eastern and southern India.

In 2018, it commissioned a plant in Karnataka thereby entering south India. It had entered the eastern market four-five years before, with a plant in Jharkhand and in Bihar. And, is on the lookout for another facility in West Bengal, where it is in the process of acquiring land. It is also readying a 2.5 mtpa grinding unit in Odisha.

MMG's Agrawal takes a bite at Big McD's North & East franchise

ARNAB DUTTA
New Delhi, 3 February

After a protracted battle and years of uncertainty over franchise rights for McDonald's outlets in North and East India, Sanjeev Agrawal, chairman of Delhi-based M M Agrawal Group, has emerged a winner.

Agrawal, 55, will now be responsible for operations at over 160 outlets for the American burger giant in the two markets that are considered the largest (North) and fastest-growing (East) in the country's consumer goods space. Together, with McDonald's, he will be focused on "modernising our restaurants, enhancing digital consumer engagement, and offering more personalised service and menu items tailored to their local flavour," said Barry Sum, director of corporate relations for McDonald's in Asia.

Agrawal, 55, will now be responsible for operations at over 160 outlets for the American burger giant in the two markets that are considered the largest

"Agrawal has a strong understanding and passion for the McDonald's brand, insights into the local market, and a proven track record of driving quality and innovation in the food and beverage and hospitality industries. He is the right strategic partner for McDonald's to grow our brand presence in North and East India," he said.

Founded in 1964 as Superior Group of Industries by former Member of Parliament-Rajya Sabha late M M Agrawal, it got its current name after 2006. As Agrawal, the elder son of M M, took over the reins after his father's demise, he gave it a new name. Today the group's interests are spread across diverse sectors — from hotels and colas to offshore services for oil and gas industry.

It forayed into the food and beverages space in 1987, when the group set up Moon Beverages to bottle drinks for India's cola king Ramesh Chauhan. The firm that M M Agrawal Group terms as its 'flagship company' for beverages business began bottling Thums Up, Limca, Maaza, Gold Spot, RimZim, and Bisleri for Chauhan's Parle Group.

Later, in 1994, following Coca-Cola's re-entry into the local market, Moon Beverages became the authorised bottler of the cola giant and is manufacturing and distributing drinks like Coca-Cola, Limca, Sprite, Maaza, Thums Up, Fanta, Minute Maid, Coke Zero, and Kinley. It works as a co-packer with Coke through another company — Hindustan Aqua — which bottles Coca-Cola beverages.

While MM had laid the foundation of the group, it is in fact Agrawal who is credited for its success in the fast-moving consumer goods space.

RIL-BP shuts down D1/D3 field in KGD6

AMRITHA PILLAY
Mumbai, 3 February

The joint venture (JV) of Reliance Industries (RIL) and BP on Monday said it had completed the cessation of production at D1/D3 fields in the KG-D6 block.

The fields were India's first deepwater gas field, which started production in April 2009. The fields were expected to cease production in 2015. But the company made specific investments to extend thier lives.

"The RIL-BP joint venture has successfully worked to extend the life of production from the D1/D3 field, which otherwise would have ceased production in 2015 due to issues of reservoir pressure and water ingress," the company said.

The approved field development plan for Dhirubhai-1 and 3 had envisaged gas production of 80 mmscmd from the third year of commercial production, which was 2012-13. When D1 and D3 fields in the KG-D6 block off the Andhra coast went into production in 2009, it helped double the natural gas availability in the country. The fields started seeing a sharp dip in output in 2013. Production fell from 60 mmscmd achieved in mid-2010 to 52-53 mmscmd, initially and in subsequent years went into single-digit output.

The company said KG-D6 block so far had produced an overall 3 trillion cubic feet equivalent (TCFe), resulting in energy import savings of over $30 billion.

In its December quarter results, RIL said an average gas production from D1 and D3 fields for the quarter is 1.53 mmscmd, with three wells flowing.

For its other investment in the KG-D6 block, the JV has committed an additional $5 billion towards monetising 3 TCFe reserves from three projects - R cluster, Satellite cluster and MJ fields.

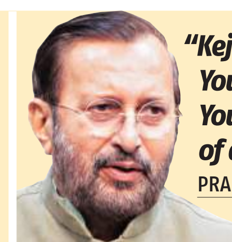
The company said these planned projects would utilise the existing gas production infrastructure. The first-gas from these fields is expected in mid-2020.

"No...the economy is not in recession. According to the NSO, GDP growth on average was 7.5% in 2014-19, which is the highest amongst G-20 countries"

ANURAG THAKUR
Minister of state for finance

"Finance Minister, don't be scared of my questions. I am asking these questions on behalf of the youth of the country. The youth want employment and your government has failed miserably to provide them the same"

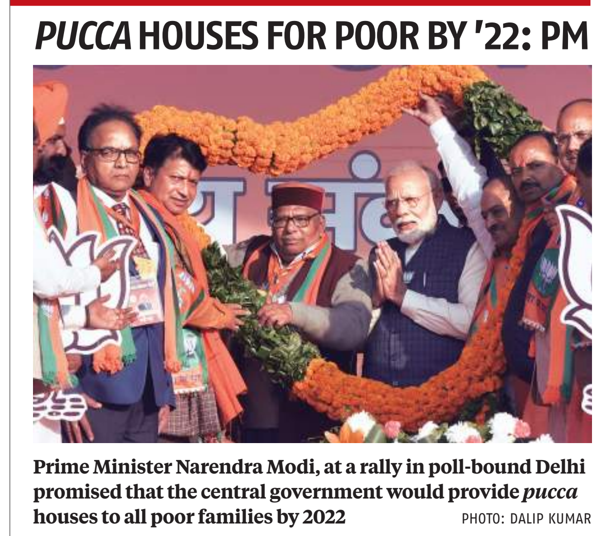
RAHUL GANDHI
Congress leader



"Kejriwal is asking with a sad face, 'am I a terrorist?' You're a terrorist and there's evidence to prove that. You had said you are an anarchist. There's not much of a difference between an anarchist and a terrorist"

PRAKASH JAVADEKAR
Union minister

PUCCA HOUSES FOR POOR BY '22: PM



Prime Minister Narendra Modi, at a rally in poll-bound Delhi promised that the central government would provide *pucca* houses to all poor families by 2022 PHOTO: DALIP KUMAR

Fitch predicts India's FY21 GDP growth at 5.6%

Fitch Ratings on Monday said India is expected to clock a GDP growth of 5.6 per cent in the next financial year, lower than the projection made by the government's Economic Survey, as Budget 2020 has not "materially altered" its view on the country's growth outlook. The Economic Survey, released a day before Finance Minister Nirmala Sitharaman presented Union Budget for 2020-21 on February 1, had projected a GDP growth of 6-6.5 per cent, up from 5 per cent estimate for 2019-20. **BS REPORTER**

IDBI Bank raises ₹745 crore via tier-II bonds

IDBI Bank has raised ₹745 crore through tier-II bonds to enhance capital adequacy and support business growth. It raised debt capital from market after a gap of two years. Bank officials said the money raised through tier II bond offering was expected to increase Capital Adequacy Ratio (CAR) by about 50 basis points. The CAR stood at 11.98 per cent at end of September 2019. **BS REPORTER**

Shriram Transport Finance Q3 pre-tax profit up 20.6%

Shriram Transport Finance Company's profit before tax (PBT) rose by 20.6 per cent to ₹1,186.3 crore in the December quarter, driven by the rise in other income and fall in loan losses and provisions. It had posted a PBT of ₹983.9 crore in the same quarter a year ago. Net interest income in Q3 rose by just 1.36 per cent to ₹2,055.42 crore, as against ₹2,027.87 crore in Q3FY19. **BS REPORTER**

Rose Valley scam: Assets of three entities attached

The Enforcement Directorate has attached assets of over ₹70 crore of three entities, including a firm that owns actor Shah Rukh Khan's IPL cricket team, in connection with its money laundering probe in the Rose Valley ponzi scam case, the agency said on Monday. The three are Multiple Resorts, Kolkata's St Xavier's College and Knight Riders Sports. **PTI**

Bank credit grows by 7.21%, deposits 9.51%: RBI data

Banks' credit and deposits grew 7.21 per cent and 9.51 per cent to ₹100.05 trillion and ₹131.26 trillion, respectively, in the fortnight ended January 17, according to the RBI data. In the year-ago fortnight, banks' advance stood at ₹93.32 trillion while deposits at ₹119.85 trillion. In the fortnight ended January 2, credit had grown by 7.57 per cent to ₹100.44 trillion and deposits by 9.77 per cent to ₹132.10 trillion. **PTI**

Index to weigh states for disaster fund allocation

Finance Commission's move aims to address deficiency in state-level funding

JYOTI MUKUL
New Delhi, 3 February

To address the political slugfest that follows each time the Centre allocates money for disaster relief, the 15th Finance Commission has attempted a transparent methodology for disaster management.

A Disaster Risk Index (DRI) has been prepared that assigns scores to each state based on probability and vulnerability.

"It is the first attempt to include state-level disaster risk scores in resource allocation and address a serious deficiency in the previous state-level allocations for disaster management," the commission said in its report tabled in Parliament on Saturday.

The DRI has been developed through a quantitative exercise assigning scores to the probability of hazards and the extent of vulnerability of a state. For vulnerability, the commission has used both income and non-income dimensions like poor housing, quality of shelter, social isolation and remote terrains.

The revised methodology for making allocations to states retains the importance assigned to the expenditure incurred by states on disaster management. In addition, it introduces weightages for area, population and risk profile of individual states to arrive at the final allocation. Seventy per cent weightage has been assigned to expenditure. Area and population have been given weightage of 15 per cent each.

Hazard zonation and risk exposure maps have been used to arrive at probability. While hazard has been assigned a score of 70, vulnerability has been given 30.

The four major hazards that have been assigned a score of 15 each are floods, drought, cyclone and earthquake. The remaining score of 10 has been assigned equally to all states for smaller hazards like landslides, windstorms, hailstorm, cloud burst and lightening.

States where floods affect more than 20 per cent of the total area are assigned a score of 15, while states where between 10 and 20 per cent of the total area is affected are assigned a score of 10.

The remaining states with less than 10 per cent of the area affected have been assigned a score of 5. Arunachal Pradesh and Tamil Nadu are exceptions to the flood scoring. Arunachal has been given a high score because the Brahmaputra floods it every year. In the case of Tamil Nadu, the score is 10 since it experienced heavy floods in the recent past.

States, which have a larger share of chronically drought prone areas, are assigned a higher score of 15. Those with a significant share of such areas have been assigned 10. Andhra Pradesh, Gujarat, Bihar, Odisha and Uttar Pradesh are in the high risk category for both floods and drought.

The higher score of 15 has been assigned to Andhra Pradesh, Odisha and West Bengal, which have very high cyclone-prone districts. Tamil Nadu, Kerala and Gujarat have been assigned 10. For earthquake, all Northeastern and Himalayan states along with Bihar, Gujarat and Maharashtra have been given 15.

The vulnerability has been assigned based on the below poverty line population. States with poverty rate of 26 per cent and above have been assigned the highest score of 30. Those with poverty rates of 13-26 per cent got a score of 10 and below 13 per cent, the score assigned is five.

For calculating the allocation, disaster relief fund allocation of Maharashtra in 2019-20 has been used.

STATES IN HIGH-RISK CATEGORY

	Score
Odisha	90
Bihar	80
Gujarat	80
Uttar Pradesh	75
West Bengal	75

DISASTER PROBABILITY

	High	Medium	Low
Flood	15	10	5
Drought	15	10	5
Cyclone	15	10	5
Earthquake	15	10	5
Others	–	10	–

VULNERABILITY
Poverty (%)

	Low	Medium	High
Poverty (%)	(13)	(13-26)	(26-40)
Score	10	20	30

Source: Finance Commission Report

Jal Jeevan to add 11 mn taps by '21

RUCHIKA CHITRAVANSHI
New Delhi, 3 February

Jal Jeevan Mission, the government's latest flagship scheme, has set out a target to add 11.5 million household tap connections by 2020-21 (FY21), according to papers laid under Budget documents.

The total allocation for the programme for FY21 is ₹11,500 crore, up from ₹10,000 crore last year.

According to the government data, 1.46 million of the 178.7 million rural households in the country are yet to have functional household tap connections. The government has proposed ₹3.6 trillion for the programme to be executed by 2024. Of the total estimated expenditure, the share of Centre will be ₹2.08 trillion.

The department of drinking water and sanitation under the Jal Shakti Ministry is likely to go for low hanging fruits first to expedite the target. This would mean projects that are close to completion but remain unfinished could be taken up on priority.

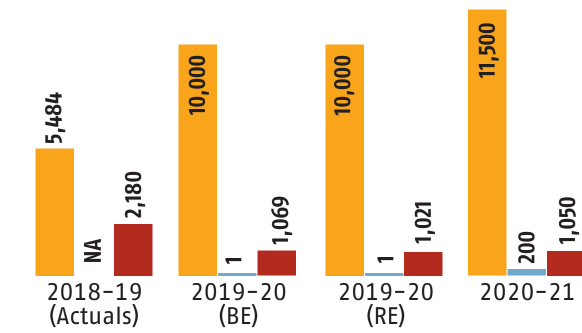
The mission is modelled on a "utility-based approach", enabling institutions to focus on services and recover a water tariff or user fee. No expenditure towards operation and maintenance cost of the schemes such as electricity charges, salary of regular staff, and purchase of land will be allowed out of Central share.

The Budget has enumerated social, economic, and health benefits of providing tap connections to households, which will be used as indicators to measure the outcome at the end of the year. As of now, the targets for these parameters have been kept at zero.

Through the mission, the government is aiming to reduce the number of acute diarrheal diseases, relieve women from the drudgery of carrying water from distant sources, and lessen the number of girl drop-outs from upper primary schools.

The scheme is also expected to generate through construction as well operation and maintenance activity undertaken for piped water supply.

BUDGET ESTIMATES



Source: Budget

'We've reprioritised spending to be more productive'

Expenditure Secretary **T V SOMANATHAN** joined his new position in the finance ministry in mid-December, as Budget preparations were in full swing. Speaking to **Arup Roychoudhury** in this first print interview since taking on the role, Somanathan says the government will provide more to key rural schemes like MNREGA and PM-KISAN, if needed, and that expenditure is being aimed towards sectors which will help kick-start growth and consumption. Edited excerpts:

How realistic do you think the overall Budget numbers are?

I think they're actually extremely realistic in the sense that they are neither over-optimistic nor are they pessimistic. They actually represent a best case or a most realistic case scenario. If you look at the growth target of 10 per cent nominal GDP, what we expect is something like 6-6.5 per cent real GDP growth, and inflation of 3.5-4 per cent. But if you look at certain recent inflation retail inflation numbers, they've been higher at around 5 per cent, though WPI inflation is a little low. So I think the combination of real growth plus inflation is extremely likely to be 10 per cent or more.

And if you look at the overall revenue estimation, it anticipates a buoyancy of approximately 1.2. Historically, that is attainable. This year the revenue buoyancy is expected to be 0.65 but that is because you had a structural change, in the form of steep reduction in corporate tax rates. That will not happen next year so you will have a base, which is likely to grow by 10 per cent nominal in terms of economic growth. We have not attempted to be over-pessimistic or over-optimistic.

Has the Budget done enough? Experts and even some within the government were calling for a year-on-year fiscal expansion.

You have not done that.

Whether it is an expansion or not also depends on the denominator. In a growing economy, 3.5 per cent is bigger than 3.8 per cent in absolute terms. So, in terms of the total, aggregate public expenditure will grow next year at more than the rate of nominal GDP growth. Aggregate expenditure is seen to be rising by more than 11 per cent. There is a much more substantial rise in capital expenditure so the capital expenditure growth is about double the overall expenditure growth.

Q&A

So, in terms of those expenditures, which have high multipliers, and those expenditures which create good downstream effects in the economy, we have substantially increased the provisioning, even with a reduced fiscal deficit. So, it's a reprioritisation of expenditures towards high multiplier, highly productive government expenditure. Remember we also have to balance the need for stimulus, with the need for long term sustainability of our public expenditure. We do not want to get into a situation where if you look at one of the previous rounds of stimulus, we ended up with a lot of subsequent difficulties. So, we are trying to do something that is actually fiscally prudent and sustainable but it's helping the economy to grow. So it's a balance.

The 15th Finance Commission has pulled up the Centre for not rationalising its schemes and has said it should utilise FY21 to thoroughly assess centrally-sponsored and central-sector schemes. Will we see the government do that?

Yes. We are going to make a serious effort to rationalise centrally sponsored schemes, and it is quite independent of what the Commission has recommended. We are intending to do it anyway. We intend to do it so that we create space for higher value expenditures, and remove lower value additional spending. I do not want to pre-judge what will come out of the exercise but we do intend to do a very serious exercise.

Will the number of schemes be drastically reduced by the next Budget?

I don't want to comment on what any reduction or any number will be it because in some cases what you need is not necessarily a reduction. You actually need in some cases an increase. Rationalisation works both ways. You may have a good scheme that is starved of funds, a bad scheme that needs to be cut.

But we intend to make a very serious effort to look at the existing structure of centrally sponsored and central sector schemes. And to rationalise them so that we can for the highest possible value addition and the schemes are operated efficiently both by centre and state.

You have expected to save some ₹20,600 crore on PM-KISAN this year, if you compare Budget estimates to revised estimates. Why has ₹75,000 crore been allocated again for FY21?

The increase is because we do feel that in the first year of any scheme, apart from duplication, there are issues of reach, because the scheme started quickly and it was ramped up fast. So there could be people who are left out of the system, who have not been reached in the first round because different state governments have implemented it with different degrees of administrative capability. We want to ensure that we don't under-provide, because if it is necessary, it must be there. Because it goes to the most vulnerable sections of the society. And there is a possibility that as the scheme reaches its second year, people who were left out because they didn't have the right documents or people who were not reached by the states administrations; they would get into the scheme.

more on business-standard.com

CRISIL SME TRACKER

Budget's much-needed leg-up for small units

UNION Budget 2020-21 has attempted to address a fundamental concern of micro, small and medium enterprises (MSMEs) — their competitiveness.

The announcement on enabling easier debt in the form of quasi-equity augurs well for the competitiveness of these units, whose contribution to exports is over 45 per cent.

An evaluation of 13,000 MSMEs using the CRISIL Quantix database shows that working capital comprises over half of their need for debt.

In this context, the push given to the Trade Receivables Discounting System (TReDS) platform — the institutional mechanism that facilitates financing of MSMEs' receivables — is a positive, too. It was announced in the previous year's Budget that non-banking financial companies (NBFCs) could register and participate on TReDS. The latest Budget lays out an amendment in the Factoring Regulation Act to implement this.

This may not be enough to boost the participation of large companies and MSMEs alike on TReDS, though. As of March 2019, the platform had only banks and five NBFC factors registered on it, and had seen only 2.5 lakh transactions worth a total of ₹6,700 crore since its inception in 2014.

The extension of loan restructuring for another year (till March 2021) is also expected to provide relief to a sector that accounts for about 9 per cent of the banking system's gross non-performing assets.

Other positive measures for the sector in the Budget include a provision for enhancement of risk covers at competitive rates through schemes such as NIRVIK for export; 100 per cent tax exemption for three out of 10 years for companies with a turnover of up to ₹100 crore (up from ₹25 crore earlier); and some easing in compliance, such as doing away with the need for audits for MSMEs with a turnover of up to ₹5 crore.

Besides, an app-based invoice financing loan product is to be launched, though its modalities and execution remain monitorables.

'Stock markets cannot expect the moon every time'

Despite 40% of the full fiscal year's collection target falling on the remaining two months of 2019-20, Central Board of Direct Taxes Chairman **P C MODY** tells **Dilasha Seth** in a post-Budget interaction that he is optimistic. Edited excerpts:

Though the direct tax collection growth target for this fiscal year has been scaled down to 2.9 per cent, from 17.3 per cent, isn't it still high, considering that growth is a negative 5-6 per cent so far?

There is a lot of realism in fixation of target. A three per cent rise is definitely achievable. Historically, the last quarter of any fiscal is where your highest collection comes. These stand at ₹7.4 trillion today.

But, this means you need to still achieve 40 per cent of the current fiscal's target in two months. Besides, advance tax collection might also be lower due to the revisions on account of corporation tax cuts.

We have already factored that in. We will match up with the final growth rate and I am confident of meeting my target. The dispute resolution scheme announced in the Budget — 'Vivaad se Vishwas' — will contribute to that.

Isn't the next fiscal year's target of 12.7 per cent growth again unrealistic in some sense?

With the manner in which we are using data analytics and artificial intelligence, the targets are very realistic. More reporting by entities of the financial transactions of taxpayers and increasing synergy with the CBITC in terms of exchange of information would definitely lead to more compliance.

The biggest disappointment for the markets was the quiet on LTCG (long-term capital gains). Did that figure in your pre-Budget discussions?

That was absolutely an unrealistic assumption to make. World over, capital gains is liable to tax. What was the big issue on that? You can expect the moon every time but...(*laughs*).

But, LTCG is not a big contributor to revenues.

It is not about what the government is getting from a particular head of income. What is important is that in the general scheme of things, what ought to be taxed, ought to be taxed. Contrary to the objective of simplifying the personal income tax regime, the Budget announcement has made it much more complex. Unlike now, a new return filer might need to seek professional help to figure which regime is more beneficial.

Q&A

That is a mis-impression. On the contrary, if you do not have exemptions or deductions to avail of, it needs a simple calculation of what your income is from different sources, calculating the tax at the prescribed rate, and you're done with it. It's only when the issue of exemptions and deductions come that the whole confusion starts — whether I'm entitled to it or not and to what extent. So, doing away with exemptions and deductions has been the stated policy of the government; it also got reflected in the corporation tax cut. The same thing has been carried over here. We are essentially looking at a simplified, straight, lean, simple structure for taxpayers to comply with. Besides, if you look at it from the context of tax disputes, they are essentially hovering around these exemptions and deductions.

With this, will people not move away from buying insurance?

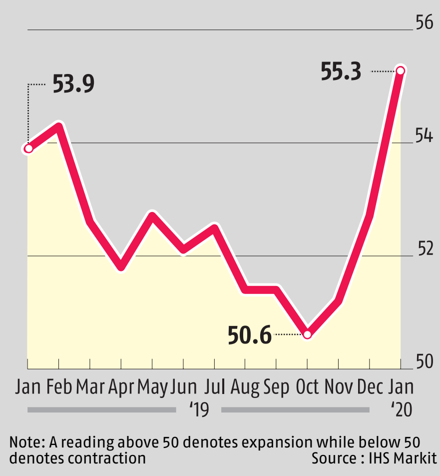
Certainly not. On the contrary, with higher disposable income in their hands, people can take own call on what they want, which instrument they would like to go for.

more on business-standard.com

Manufacturing PMI at 8-year high

Rises to 55.3 in Jan, driven by increase in new orders amid rebound in demand

INDIVJAL DHASMANA
New Delhi, 3 February



The manufacturing sector, which is blamed for dragging down economic growth in the current fiscal year, rose to an eight-year high in January, according to the widely-tracked purchasing managers' index (PMI) survey.

The IHS Markit India Manufacturing PMI rose from 52.7 in December to 55.3 in January, its highest level in just under eight years. According to PMI parlance, a reading above 50 represents growth and the one below it denotes contraction.

Growth was driven by a sharp rise in new business orders amid rebound in demand conditions. This led to a rise in production and hiring activities.

There was, however, less pressure on prices, says the commentary associated with PMI. The Reserve Bank of India's Monetary Policy Committee (MPC) will hold its three-day meeting from Tuesday.

"Manufacturing sector growth in India continued to strengthen in January, with operating conditions improving at a pace not seen in close to eight years," said Pollyanna de Lima, principal economist at IHS Markit.

On the other hand, official advance estimates show that manufacturing is expected to grow by just 2 per cent in the current fiscal year, against 5.7 per cent the previous year. This, among other factors such as crisis in non-banking financial companies, is likely to pull down the economic growth to 5 per cent in FY20, the lowest in over a decade.

In the PMI survey, companies noted the strongest upturn in new business intakes for over five years, which they attributed to better underlying demand and greater client requirements.

The rise in total sales was supported by strengthening demand from external markets, as noted by the fastest increase in new export orders since November 2018.

On employment, hiring activity improved in January, with firms increasing employment at the quickest rate in close to seven-and-a-half years. New business growth and projects in the pipeline were cited as the main reasons for job creation.

Meanwhile, Indian manufacturers were more upbeat about the year-ahead outlook for production. Optimism stemmed from forecasts of better demand, new client wins, marketing efforts, capacity expansion, and product releases.

"To complete the good news, there was also an uptick in business confidence as survey participants expect buoyant demand, new client wins, advertising and product diversification to boost output in the year ahead," Lima said.

On the price front, there were slower increases in both input costs and output charges, the survey noted.

"Companies also benefited from subdued cost pressures, which enabled them to restrict increases in their fees to some extent," Lima said.

Shaktikanta Das is Asia-Pacific central banker of the year

ANUP ROY
Mumbai, 3 February

Reserve Bank of India (RBI) Governor Shaktikanta Das has been named Central Banker of the Year, Asia-Pacific 2020, by *Banker* magazine, a unit of *Financial Times* (FT).

The award is given to central bankers who have "best managed to stimulate growth and stabilise their economy."

Jorgovanka Tabakovi, National Bank of Serbia, was adjudged the Global Central Banker of the Year. The awards were announced in an editorial of *Banker* magazine on January 2.

Nominating Das, the magazine said India's banks had faced a series of challenges, from non-performing loans to issues around fraud. Repeated economic slumps saw the central bank cut interest rates five times during 2019, and it was open to cutting these again, if necessary.

"Faced with these challenges, Shaktikanta Das has taken steps to bring banking in India up to standard via a restrained approach to governance," the magazine said.

"He has brought in measures to tighten the rules around shadow banking, refusing to bail out non-banking financial companies (NBFC). He is aiming instead for issues to be managed within the financial system, possible a risky move but one that will reduce dependence on the central bank," the magazine said.

According to *Banker*, lenders outside the traditional bank network have been placed under greater levels of scrutiny under the RBI governor. Housing finance companies have been brought under the regulation of RBI and will adhere to the same rules framework of NBFCs.

While ensuring that smaller banks and urban cooperative banks install a robust IT system that will allow them to offer banking services at a lower cost and with safeguards to protect the customer, the banking system itself has not gone without scrutiny.

"Das has been outspoken on the lack of governance in banking, calling for tighter rules for the state-owned banks, which comprise 60 per cent of India's banking sector."

Faced with several challenges from non-performing loans to fraud, *Banker* magazine says Shaktikanta Das has "taken steps to bring banking in India up to standard via a restrained approach to governance"

The magazine lauded the governor for setting up a college for supervisors, and mandating banks to select external benchmarks for linking their lending rates.

"An environment of macroeconomic stability, as reflected in low and stable inflation, notwithstanding its recent spike that is expected to be transient; a sustainable current account deficit; and rising foreign exchange reserves have contributed towards maintaining financial stability and laying a platform for sustained growth," he was quoted by the magazine.

Extended pause ahead

ADITI NAYAR

In a move that had surprised the markets, the Monetary Policy Committee (MPC) had unanimously chosen to keep the repo rate unchanged at 5.15 per cent in the December 2019 policy review, given the lack of clarity on the evolving growth-inflation outlook, incomplete transmission of past monetary actions, and the growth-supportive measures that may be introduced in the Union Budget for FY21.

The MPC had sharply revised its CPI inflation forecast for H2FY20 to 5.1-4.7 per cent from 3.5-3.7 per cent, with risks broadly balanced. The subsequent inflation data was unpleasant, with a food price induced hardening of the CPI inflation from 4.6 per cent in October to 7.4 per cent in December, breaching the upper threshold of the MPC's medium-term target of 4 +/-2 per cent.

Prices of some vegetables have corrected in January, aided by the rise in domestic supplies and imports of onions. The favourable rabi sowing trends, coupled with healthy reservoir levels, would support crop yields. However, the retail prices of pulses and oilseeds have seen an uptick. Further, the elevated global food price index poses a risk that needs to be watched. Also, telecom tariff hikes, rail fare hike, and an unfavourable base effect, are likely to push up the core-CPI inflation. In our assessment, the CPI inflation will print around 6.5 per cent in January, and fall gradually toward 4 per cent over the next three quarters, necessitating an upward revision in MPC's inflation projections.

MONETARY POLICY PREVIEW

In December 2019, the MPC had reduced its projection for economic growth in FY20 to 5.0 per cent, from the October 2019 forecast of 6.1 per cent with risks evenly balanced. This was in line with the advance estimate of GDP growth of 5.0 per cent for FY20, released by the CSO in January. But the revised GDP data up to FY19, released subsequently by the CSO, indicates an implicit growth of 5.7 per cent for FY20.

In our view, the proposals made in the Union Budget for FY21 will not trigger a substantive revival in demand in the immediate term. However, recent high frequency indicators offer some evidence that in some sectors a gradual recovery has already set in, including the double-digit growth in Coal India's output as well as the rise in the manufacturing PMI to an eight-year high level of 55.3 in January. The funding of the Centre's fiscal deficit from the small savings pool is likely to go up from ₹1.25 trillion in FY19 to ₹2.4 trillion each in FY20 and FY21. This suggests small savings interest rates are unlikely to undergo any meaningful correction in the coming 4-5 quarters, irrespective of the policy action undertaken by the MPC.

Given the 135 bps of repo cuts undertaken in 2019 to support economic growth, we expect an extended pause from the MPC in H1CY20, until there is clear visibility of a fall in the headline CPI inflation below its medium-term target. Moreover, a change in stance to neutral from accommodative is anticipated in either the February or April reviews.

The writer is principal economist, ICRA

Long wait for buyer

Despite not being a minister, here's why I would be wary of touching this "gold mine"

OUT OF THE BLUE

ANJULI BHARGAVA

On January 27, the revised document asking for expression of interest from anyone interested in buying the national carrier, Air India, was released. Anyone who has looked at it closely will agree the document shows the government's willingness and even eagerness to sell the airline: 100 per cent equity sale instead of the earlier 76 per cent, a lower debt left on its books and easier terms for the buyer. But no matter which way one looks at it, buying this "gold mine" is not for the faint-hearted. Let me elaborate.

To begin with, there's a ₹23,286.5 crore debt in my head. Almost the entire debt of the airline has been secured by offering government of India guarantees. While I understand that some of the more difficult debt — debt offered by international lenders contingent upon a sovereign guarantee — has been removed into the special purpose vehicle, a large part of the debt that remains is also backed by government guarantees. Moreover, the lease rentals of 21 B787s is guaranteed by government.

What happens to all this? Will the buyer be required to provide counter guarantees for this? Which lender will agree to let go of the sovereign guarantee? If the debt is to be restructured, would the additional liability fall on the new owner? A senior MOCA official told me that the government would find a way to deal with this before it issues the request for proposal. As of now, the matter remains up in the air.

Second, the document requires the buyer to maintain the Air India brand even after he assumes charge. Why? If the brand is indeed so valuable, the new owner will naturally continue with it and the stipulation is superfluous. And if he doesn't see enough value, why should he be forced to continue with it? If a price for sale has been agreed on and the deal is signed and sealed, why should the government care what happens to the brand? This is a bit like insisting the nameplate of your house remains unchanged even after the new owner with a different surname moves in.

In fact, I am unable to understand why the government even cares if Air India remains a going concern or not. After all, there are other airlines that do the required job and it's not as if passengers would be stranded.

And if it does indeed care, why does it care only for the next three years? Why three and why not five?

But for many in the industry (this is definitely the deal-breaker for me), the most problematic issue with the airline remains its staff and employees. Air India has long been an employment vehicle for the government filled with non-performing human capital. The employees are pampered both in terms of how little they need to do and in terms of various benefits offered by the airline, far wider than any private carrier would condone. Yes, airline employees are entitled to free passages across airlines but the definition of family doesn't extend as wide as it does in Air India. Retired employees do get some concessions, including medical benefits, but nothing akin to what the national carrier offers. What happens to all this?

A group of employees, I raised this matter with, claimed that if anyone messes with their entitlements, they would have no option but to move the courts. Taking this a bit further, what happens then if I fire someone belonging to the backward classes or minorities? Will I be hauled up before the SC/ST Commission and other bodies who protect their interests? Do I fancy spending my time defending my actions or putting my house in order?

As I understand it, the conditions to protect employees are yet to be decided and would be included in the share purchase agreement. The government needs to tread carefully here to ensure these are not a deal breaker.

I'll end with one last message for those who are still not convinced that sale is the only way forward — there are still many ideological dissenters — let me end this debate by drawing your attention to some of the recent routes the airline has embarked upon. On January 20, the airline announced twice weekly flights between Bhubaneswar (Odisha) and Surat (Gujarat). On January 27, a daily UDAN flight between Kolkata (West Bengal) and Jharsuguda (Odisha) was launched. A few days later, on January 31, Bhubaneswar was further connected to Varanasi.

When I asked a former CMD and a rival CEO if there was a method to this madness, pat came the answer: To defy the slowdown and ensure losses grow at a healthy clip.

CHINESE WHISPERS

Nath-Khan banter

While announcing that the next edition of the International Indian Film Academy Awards will be held in Bhopal and Indore later this year, Madhya Pradesh Chief Minister Kamal Nath said those who wanted to attend the event must buy tickets for themselves and their families. To drive home the point he purchased the first ticket for the event. Actor Salman Khan (*pictured*), who was present at the venue, pretended to be aghast: "Sir, *mera khandaan bada hai; main to kangal ho jaunga* (I have a large family; I will be bankrupt if I have to buy tickets for all)," he said and praised the voters of the state for choosing a "young" chief minister. Khan's association with the state goes back a long way — he did part of his education at the Scindia School in Gwalior. When Nath took oath as CM, there were rumours that the actor might be roped in as the brand ambassador of MP.

Peacock-bison-monkey menace

The national bird and the state animal are getting the flak for damage to crops in Goa. Chief Minister Pramod Sawant (*pictured*) on Monday told the Goa Assembly that peacocks and monkeys had become a menace for horticulture in the state. Even some years ago, peacocks, along with monkeys and the state animal bison, were on the state agriculture ministry's list of vermin. In a written response tabled in the Assembly, Sawant also put down the steps taken by the administration to mitigate the damage. "Fruit-bearing local forest species are being planted in forest areas and other lands available for plantations. Water holes are also maintained inside forest areas for the use of wild animals."

Acting DGP, acting chief secy

After appointing R K Tiwari acting chief secretary last year, the government of Uttar Pradesh has selected Hitesh Chandra Awasthi as acting director general of police (DGP). The fact that the government has still not been able to zero in on regular appointees to the posts of head of the bureaucracy and the police has given much fodder to opposition parties to take it on. A lot of political and caste calculations go into such appointments, and they can be expected only after the Budget session of the Assembly is over later this month.

Desi Budget's *videshi* focus

Strapped for cash to encourage domestic investment, Sitharaman has provided several less-noticed incentives for foreign companies to bet on Indian market

SUBHOMOY BHATTACHARJEE

TAKE TWO

ANALYSIS BEHIND THE HEADLINES

The enthusiastic response of foreign business chambers in sharp contrast to their domestic counterparts suggests that on balance, Budget 2020-21 sought to encourage *videshi* companies more than *desi* ones to explore the Indian market.

A fiscally-strapped finance ministry was not expected to hand out any major sectoral sops. It has offered, instead, room for larger sector-agnostic investments, in spite of the protectionist character of its import tariffs. It turns out that many of these measures will benefit investors from abroad rather than domestic industrialists who were looking for the existing capacity to be utilised.

The one that moved the needle in this Budget is obviously the removal of the dividend distribution tax (DDT). But check out some of the others. Investment avenues have been expanded for non-resident investors in certain categories of government securities on a par with domestic investors. Limits for foreign portfolio investors for entry in the corporate bond segment have been raised. The rate of tax deducted at source has been reduced to four per cent from five on the interest payable to a non-resident, in respect of money borrowed in foreign currency from a source outside India through any long-term debt papers listed on a recognised stock exchange located in GIFT City, India's international financial services sector.

It is possible to question how enthusiastic foreign investors would be about investing in, say, corporate bonds since there is a 40 per cent unutilised capacity within the current limits. But it is important to remember that no Budget proposal gets written in India unless there has been a demand for it from interested parties. That these proposals have made it to the Finance Bill, 2021, means the tax department received representations to this effect and felt they were worth considering.

Besides, the Budget has deferred the significant economic presence rules for companies that do business in India. This is a big measure for the digital economy. It means just because a foreign company sells a product in India (often a digital product), the tax department cannot deem it a domestic company and tax it accordingly. The provision was supposed to ring in from the next financial year, but has been pushed back to 2022-23. This was, in fact, a 2018 proposal, but the deferral is significant. The US-India Strategic Partnership Forum has promptly cheered it. "There is an applaudable effort to align India's digital taxation policy with global norms," it said.

There are, of course, caveats. The one per cent tax at source imposed on sellers on e-commerce platforms will hurt both Amazon and Walmart-Flipkart. And there are also the widening customs duties on ICT products. Yet, the domestic production lines for these products are expected to be the wholly-owned Indian subsidiaries of foreign digital giants.

Union Finance Minister Nirmala Sitharaman and Anurag Thakur ahead of the Budget on Saturday

There is another clutch of investors: domestic start-ups. For them, Finance Minister Nirmala Sitharaman has offered incentives. These include deferring tax payment on Employee Stock Option Schemes and increasing revenue threshold to Rs 100 crore for claiming profit exemption for a period of three years out of the first 10. Again, start-ups know their major source of money will not be the domestic banks, but a different class of investors which, in turn, will largely be financed by foreign money such as SoftBank and other Silicon Valley-based funds.

True, the Budget makes a targeted sectoral push for airports, roads, cement, steel and construction industry, but these are meant for companies that are planning to invest to raise capacity. The largest swathe of Indian industry is still not talking in those terms; it was looking at the government to find the money, which would make the domestic consumer feel rich enough to buy. That has not happened.

Another notable announcement is the support to build the National Mission on Quantum Technologies and Applications. Sitharaman has provided Rs 8,000 crore for a period of over five years for it. No other project in fundamental research has received a similar scale of government funding, and no domestic company has the capability to fulfil these requirements.

Contrasting fate of two key demands shows which way the wind blew this Budget. One demand to remove long-term capital gains tax, introduced by former finance minister Arun Jaitley in 2018, was mostly by domestic asset holders. The tax remains. Another demand, mostly by foreign constituencies, was to remove DDT. It has gone.

And then, there is announcement of a policy for private sector to build Data Centre parks. Arguably, these are meant to complement India's promised push for data localisation. But, guess which business segments have made the most noise over it over the weekend?

Also, the contrasting fate of two key demands shows which way the wind blew this Budget. One demand to remove long-term capital gains tax, introduced by former finance minister Arun Jaitley in 2018, was mostly by domestic asset holders. The tax remains. Another demand, mostly by foreign constituencies, was to remove the DDT. It has gone.

Finally, there is a small matter of higher taxation threshold for Non-resident Indians (NRIs). Many newspapers have carried lists of Indian business leaders who carry the NRI tag. In a small way, the government seems to be differentiating between the wealth creators and wealth holders. That could hurt the fortunes of some of the established business wealth holders in India.

ON THE JOB

Less money for employment

MAHESH VYAS

It is often feared that the government of India lives in denial of the unemployment problem in India. The finance minister's Budget speech in Parliament last Saturday provided some clue on the matter through some unambiguous statements. In paragraph 40 of the speech she states, "We recognise the knowledge, skills and risk-taking capabilities of our youth. He is no longer the job seeker. He is creator of jobs."

If the youth is no longer a seeker of jobs, then implicitly, there is no unemployment problem among the youth. This betrays the denial mode that the government is feared to be living in.

How do we square this claim that the youth is not seeking jobs with household surveys that tell us the unemployment rate among the young is as high as 31 per cent? And that among young graduates it is higher at 43 per cent.

Possibly, the finance minister's statement on the youth not being job seekers any more but being job creators was hyperbole. There are a few proposals where employment generation is at least a side-benefit. These include setting up hospitals in PPP in aspirational districts, construction, operation and maintenance of infrastructure, grants for select tourism plans of states etc.

Apparently, employment generation is good but, recognising unemployment is anathema.

The chapter on jobs in the Economic Survey is actually about copying a Chinese model on exports based on being part of global value chains. India's jobs problem is a huge challenge that is getting worse. The Economic Survey's apparent solution entangles this massive problem with another equally mammoth and rather ambitious challenge, which is to turn India into a globally-competitive nation with production processes that would be tied closely with seamless processes of global brands. It is no good to be a defeatist but, it isn't good to be unrealistic in policy-making as well.

The finance minister has echoed this idea propounded in the Economic Survey, in her speech in paragraph 42. She speaks of the Networked Products that the Economic Survey spoke of and goes further to propose a scheme "focused on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging". But the details would be announced later.

Unfortunately, a mere announcement of a new scheme does not build confidence and it provides no guidance. We will have to wait for the scheme to see how it proposes to deliver on jobs and how close it comes to the Economic Survey's estimate of providing 40 million jobs in five years under such a scheme.

It is not the government that becomes a part of any global value chain. This role has to be played by private enterprise.

But which Indian industrialist would be willing to wager her capital for business in today's uncertain world and which bank will be willing to fund such a venture today? And why would those who do so not consider automation in assembly operations? Has India resolved its factor problems of land, labour and capital adequately to enthuse private enterprise to invest and ensure the success of such a strategy? Can India ensure that availability of the internet and free movement of labour will not be randomly disrupted? Can the government ensure that its ambitious tax collection targets will not translate into harassment of enterprise? Such questions are obvious and their answers are not merely in copying China. India cannot copy China.

How would Indian labour meet the challenges of automation, high quality standards and the need for their appropriate skilling? It does not help that the Union Budget has slashed the budget for skilling. The budget for jobs and skills development had been reduced from ₹61 billion in 2018-19 to ₹57.5 billion in 2019-20 and now it is further reduced to ₹53.7 billion for 2020-21, as per statement 4A of the Union Budget. In 2019-20, it has not been able to spend the budgeted ₹72.6 billion provided for the year.

Paragraph 39 of the finance minister's speech states that the government has provided ₹993 billion for education. This is merely 4.7 per cent higher than the revised estimates for 2019-20.

The Union Budget has also slashed the budget for the only scheme it has that directly deals with jobs for those who have none in rural India. The allocation for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme has been reduced from a revised estimate of ₹710 billion in 2019-20 to a budgeted ₹615 billion in 2020-21.

Nothing speaks better than money on the table. The government just reduced its intention to spend on jobs on 2020-21.

The author is managing director & CEO, CMIE

LETTERS

Don't add to the burden

This refers to the editorial, "Glide path for direct tax" (February 3). The architecture of direct tax exemptions and corresponding investments have been developed over many years. The purpose of this system is to provide benefits to the related industry. For example, investment in 54EC bonds to save on long-term capital gains tax (LTCG) on the sale of property provides low-cost funds to Rural Electrification Corporation and the National Highways Authority of India. While it can be argued that the structure of exemptions needs simplification, the total obliteration of the existing system doesn't amount to simplification but points to a mind-set of destructive extremism, as it was reflected in the fatal misadventure of demonetisation.

The finance minister has provided an alternative route of adhering to the existing tax rates to retain the benefit of tax deductions and exemptions. However, one doesn't know if the route would be available in the ensuing years. The finance minister has declared her intent to do away with all exemptions before 2024. This can result in a loss of opportunity for middle class tax payers. Let us take the case of a home buyer. While it is true that no one buys a home just to save taxes, the now available deductions of Rs 2 lakh per annum for payment of interest (under section 24B) and Rs 50,000 for payment of principal (under section 80C) on home loans facilitate easing of the arithmetic between post-tax income and EMI and encourage real estate demand for home loans as well as for residential units. The equation would now be permanently destroyed not only for the new home buyers but also for the existing home buyers who have availed of housing loans with the belief that the existing tax incentives would continue. This comes as a rude shock more particularly when the real estate sector is in a slump with the mounting burden of unsold residential units.

Pramod Patil Nashik

Encourage saving habit

Apropos your edit "Glide path for direct tax" (February 3), while the choice given to tax payers to transit to a new tax regime sans exemptions is forward looking, what must be debated is whether this option for the new age earners will result in increasing the rate of savings or make a further dent into the already declining savings habit. Experience suggests that inducing salary earners to save a few bucks to avail of tax benefits encourages them to buy savings products such as ELSS, ULIP, PPF and of late FDs in banks that are locked in for a minimum of three years.

Instances of people availing of short-term loans to put money in tax saving schemes, especially towards the end of the financial year, abound. And believe it or not, these forced savings cumulatively bring in financial stability to the lives of individuals, besides coming in handy for education, marriage etc of their children. It will be worthwhile to consider restoring the exemptions afforded for savings under Section 80C of the I-T Act by making appropriate changes to the proposed formula.

Ganga Narayan Rath Hyderabad

Let's keep things simple

This refers to "FM Nirmala Sitharaman's Budget goal: Lower rates, simple structure" (February 3). Finance Minister Nirmala Sitharaman dismissing the criticism that the new regime would not be beneficial to the assessees does not hold water. In fact, most of them are bound to suffer if they unsuspectingly opt for this alluring new income tax regime. I would go as far as saying this is like serving half-baked food. The claim that "eventually this should lead to a system where people are taxed at the lowest possible rate and are given a simple system", may turn out to be a mirage. What will happen in the long run, can't be properly visualised today; but, for sure, the dual taxation regime has complicated matters further for the hapless tax payer. The observation that the "new scheme would benefit some taxpayers falling in certain brackets, if not all" is unbelievable.

Kumar Gupt Panchkula

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HAMBONE

Business Standard
Volume XXIV Number 122
MUMBAI | TUESDAY, 4 FEBRUARY 2020

Towards transparency

Disclosure of extra-budgetary borrowings is a prudent move

One of the standout features of Saturday's Union Budget was the disclosure of extra-budgetary borrowings. The government needs to be commended for increasing transparency and disclosing off-Budget borrowings as the markets will now have a better picture of government finances. The government's attempt to clear the web of confusion by being transparent about the amount of borrowings that are not part of the Budget is certainly a good move. Using this route to fund expenditure had come in for intense criticism from the Comptroller and Auditor General of India.

According to the numbers presented in the Budget, the government is funding expenditure worth ₹1.73 trillion in the current year through off-Budget financing, which is expected to go up to ₹1.86 trillion in the next fiscal year. If this spending is included in the Budget, the fiscal deficit will go up to about 4.6 per cent of gross domestic product (GDP) in the current year and 4.4 per cent in the next fiscal year. The bulk of the off-Budget financing is going in funding the food subsidy bill. Food Corporation of India is borrowing ₹1.1 trillion in the current year from the National Small Savings Fund, and the amount is expected to go up to ₹1.37 trillion in the next fiscal year.

While the government has indeed taken a step forward by disclosing the expenditure, it clearly needs to do more to build trust in government finances. For one, it should also disclose borrowings by entities such as the National Highways Authority of India, which is spending on behalf of the government. Also, while disclosure is fine, the government needs to realise extra-budgetary borrowings optically improve the fiscal deficit and lead to confusion in the marketplace, affecting the credibility of the Budget. Although the provision of funds through extra-budgetary sources does bring down the stated fiscal deficit, it still adds to the government's liabilities. Off-Budget borrowing is also an inefficient way of funding expenditure because the government's market borrowing cost is much lower than the interest paid on small savings instruments, for instance.

Second, the government needs to bring in greater realism in its Budget projections. One of the biggest reasons why it could not meet fiscal targets in the current year is because of unrealistic estimates. It is highly likely that it will still fall short of the revised estimates for the current year. Even for the next fiscal year, the assumption for nominal GDP growth is somewhat realistic, but the government is expecting tax buoyancy to go up to 1.2, compared with a low of 0.5 in the current year. Further, it has set an ambitious target of raising ₹2.1 trillion through disinvestment, compared with the revised estimate of ₹65,000 crore and actual realisation of just a little over ₹18,000 crore so far in the current fiscal year. If the revenues fall short, which is likely, the government will have to cut expenditure or again deviate from the fiscal consolidation path. Frequent deviations from the target hurt the credibility of the government. Greater transparency and realism in government finances will increase market confidence and help bring down the borrowing cost over time.

The protectionism path

Budget continues the backward slide on trade

The Union Budget for 2020-21 has been presented at a time when demand in India is depressed and exports growth was negative for months after August 2019. It is unfortunate, therefore, that trade and industrial policy in the Budget appeared particularly incoherent. In some sense, the headline developments tell the story: This Budget has continued the trend of the past few years in raising tariffs. The justifications for this move are just import substitution and protectionism. The rhetoric of the Budget was not pro-trade in the least; "cheap and low quality imports" were effectively blamed for problems in employment generation. Worse, there was a promise to review all customs duty exemptions by September this year — and the finance minister said that this review would be crowdsourced. Surely, the suggestions to this effect will come mainly from those corporate interest groups that benefit from protection; consumer advocates will not receive the same attention. If the process itself is flawed in this manner, there can be little hope for the outcome.

The minister also departed from her ministry's Economic Survey to attack the performance of India's free-trade agreements (FTAs). The Budget speech noted that "imports under free trade agreements are on the rise", and that there were "undue claims of benefits" under FTAs, which "posed a threat" to domestic industry. "Stringent checks" were promised, which indicates that rather than making it easier to do business in India, imports will shortly be put through the sort of red tape rigmarole that Indian bureaucrats excel in producing. It is hard to see how this section of the Budget gels with an earlier section that promises India must become a centre for the assembly of "networked products", essentially those that emerge from global value chains. This was a theme of the Economic Survey 2020 and duly found a mention in the Budget speech, but the effect of the Budget's actual provisions works in the opposite direction. Government distortions are also inevitably linked to the notion of "one district, one product", which, the Budget speech claimed, would boost exports.

Protectionism, intervention, and import substitution must not be allowed to become the new normal in India. This represents backward, muddled economic thinking and must continue to be called out as hurting both Indian consumers and producers. Protection merely creates a high-cost, uncompetitive domestic industrial base. If the only concern is protecting micro, small, and medium enterprises, for example, then the next logical step is surely to reintroduce small-scale reservations and licences — the last vestiges of which this government bravely did away with in its first term. Especially in the context of a domestic demand crunch, growth can revive only if its participation in global trade increases. This is not a one-way street. It needs clear and predictable tariffs alongside investment in logistics and deregulation. While the government has focused on the latter two, it has moved backward on tariffs and openness. The economic history of India till the 1990s reveals the dangers of allowing the belief to take hold that tariffs lead to job creation and a productive base. It did not work then, and it will not now.

Defence spending in austere times

The unusually low 5 per cent increase in allocation in the Budget calls for unorthodox solutions to fund the military

WHERE THE MONEY IS SPENT

(₹ crore)

Budget year	Salary (X)	Pension (Y)	Manpower costs (X+Y = Z)	Non-salary revenue (A)	Capital budget (B)	Total non-manpower (A+B = C)	Service budget Z + C	Ratio spent on personnel	Ratio spent on equipment
ARMY*									
2018-19 (A)	103,006	86,377	189,383	37,421	29,561	66,982	256,365	74.0%	11.5%
2019-20 (RE)	105,561	98,955	204,516	40,574	32,023	72,597	277,113	74.0%	11.5%
2020-21 (BE)	111,294	113,278	224,572	37,792	34,692	72,484	297,056	75.0%	11.5%
NAVY**									
2018-19 (A)	11,048	5,607	16,655	12,259	23,770	36,029	52,684	31.0%	45.5%
2019-20 (RE)	12,332	6,863	19,195	12,931	28,756	41,687	60,882	31.5%	46.5%
2020-21 (BE)	13,059	7,234	20,293	12,408	29,188	41,596	61,889	32.0%	47.0%
AIR FORCE									
2018-19 (A)	15,770	9,791	25,561	12,521	36,481	49,002	74,563	34.0%	49.0%
2019-20 (RE)	16,916	11,991	28,907	13,036	44,869	57,905	86,812	33.5%	51.5%
2020-21 (BE)	17,939	13,313	31,252	12,024	43,282	55,306	86,558	36.0%	50.0%

*Includes Border Roads, J&K Light Infantry, Rashtriya Rifles and Border Roads Organisation; **Includes budget for Coast Guard
Source: Budget documents

When Finance Minister Nirmala Sitharaman, while delivering her Budget speech, shared no details of how much she was allocating to defence, the writing was on the wall: There was going to be only a token rise. This apprehension proved valid when the numbers appeared and it emerged the government had raised defence spending by an unusually low 5 per cent — insufficient to cater for even inflation. The government has made it clear it prioritises spending on education, healthcare and creating national infrastructure, as a result of which the share of the military in the Centre's overall allocations has steadily fallen from 17.4 per cent in 2018-19; to 16.6 per cent in 2019-20 to 15.5 per cent in 2020-21.

It is hard to argue for greater defence spending when the country's children are stunted from malnutrition, deprived of medical facilities, its youth barely educated and inadequately skilled for remunerative employment. Given that, it should be self-evident that lacking the economic resources to be a dominant military power, we cannot keep waving the flag of unbridled nationalism. It is folly to hubristically compare ourselves to China, talk down to Pakistan, inflame the internal situation in Kashmir and sow divisions within our society, thus weakening ourselves from within. Instead, once clear about what we can afford to spend on defence, we must tailor our external affairs and internal politics accordingly. Meanwhile, since defence remains the government's largest expenditure head, we must diligently debate and explore every avenue to get the most bang for the buck.

BROADSWORD

AJAI SHUKLA

A key element of this is the urgent need for military manpower reform. The most striking figure in last Saturday's Budget was that, unprecedentedly, more money was allocated for army pensions (₹113,278 crore) than for army salaries (₹111,294 crore). Incredibly, the government will spend less on its present soldiers and more on those (including myself!) who have gone home. This is not to argue for the neglect of veterans who — as self-described nationalists would trumpet — have "given the best years to the motherland" and now need our support. Rather, it is a moment to remind ourselves that giving all those years to the nation has been a loss to the economy (in productive employment), as well as to the military (in pension liability incurred). With national service ("the draft") seen as undesirable in India, partly to avoid a militarised population, many expert committees have concluded that the answer lies in switching to a "short service" system, where soldiers join for three to seven years and then retire without pension to join the labour force. However, vested interests have ensured this never comes about.

Typically, successive governments have dealt with the bloated pension bill by pretending it is somehow separate from the defence Budget. The defence ministry, in its official statement after the Budget, stated: "₹337,553 crore has been allocated for defence (except defence pensions)." While literally correct, this semantic separation reflects an unwillingness to understand and internalise that the pension budget is, and always will be, shaped by the manpower policies created and followed by serving generals. The new Chief of Defence Staff (CDS) must focus on this, having already set a few manpower reforms in motion during his tenure as army chief.

Manpower reforms must also include the outsourcing of every possible logistical and maintenance function to civilians, given that civilian manpower costs are far lower. Plugging the military into civilian logistical infrastructure also provides a boost to local economies around military bases, gives citizens a real stake in the military, and generates employment opportunities for retired servicemen who get re-employed by the commercial logistical enterprises that service the military. In the United Kingdom, for example, most Royal Air Force aircraft are maintained and repaired by ex-RAF personnel on contract.

Another urgent budget-related priority must involve the coherent distribution of funds between the three services. An analysis reveals that, year-after-year, each of the three services — the army, navy and air force — continue getting broadly the same share of the defence budget, and they continue spending it the same way, regardless of changes in their role, technology or environment. Each year, the army gets about two-third of the entire defence pie and it spends almost three-quarters of it on salaries and pensions, leaving a little over 10 per cent for capital procurement (of modern weaponry), with the remaining going on running expenses. The navy and air force, being less manpower-intensive, can devote about half their overall allocation on new weaponry.

The problem is that this distribution is not done on the basis of calculated priorities, where the generals, admirals and air marshals sit down together and decide what operational capabilities they need to create, and how. Such a process is not easy. While all would agree on the need to be ready to launch cross-border strikes on terror camps, there is sharp disagreement on how best to do it: Through IAF fighters, or surface-to-surface missiles? Or should army Special Forces be created to do the job? If air strikes are the agreed priority, additional funding must be made available for the purchase of fighters and missiles. If it is to be Special Forces, the army must be facilitated in raising a Special Forces Command, with the necessary wherewithal. In reality, however, what happens is that the services prepare their financial projections on the basis of what they were allocated the previous year. The defence ministry cuts that down by an average of 30-35 per cent. The finance ministry then pares that down further before making the allocation. And the outcome is that, each year, each service is allocated a little more than it was in the previous year, but with roughly the same interse proportion.

Finally, given the understandable limitations on how much money the government can allocate to "non-productive" expenditure on defence, there is a dire need for out-of-the-box thinking on creative ways to fund defence modernisation. Actually procuring the modern equipment listed in the military's wish list — the 15-year Long Term Integrated Perspective Plan (LTIPP) — will require the government to cough up about ₹13 trillion over and above what can be expected from the defence capital budget, at current growth rates. A step has been taken towards this by mandating the 15th Finance Commission to consider new funding mechanisms for defence and internal security. Under consideration are options that include floating long-term defence bonds, selling part of the military's vast land bank (next to the railways, it is the country's largest land holder) and even levying a defence cess on income tax — something that would be hard to sell even in these nationalistic times. At any rate, the need for unorthodox solutions to critical problems has been recognised and is to be encouraged.

The rise (and rise) of the family office

There's a new kind of investor steadily gaining credibility in India as long-term players with deep pockets. Meet the family office: A concept introduced by JD Rockefeller in the 1800s to manage the great wealth he generated, but now gaining rapid ground among Indian promoters.

The 2019 IIFL Wealth Hurun India Rich List showed that the number of rupee billionaires (net worth of over ₹1,000 crore) grew to 953 from 831 in 2018, with their wealth equalling 27 per cent of the country's gross domestic product (GDP). It's a fast-changing list: Unicorns are toppling older industrialists who have got quashed under debt and distracted diversifications. Therefore, while cumulative wealth of billionaires rose 2 per cent, on average each person's wealth declined by 11 per cent in 2019.

The 20s will be the decade when the family offices become a muscular investor class comparable to mutual funds. In less than a decade, the likes of PremjiInvest, for instance, have emerged as the benchmark, employing professionals and making big-ticket investments across the spectrum of equity deals. Market players attribute the huge HNI (high net worth individuals) demand in recent market offerings, such as Bharat Bond exchange-traded fund and the Embassy ReiT, to the increasing number of family offices.

For the start-up ecosystem, this is also becoming an important source of funds: Family offices are often a good funding option as they have a long-term investment horizon, besides offering start-ups access to networks and often a big brand boost through association to attract other investors.

The trend started with first- or second-generation tech entrepreneurs from Infosys and the Patni family little more than a decade ago and later received a boost by promoters who sold their operating businesses to multinational corporations (the Seksarias, Burmans and Bansals). Now it's gaining wider acceptance among promoter families. Market players estimate that over 100 family offices are currently functioning, encouraged by the success of family offices such as PremjiInvest, Catamaran Ventures, Unilazer and so on.

One key factor driving this trend is the increasing separation between business ownership and management. In companies that have been in existence for four or five generations, each new generation has taken up management leadership positions by default —whether it had the aptitude or not. This has led to considerable wealth destruction in many families — to the extent that many old industrial names from the 1950s and 1960s don't even exist today. Plus, the growing influence of institutional investors and private equity funds as shareholders is accelerating this process. Besides, top business schools have also been popularising the family concept and its relevance for the Indian super-rich for some time. With professional teams running operating businesses, the family office becomes important for promoters not only to ensure their wealth is preserved, managed and grown through diversification, but also to provide new business and growth opportunities for the Gen-next outside their traditional operating businesses.

THE NUTGRAF

PRADIPTA BAGCHI

The second factor fuelling this trend is the mindset of the millennial promoters themselves. Not interested in running old-school industrial and commodity family businesses, the next generation wants out. The noisy shop-floor and the dusty factories are often a far cry from the Ivy League education and short work stints in New York and London with global banks and consultancies. Their interests often lie in technology, start-ups, consumers and other digital economy plays and not belching smokestacks. Creating family offices allows them to do that.

Three, some in the next generation are increasingly jittery about preserving their inheritances — having seen significant wealth destruction among families of their peers in the last 18-24 months. Therefore, mitigating risks has become increasingly important. For instance, a significant part of promoter wealth traditionally has been held in land banks. These assets have provided great capital appreciation over decades but by nature are illiquid.

Family offices are helping not only in terms of diversifying investments but also bringing objective perspectives into managing wealth, rather than only relying on advice from "uncles, friends and trusted advisors".

Four, wealth creation at a time of increasing tax scrutiny and regulatory oversight is also pushing promoters to re-calibrate. Safety today depends literally on diversity. Not wanting to put all their eggs in one basket, the family office is helping build an international footprint by establishing new ventures — often headed by a member of Gen-Next who has settled overseas to create an outpost for the family empire.

While definitions of what constitutes a family office vary, the concept of having a dedicated organisation to preserve wealth, grow it as well as build one's social capital through philanthropy and impact investing has become the latest status symbol for India's ultra-rich. Therefore, the fifth (and last) reason behind the rapid growth of family offices is that they have become the ultimate status symbol and the badge to seal an entry into the league of the global super-rich. If you are or want to be on the Rich List, you'd better have a family office.

The writer is a communications consultant. bagchip@gmail.com. @bagchips on Twitter

Incomplete disclosure

BOOK REVIEW

SAMIE MODAK

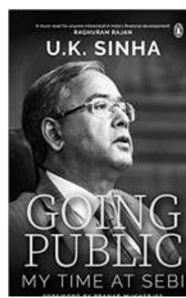
This book by the former chairman of the market regulator is an account of the 1976-batch Indian Administrative Service (IAS) officer's eventful six-year tenure (2011-2017) at the Securities and Exchange Board of India (Sebi) — rightly described as "police for companies" by his two-and-a-half-year old granddaughter in the book.

The book's catchy title, *Going Public* (a pun on a private company becoming publicly-traded) raised hopes that U K Sinha would spill the beans on large corporations that were in the news for violations such as insider trading or unauthorised money collection. The book, however, rarely ventures into muddy waters and even refrains from naming certain companies or individuals despite pages being dedicated to the nature of their transgressions.

Mr Sinha's tenure at Sebi kicked off on a controversial note. Within weeks of his appointment, Sebi's whole-time member (the second-most important post at Sebi) K M Abraham wrote a letter to the prime minister alleging that then Finance Minister Pranab Mukherjee and his adviser Omita Paul had pressured Mr Sinha to go soft on high-profile cases.

Mr Sinha tells his side of the story and discusses what could have prompted Mr Abraham to write that letter. He also gives a detailed account of the various public interest litigations (PILs) challenging his appointment, recounting how most of them turned out to be frivolous but caused him and his family considerable distress apart from impacting Sebi employees' morale. Arguably, this chapter makes for the most interesting read. However, there was scope for more to be told, which Mr Sinha promises to do in another book.

Going Public has six sections and 19 chapters but is broadly structured in two parts. In the first part, Mr Sinha dwells on his family background, his journey towards becoming a public servant and then into capital markets, where he wore a number of hats such as joint secretary, capital markets, chairman and MD of UTI Mutual Fund and, finally, Sebi chief. He had a tenure of an unprecedented six years (his three predecessors had only three-year terms each) and served under both Congress- and BJP-led governments.



GOING PUBLIC: MY TIME AT SEBI
Author: U K Sinha
Publisher: Penguin
Price: ₹699
Pages: 304

This section offers an interesting perspective on the complexities of bureaucracy, handling of crises and India's evolving regulatory landscape. Mr Sinha has thrown in some anecdotes that makes it appealing for someone who closely follows the financial markets. The book has a lot to offer for anyone who needs to understand the so-called US-64 crisis (UTI's infamous guaranteed-returns equity scheme that went bust).

The second part of the book focuses on Sebi. After clearing the air on the various controversies that followed his appointment, Mr Sinha has dedicated nine chapters to various aspects of the securities market such as mutual funds, overseas investments, corporate governance and secondary market.

Here he talks about the initiatives Sebi took under him, with a bit of historical perspective thrown in. Some of these chapters read like copies of his speeches during his Sebi tenure, with little information beyond what is already in the public domain.

Sebi handled many interesting cases under Mr Sinha, such as the Reliance Industries' ₹500-crore unlawful gains case, the co-location controversy at the National Stock Exchange (NSE) and the ₹5,600-crore scandal at the National Spot Exchange (NSEL). The book, however, finds no mention of them, an odd omission considering that they dominated his tenure.

Instead, the book gives a detailed account of the subject of unauthorised money collection schemes. Mr Sinha explains well the regulatory arbitrage that helps these schemes flourish and later offers brief summaries of some of the cases (PACL, Rose Valley Group, Saradha).

Mr Sinha has dedicated a chapter to Sahara, but here again, there is little beyond what is known already. But it is interesting that he showers praise on Mr Abraham for his work on the case. "[Abraham's] order [against Sahara] became the foundation for appeal before SAT and then before the Supreme Court by Sahara," he writes. The book highlights the discrepancy in number of investors Sahara claimed and the actual number of investors who claimed refunds. He terms Sahara's claim of 20 million investors as "one of the most important mysteries in the modern finance of the country". He, however, refrained from sharing his view on the mystery.

Mr Sinha also touches on the various finance ministers and prime ministers he has worked with. He reserves high praise for the late Arun Jaitley and Narendra Modi. "The biggest strength was his firm belief that no person, big and small, should be spared," Mr Sinha writes of Mr Modi, who he used to meet every quarter to apprise him of financial market developments. Mr Sinha, however, criticises the government's recent move to ask Sebi to park its income in a public account and seek approval before incurring any capital expenditure. "Such efforts are not conducive in [sic] creating a strong and independent regulatory environment," he writes.

Business Standard
MUMBAI | TUESDAY, 4 FEBRUARY 2020

The Smart Investor

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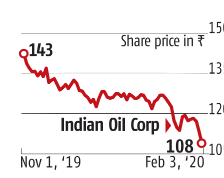
QUICK TAKE: MULTIPLE WOES FOR INDIAN OIL



Indian Oil shares are down 28% from October highs. Marketing margins are supportive, but analysts have cut their earnings estimate to factor in soft refining and petrochemicals margins and expected plant shutdowns for BS-VI upgradation

Two commandments: If thou are a richly valued individual, thou shall be taxed. If thou are a richly valued stock, thou shall be bought

SAMIR ARORA
Fund Manager, Helios Capital

Cash-rich stocks feel DDT pinch

Nearly 60% high dividend yielding shares end in red

SUNDAR SETHURAMAN
Mumbai, 3 February

MISSING THE TARGET

	Cash (₹ cr)	Dividend paid (₹ cr)	Dividend yield (%)	Price chg (%)
Top dividend yield stocks				
P&G Health	1,243	730	14.27	0.4
Graphite India	2,507	1,075	12.31	−0.7
Nalco	3,577	1,073	10.38	−0.8
Stocks with highest cash and equivalents				
Reliance Industries	148,056	3,852	0.45	0.2
TCS	41,630	11,257	1.5	−2.9
Vedanta	36,543	7,005	10.26	−0.7
Stocks with highest dividend payout				
TCS	41,630	11,257	1.5	−2.9
Infosys	27,234	9,366	2.89	−1.7
ONGC	12,893	8,806	4.39	−0.9

Note: Data for FY19; price change over previous close   Source: Capitaline

Stocks that offer high dividend yields or with high cash levels failed to make positive strides despite the government abolishing 20 per cent dividend distribution tax (DDT).

Business Standard analysed companies with high dividend yields, dividend payouts, and cash levels (or those which could be potential dividend payers). About 60 per cent of these stocks closed the day with losses on Monday, even as the benchmark indices ended in the green. The average fall in the 30 stocks (excluding ITC) was 1.2 per cent, as against a 0.34 per cent gain in the Sensex.

The Street was hoping that investors will lap up shares of high-dividend companies on optimism that their payouts will increase further, thanks to the 20 per cent tax saving.

However, the trade failed to materialise as wealthy investors stayed away fearing high tax outgo, and experts raised doubts on whether companies would actually increase cash dole outs.

Foreign institutional investors (FIIs) sold shares worth over ₹1,200 crore, provisional data provided to the stock exchanges shows. The selling was offset by domestic institutional investors (DIIs) who bought shares worth nearly ₹1,300 crore.

The high-dividend yield stocks list is dominated by public sector undertakings (PSUs). Majority of them ended with losses. Even stocks, such as REC, NLC India and PTC India, which offer more than 5 per cent dividend yield, were in the red.

"PSU stocks despite being high dividend payers underperformed because of the stiff divestment target set by the government," said Deepak Jasani, head of retail research, HDFC Securities. The Centre has set an ambitious disinvestment target of ₹2.1 trillion for 2020-21.

Also, analysts said most PSUs have managed to pay high dividends by increasing their payouts, even as their profitability eroded.

While the Centre abolished DDT, dividends will now be taxed in the hands of recipients at their applicable rate — which can be as high as 43 per cent for the ultra-rich. This, market players said, discouraged wealthy investors from taking a position in high-dividend stocks.

U R Bhat, director, Dalton Capital India, said under the DDT regime, the tax was collected by companies and now the burden has shifted to investors. "In that case, there's really no significant change," he said.

"We think most companies will not raise dividends proportionate to the tax reduction and can save the bulk of the tax break"

RIDHAM DESAI
Head of India equity research, Morgan Stanley

Also, the cut in tax comes at a time when earnings growth for most companies has taken a hit because of the economic slowdown. "We think most companies will not raise dividends proportionate to the tax reduction and can save the bulk of the tax break. A lot of high dividend-paying companies may not have growth in earnings to accommodate higher dividends," Ridham Desai, head of India equity research, Morgan Stanley, wrote in a note.

Some said instead of increasing dividend payouts, companies may opt for share buybacks. As a result, there was no immediate trigger to buy these stocks.

"Most promoters and high net-worth investors come under the highest tax bracket. And there is a genuine fear among market participants that they will still end up paying more by way of income tax after the removal of DDT. As a result, there is a scope for more buyback than a higher dividend payout," said G Chokkalingam, founder, Equinomics.

Analysts said investors may eye multinational companies (MNCs) with high cash levels. "MNCs usually pay tax on dividends received by them according to the direct tax agreement (DTA) with their respective country, and for them, there is no change in the dividend tax. MNCs typically distribute anything above 70 per cent of post-tax income as dividends. Local shareholders can also hope to receive higher dividends from such companies," said Jasani. Shares of some MNCs, including Hindustan Unilever, Maruti Suzuki and Nestlé, rallied on Monday.

Brokerages see more economic pain

Most foreign and domestic brokerages have given a thumbs down to the Budget 2020–21 proposals. Arguing that the proposals will not be able to lift economic sentiment as measured by gross domestic product (GDP), they see more pain for the economy, at least in the short to medium term.

— PUNEET WADHWA

Morgan Stanley

The Budget provides a more transparent set of fiscal accounts, focuses on improving the quality of expenditure with capex-driven spending, and raising resources through asset sales. It may have missed the opportunity to lift the availability of risk capital by not removing LTCG tax. We continue to prefer domestic cyclical mid-cap value stocks.

Goldman Sachs

The Budget doesn't envisage stimulus through the budgeted fiscal deficit figures. With budgeted nominal GDP growth of 10% YoY and gross tax revenue growth of 12% YoY, the implied tax buoyancy stands at 1.2, which appears ambitious versus the 0.5 tax buoyancy achieved in FY20. It's likely that the Centre will have to cut spending.

Nomura

We see a potential revenue disappointment of around 0.5% of GDP, which will likely result in lower spending and a partial fiscal slip. We expect a fiscal deficit of 3.7% of GDP in FY21. We expect GDP growth to slow further to 4.3% in Q4 2019 from 4.5% in Q3, and see a below-trend growth of 5.7% in FY21, from 4.7 per cent in FY20.

BofA Securities

The market's hopes of a growth push through either major tax cuts, or real estate stimulus did not come. The tax relief to individuals is limited in size and comes at a cost. GDP growth should improve on base effects, monetary stimulus and auto sales recovery. Investors now have to revert to focusing on top-down US Fed-driven global liquidity/risk appetite trends.

Edelweiss Securities

From a business cycle standpoint, the aggregate fiscal push is missing. We think, given weak demand, consolidation could have waited. Thus, the economy, at best, will see a modest bounce aided by liquidity easing, normalisation in farm cash flows amid rising food inflation, and stabilisation in exports.

Motilal Oswal

There were no major boosts to consumption as we had hoped. Another concern is that investments by the government and CPSEs are budgeted to remain stagnant in FY21. With the fiscal policy accepting its limits and the inefficacy of monetary easing, a meaningful economic revival may not pan out next year.

Sebi proposes 10% interest in case of delay in open offer

JASH KRIPLANI
Mumbai, 3 February

The Securities and Exchange Board of India (Sebi) has proposed that in case of delay of an open offer, the revised offer price may be calculated after adding 10 per cent interest rate.

According to market participants, the regulator has made the proposal in light of minority shareholders, along with Sebi, moving the Supreme Court, seeking implementation of an open offer by IHH for Fortis Healthcare's takeover.

In its discussion paper, the regulator observed that there are instances where an open offer can get delayed on account of valuation disputes, inter-party disputes, investor complaints, and delay in making payment by acquirer upon tendering of shares. The market watchdog acknowledged the existing takeover regulations do not envisage delay in open offers other than on account of statutory approvals.

While in some cases, the acquirer voluntarily agrees to compensate shareholders by paying interest for delay, minority shareholders are not likely to get compensated for all delays as the interest rate is not explicitly stated in regulations.

The regulator also proposed tightening of regulations as currently there is no explicit requirement to deposit 100 per cent of the open offer consideration in an escrow account for indirect acquisition.

Sebi also proposed making relevant amendments to the regulations to clarify that bulk and block deals can be used to complete acquisition of shares in the target firm. It observed the bulk and block deal route can be used as it is well-regulated and relatively transparent than off-market transactions.

ALSO IN THE WORKS

- Allowing bulk and block deal for completing acquisition
- Making escrow deposit mandatory for direct, indirect acquisition
- Move aimed at protecting interests of minority shareholders

'Make in India' boost for consumer durables

VIVEAT SUSAN PINTO
Mumbai, 3 February

The stocks of consumer durable firms and contract manufacturers, such as Orient Electric, Amber Enterprises and Dixon Technologies, inched up on Monday after the government said it would raise Customs duty on certain products and launch a scheme to encourage domestic manufacturing of electronic goods.

On Saturday, Finance Minister Nirmala Sitharaman had said a policy to promote manufacturing of mobile phones, semiconductors, and electronic equipment was in the works. Industry sources said the policy could be out in a month and offer incentives through tax benefits and easy availability of amenities. It would also be aligned with the revised corporation tax rate of 15 per cent for new manufacturers.

ON THE UP (In ₹)

Name	Feb 1,'20	Feb 3,'20	% chg
Dixon Technologies	4,460.90	4,754.80	6.59
Amber Enterprises	1,450.25	1,532.25	5.65
Orient Electric	241.05	244.60	1.47

Source: Markets

EaseMyTrip, Puranik Builders get IPO nod

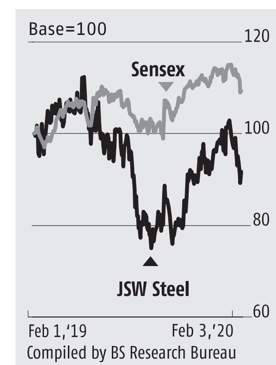
As many as four companies, including online travel firm EaseMyTrip and realty firm Puranik Builders, have received markets regulator Sebi's go-ahead to float initial public offerings. Construction firm Montecarlo and manufacturer of pharmaceutical chemicals Chemcon Speciality Chemicals are the other companies that obtained clearance from Sebi.The companies had filed draft offer documents with the Securities and Exchange Board of India (Sebi) during September-December 2019. **PTI**

THE COMPASS

Iron ore mine wins & Budget a fillip to JSW Steel

Weak Q3, expansion delay at Dolvi, losses at foreign arms led to price correction

UJJVAL JAUHARI



Compiled by BS Research Bureau

JSW Steel remains in the news, now for good reasons, with the company winning two iron ore mines in Odisha. Besides, the Street's expects that the government's continued focus on infrastructure will bode well for steelmakers.

JSW Steel's stock, thus, gained 2.9 per cent on Monday after having corrected about 11 per cent since mid-January 2020. And, there could be more gains.

The company's efforts on securing basic raw materials, such as iron ore for steel-making through fresh bidding of mines in states like Odisha, are a positive, and yielding results.

JSW had secured some mines in Karnataka earlier but was only able to meet 8-10 per cent of its requirements. In fact, a rise in iron ore prices to around $95 a tonne in January, after plunging to sub-$80 levels in November last year, has raised concerns about the company's profitability, given that JSW procures most of its raw material from external sources.

Thus, securing two iron ore mines is a positive and partly addresses the concerns. Now, the Street is eagerly looking forward to the outcome of other bids that JSW has made.

Among other positives for steel companies from the Budget, according to analysts at Emkay Global, could be monitoring of steel imports from countries with which India has free-trade agreements (FTAs). The aim is to detect diversions, if any, from other countries, routing their exports to India through FTA countries to avoid paying import duties. Cheap imports have been a matter of concern for most domestic steel players.

The other reason for JSW's stock price correction since mid-January is some disappointment with the Q3 results. The company had reported a multi-quarter low profit of ₹5,998 per tonne, down 50 per cent year-on-year and 7 per cent sequentially, because of the falling steel realisations.

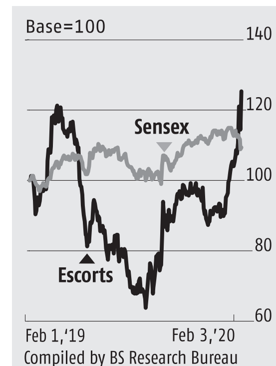
While losses in foreign subsidiaries had pulled down consolidated numbers, there was a disappointment on account of the six-month delay in the 5-MT capacity expansion at Dolvi plant, which was earlier to start by FY20 end. Because of this delay, analysts had cut their FY21 estimates, albeit slightly.

Yet, given the improving product mix, higher captive iron ore production (thereby, putting a check on costs and supporting margins over time), along with recently improved steel prices, analysts as those at Motilal Oswal Financial Services have maintained a positive outlook on JSW Steel.

Escorts gains on tractor sales uptick, rural infra boost

Analysts expect tractors to benefit the most from rural revival

RAM PRASAD SAHU



Compiled by BS Research Bureau

After a strong showing in the December quarter of FY20, Escorts has reported steady sales volume in January, which should keep its stock prices high.

The stock gained about 9 per cent on Monday on the back of recent tractor sales and Budget proposals to boost rural infrastructure and income.

The proposals in the Budget are expected to boost irrigation infrastructure, higher allocation to farm credit and farm realisations.

On the demand front, the company expects a recovery in tractor sales in the domestic market. Tractor industry volumes, which were down 6 per cent year on year in the quarter ended December 31, are expected to register single-digit growth in the March quarter.

While the company's sales in the first 10 months of financial year 2019-20 are down 8 per cent, for January, it reported domestic sales volume of 5,845 units, up 1.4 per cent YoY. Signs of recovery are also visible in overall tractor registrations for January, which grew by 1 per cent to 52,418 units.

Analysts at ICICI Securities said the sales are a reflection of better rural sentiment, as compared to urban demand.

Given its outperformance on the volumes front, Escorts market share grew 50 basis points in the December quarter to 11.9 per cent. One basis point is one hundredth of a percentage point.

The company believes that after a volume fall in FY20, the sector should see a single-digit growth in FY21. The strong sowing trends of the Rabi crops and subsidies for the tractor industry are expected to drive tractor sales up.

Analysts at Kotak Institutional Equities expect the FY21 tractor industry volumes to revive on the back of normal monsoons, higher reservoir levels and improving farm prices for Rabi crops. Also, as compared to other auto segments, tractors do not face the headwind related to compliance with BS-VI emission norms.

The positive trend in the stock is also driven by strong December quarter results. The company's operating profit at ₹212 crore was 20 per cent higher than analyst estimates, led by cost-cutting initiatives and lower commodity prices.

Brokerages have increased their net profit estimates for FY21 by over 3 per cent due to higher operating profit margins. In addition to the tractor margins, incremental profitability is expected to come from strong railway segment performance.

Not a good time to bottom-fish HFCs

New tax regime may worsen their growth pangs; shares didn't recover from post-Budget correction

HAMSINI KARTHIK
Mumbai, 3 February

At a time when housing finance companies (HFCs) are already grappling with weak demand and weak asset quality, particularly on the developer loan book front, the recently concluded Union Budget seems to have delivered another blow to the sector. The finance minister has introduced a new tax regime, which reduces the tax burden for individuals willing to let go tax benefits/exemptions. However, but it works against the developers and housing finance sectors, as one of main motivations to purchase property is for lucrative tax benefits – up to ₹1.5 lakh for principal payment under Section 80 C and ₹2 lakh interest benefit under Section 24.

Since industry is largely motivated by tax incentives, especially for the retail segment. "If this incentive were to completely go away, we are probably looking at fewer people buying houses. Moreover, those investors who have ready liquidity to buy a new house but still choose to take a home loan (for tax benefits) will be disincentivised from taking a home loan," says Abhijit Tibrewal of ICICI Securities. Even as a majority of analysts feel that most taxpayers may not move to the new tax regime just yet, the finance minister's commentary on eventually doing away with exemptions is viewed as a negative for the housing sector and lenders participating in the sector.

That a decision of this sort comes when lenders are already grappling with weak demand for loans adds to the stress. Whether LIC Housing, HDFC or PNB Housing, which are among the major lenders to publish their December quarter (Q3) results, the common thread was that of weak loan growth.

At 13.4 per cent and 12 per cent year-on-year (YoY) growth in Q3 for HDFC and LIC Housing, respectively, the number came significantly lower than the year-ago run rate. At these levels, they lagged even the September quarter's growth rate, indicating that there probably are no signs of revival for housing finance companies. Even if one attributes this sluggishness to moderating growth in the developer loan segment, loans to individuals, too, didn't expand in the proportion seen earlier. At 6–16 growth YoY in Q3, it reiterates the weakness in the housing sector.

What's more, the quarter witnessed a noticeable deterioration in asset quality. HDFC's provisioning cost increased to ₹2,865 crore on account of prudential provisioning in Q3. Yet, analysts, while drawing attention to its wholesale gross non-performing assets (NPA) ratio increasing to 2.9 per cent in Q3 – a level never seen before for the company -- say investors should be cautious on this segment, which accounts for 28 per cent HDFC's loan book.

Developer loans were equally trouble for LIC Housing and PNB Housing, which witnessed a 130–150 basis points (bps) increase in their gross NPA ratios to 2.73 per cent and 1.75 per cent, respectively, in Q3. The fact that stress wasn't just contained to wholesale loans, but permeated into the retail segment explains why LIC Housing's stock price, in particular, has corrected by over 10 per cent since its Q3 results. For LIC Housing, at the 1.9 per cent retail gross NPA ratio (up 100 bps YoY), the number warrants for caution, considering that nearly 80 per cent of its retail loans are towards the salaried class.

With the gone by quarter spelling enough troubles for the sector, analysts believe a probable revival in loan growth could be further delayed with the Union Budget introducing a new tax regime. "Now isn't a good time to bottom-fish HFC stocks," says a fund manager.

HOW THE NUMBERS STACK UP

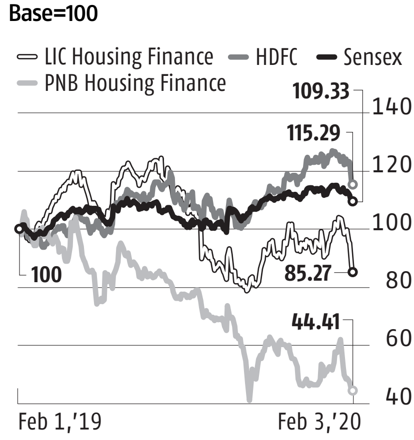
Qtr ended Dec'19 (₹ crore)

	HDFC	LIC Housing	PNB Housing
NII	2,958	1,292	614
Change (%)	13.6	13.7	-8.1
PPOP	3,118	1,155	497
Change (%)	15.1	32.5	-4.3
PBT	123	751	298
Change (%)	-95.2	-13.8	-32.5
PAT	8,373	602	237
Change (%)	355.5	-0.7	-21.8

Profit before tax figures are adjusted for exceptional items
Standalone financial figures rounded off; Change is year-on-year
NII: Net interest income; PPOP: Pre-provisioning profit; PBT: Profit before tax; PAT: Profit after tax
Source: Capitaline, brokerages; Compiled by *BS* Research Bureau

GOING DOWNHILL

Base=100



Post-Budget, growth option is more attractive

Unlike MF investors, those betting on direct equities may feel the pinch

BINDISHA SARANG

Mutual fund investors, who have selected the growth option, can finally heave a sigh of relief after the Union Budget.

With Finance Minister Nirmala Sitharaman deciding to move the tax incidence of dividend distribution tax (DDT) from companies to individuals, the liability for this category of investors would fall dramatically.

But how? Even if they redeem their mutual fund units after a year or so, they will only pay a long-term capital gains tax of 10 per cent for over ₹1 lakh.

Whereas, if they had taken the dividend option, the tax rate would be according to their income tax slab.

Nand Kishore, Partner, DSK Legal, says, "DDT has been abolished. Instead, the dividend paid by companies will be taxed in the hands of the individual shareholder."

Suresh Sadagopan, director, Ladder7 Financial Advisors, says, "Before this, as far as equity mutual funds or direct equities were concerned, there was no tax up to ₹10 lakh dividend. Beyond ₹10 lakh, there was a tax of 10 per cent."

However, before you received the dividend, there was a hefty DDT of 15 per cent plus a surcharge.

So what does this means to the common man: Kishore says: "If the individual is already in the 30 per cent bracket, this would have an adverse impact." That's not all; there's a good possibility that this will push many taxpayers into a different tax bracket."

What should you do in such a case? Vishal Dhawan, a certified financial planner, says, "Suppose an investor's income for the year is such that receiving dividend will push him into a higher tax slab. The investor may not want a dividend that year. On the other hand, he may be more receptive to receiving dividend in a year when his income is lower (and hence he will fall in a lower slab that year)."

In such a situation, a mutual fund investor is better placed than an equity holder. This is because in the latter case, he has no control over whether he can receive the dividend or not (the company will pay it anyway).

In mutual funds, the investor can control whether he wants dividend from a fund by shifting from the growth to dividend option.

He can also decide when he wants it and when he doesn't. Thus, in mutual funds, the investor enjoys greater control than in the case of shares (direct equities).

Adds Mrin Agarwal, chief executive officer (CEO) of Finsafe: "Move to growth option. And, those seeking monthly income can take the systematic withdrawal plan (SWP) route."

YOUR MONEY

Dhawan says that the arbitrage in mutual funds gets created between the dividend plan and the SWP option in the growth plan.

In the dividend option, the investor gets taxed at the marginal income tax rate. In SWP of a growth plan, he will be taxed depending on whether he is eligible for long-term or short-term capital gains.

On long-term capital gains from equity mutual funds, he will pay 10 per cent tax only on gains above ₹1 lakh.

On short-term capital gains, he will be taxed at the 15 per cent rate. For investors in higher tax brackets, SWP from the growth option is likely to be a better bet in terms of tax payout.

RATE CHART

Year	Tax rate	Dividend amount
Past	0%	Up to ₹10 lakh
	10%	More than ₹10 lakh
Applicable April 1, 2020	As per tax slab	Dividend amount added in income

Source: Tax website

Virus fears wipe $393 bn off China's stock market

Kerala declares 'state calamity' after third student tests positive; GoM reviews readiness

AGENCIES
Shanghai/Thiruvananthapuram, 3 February

Investors erased $393 billion from China's benchmark stock index on Monday, sold the yuan and dumped commodities as fears about the spreading coronavirus — which has claimed more than 360 lives so far — and its economic impact drove selling on the first day of trade in China since the Lunar New Year.

In India, the Kerala government has declared the coronavirus outbreak a "state calamity" after a third student tested positive in the state. On the other hand, a Group of Ministers (GoM) formed to review, monitor and evaluate the preparedness to contain the deadly coronavirus infection in the country held its first meeting on Monday.

As coronavirus fears spread, there was a pall over Asian markets, even as the slide was contained, except for the Shanghai composite index. The nearly 8 per cent plunge in was its biggest daily fall in more than four years. The Chinese yuan blew past the 7-per-dollar mark and Shanghai-traded commodities from palm oil to copper hit their maximum down limits.

In Asia, only Indian and Hong Kong indices were up, as were the European markets. US stocks, too, were in green.

The wipeout in China came even as the central bank made its biggest cash injection to the financial system since 2004 and despite regulatory moves to curb selling.

The total number of deaths in China from the coronavirus rose to 361 by Sunday, compared with 17 on January 23, when Chinese markets last traded.

"You wanted to know what a real decoupling from China might look like, or what a 'What if everyone just stayed at home and didn't buy anything?' economic thought-experiment looks like? Well here you are, folks," Rabobank strategist Michael Every said in an afternoon note.

The yuan began onshore trade at its weakest this year and was down 1.2 per cent by the afternoon, sliding past the symbolic 7-per-dollar level to close at 7.0257.

Shanghai-traded oil, iron ore, copper and soft commodities contracts all posted sharp drops, catching up with sliding global prices.

The new virus has created alarm because it is spreading quickly, much about it is unknown, and authorities' drastic response is likely to drag on economic growth.

More than 2,500 stocks fell by the daily limit of 10 per cent. The Shanghai Composite closed down 7.7 per cent at 2,746.6, its lowest since August.

Opec+ may cut output

Opec and its allies are considering cutting their oil output by 500,000 bpd because of the impact on oil demand from the coronavirus, two sources and a third industry source familiar with discussions said. The demand from China has slipped nearly 20 per cent. Brent Crude was trading at $55.16 (2.58 per cent in the red at 11.42 pm IST).

A student airlifted from Wuhan undergoes test to detect coronavirus infection, in New Delhi

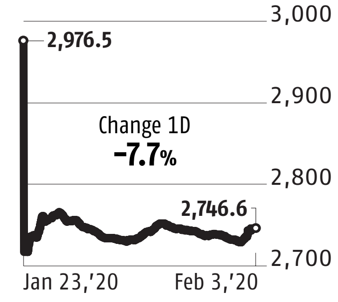
FEELING THE HEAT

Most Asian markets in the red

ASIA	Country	Feb 03,'20	Change 1D(%)
Taiwan Taiex Index	Taiwan	11,354.9	-1.2
Stock Exch Of Thai Index	Thailand	1,496.1	-1.2
Straits Times Index Sti	Singapore	3,116.3	-1.2
Nikkei 225	Japan	22,971.9	-1.0
Kospi Index	South Korea	2,118.9	0.0
S&P BSE Sensex	**India**	**39,872.3**	**0.3**
Nifty50	**India**	**11,707.9**	**0.4**

Source: Bloomberg; Compiled by *BS* Research Bureau

Monday mourning at Shanghai Stock Exchange



COMMODITIES

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PRICE CARD

As on Feb 03	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,709.5	-3.2	2,017.7	6.6
Copper	5,570.0	-3.9	6,291.2	2.6
Zinc	2,219.0	-12.7	2,536.1	-7.4
Gold ($/ounce)	1,579.2*	4.3	1,771.7	4.2
Silver ($/ounce)	17.8*	-1.8	20.2	-1.8
ENERGY				
Crude Oil ($/bbl)	55.8*	-9.5	58.0	-2.4
Natural Gas ($/mmBtu)	1.9*	-31.0	1.9	-30.4
AGRI COMMODITIES ($/tonne)				
Wheat	195.3	9.0	290.7	-3.4
Maize	185.6*	3.2	272.0	-3.2
Sugar	413.5*	21.6	488.8	-1.0
Palm oil	687.5	17.5	1,127.9	20.6
Cotton	1,491.4	5.3	1,574.2	-2.3

* As on Feb 03, 20 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.4 & 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

Gold import via GIFT City exchange in next phase

RAJESH BHAYANI
Mumbai, 3 February

The Budget announcement to allow a spot global bullion exchange at the International Financial Service Centre (IFSC) at GIFT City near Gandhinagar has generated ripples in the trade.

Participants expect this to pave the way for domestic physical trading in gold and silver on the exchange platform.

The global bullion exchange mentioned by the finance minister is expected to be operational in the coming financial year. The priority now is a unified regulator for the IFSC. In the second phase, the exchange at GIFT City may be allowed to be used as a medium for import of gold in India.

As of now, a domestic spot gold exchange is unlikely to be considered, according to an industry veteran connected with the developments.

All this is expected to catalyse an exchange-related ecosystem, such as testing labs, vault companies and warehousing. Two internationally renowned warehousing companies have already got a licence for providing vault facilities. A gold testing laboratory is a must for checking the metal purity and the next step will be to permit gold refineries in GIFT City, to process imported dore and sell on the exchange.

It could also promote export of gold bars, which is unviable under present rules, where the value addition mandate is for 1.5 per cent. Globally, bars are traded with a 0.5-0.7 per cent margin.

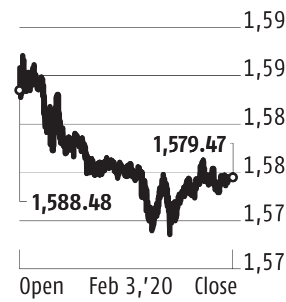
"Export of bars from GIFT City will be a new opportunity for India," said an industry observer.

Somasundaram P R, MD of the India arm of the World Gold Council, the entity established by mining companies to promote gold, said: "With its unique locational, infrastructural and regulatory advantages as an IFSC, GIFT City is well-placed to build a fair, efficient and transparent bullion trading ecosystem. An organised bullion trading system will benefit the entire supply chain, particularly small players and exporters."

More on business-standard.com

A ROLLER-COASTER RIDE

Gold: $/Oz



THE BLUE PRINT

- Operationalising GIFT regulator is priority
- New regulator will prepare regulations for the exchange
- Two vault companies have already been given licence
- The exchange expected to go live in FY21

₹ futures at GIFT city: Sebi caps position limit at $1 billion

The Securities and Exchange Board of India on Monday capped gross open position limit at $1-billion equivalent per trading member or client level for rupee derivatives launched at stock exchanges in GIFT City IFSC.

Sebi's decision comes two days after the Budget announcement for the same and two weeks after the RBI issued a circular allowing rupee futures and options at GIFT City exchanges.

The move is to bring offshore rupee trading to GIFT city. The offshore market for the rupee trade has grown bigger than the domestic market and it is a concern for the central bank.

With GIFT City-based International Financial Services Centre (IFSC) getting traction, it was decided to permit rupee derivatives there.

Sebi, in a circular issued on Monday, said gross open position limit for trading members (proprietary basis, as well as clients' position), institutional investors and eligible foreign investors will be across all contracts and should not exceed 15 per cent of the total open interest (position) or $1-billion equivalent, whichever is higher.

However, for other clients, Sebi said: "Gross open position across all contracts not to exceed 6 per cent of the total open interest or $100-million equivalent, whichever is higher."

RAJESH BHAYANI

Synthetic yarn may get cheaper after duty relief

VINAY UMARJI
Ahmedabad, 3 February

Polyester or synthetic yarn could get cheaper with the Union Budget ending the anti-dumping duty on Purified Terephthalic Acid (PTA), a key input. The petrochemical is imported from Iran, China, Indonesia, Malaysia, Korea, Taiwan and Thailand.

China has added huge capacity in recent quarters and there is possibility of cheaper import from there after removal of this duty. The finance minister justified the move as in the public interest and to make it available at competitive prices, for unlocking the textile sector's potential. India's PTA demand for domestic purposes is estimated at seven million tonnes (mt) a year. Almost half of it is imported.

The duty was to protect domestic manufacturers Reliance, Indian Oil and Materials Chemicals & Performance Intermediaries. Says K Ravichandran, senior vice-president at ratings agency ICRA: "Removal of the Anti Dumping Duty (ADD) will put pressure on the realisation of domestic PTA manufacturers and lead to accelerated imports, at a time when the market is facing a glut emanating from large capacity additions in China recently. As a result, the spread between PTA and paraxylene should drop to below $100/tonne in the near term. This spread had already started correcting in the last few quarters to $110-$120/tonne, from levels of $180/tonne a year ago. This will be a credit-negative for standalone PTA manufacturers; integrated petrochemicals manufacturers should be able to withstand the squeeze."

Polyester yarn prices in India were relatively high in a sluggish economy due to high input cost, including PTA prices.

Rakesh Biyani, president of the Clothing Manufacturers Association of India, said removal of the duty could open up the manmade fibre value chain, benefiting technical textiles, home furnishing, the sportswear industry, sarees and dress materials.

"The domestic sports gear industry was not getting proper support in 15-20 years, leading to lot of factories getting closed. There is a huge gap in terms of sports gear manufacturing capabilities between India and other countries. Removal of anti-dumping duty on PTA will boost the morale for domestic industry, which works on volume — every penny matters," said Arun Pandey, founder of 'Seven by MS Dhoni' sports brand and chairman of the Rhiti Group.

O P Lohia, chairman at Indo Rama Synthetics, says this augurs well for the industry at a time when annual export are more or less stagnating at $36 billion. "Because of high input cost, the industry was facing cheaper competition from other destinations, like Bangladesh. The move will now help create jobs and push up exports. PTA availability has been an issue and the industry was running hand-to-mouth."

India's PTA demand for domestic purposes is estimated at 7 mt a year. Almost half of it is imported

Household savings drop to 6.5% of GDP in FY19

- DIP DESPITE NEW RBI METHODOLOGY
- RISE IN LIABILITIES MAY BE OVER MUDRA
- SAVINGS LOWEST IN AT LEAST EIGHT YEARS

ABHISHEK WAGHMARE
New Delhi, 3 February

Net savings by Indian households dropped to 6.5 per cent of gross domestic product (GDP) in 2018-19 (FY19) — the lowest in at least eight years. The drop has been quelled by both a drop in gross financial savings as well as a rise in liabilities, shows the data recently released by the National Statistics Office (NSO).

But more importantly, the decline in gross savings has surfaced despite the new revised methodology adopted by the NSO scaling up financial savings. The Reserve Bank of India (RBI) uses a methodology which captures savings more accurately. After due deliberation with the central bank, the NSO published the data with the new methodology.

While the NSO revised gross savings for 2016-17 and 2017-18 (FY18) upwards by nearly ₹2 trillion, there was a drop in absolute terms in gross financial savings in FY19, from ₹20.6 trillion to ₹19.9 trillion.

The RBI, which used to publish the data on household financial savings in its annual report, did not do so in 2019. The reason: their estimates did not match that derived by the NSO. After a long deliberation between the two, the NSO finally approved the new and improved methodology.

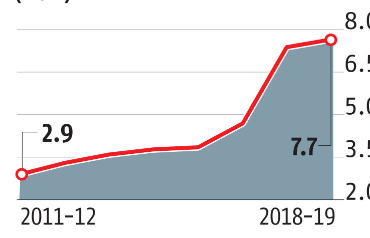
"The NSO data did not capture savings in mutual funds (MFs) and insurance to the level it should have," a person familiar with the data tussle said.

Financial liabilities, on the other hand, had risen sharply after demonetisation after people heavily stashed cash in bank deposits, insurance schemes, and MFs. More than a year later, they have actually risen, nearly touching ₹8 trillion in FY19.

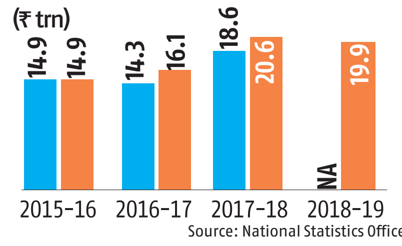
Pronab Sen, former chief statistician of India, said that the rise in liabilities is linked to Mudra loans, which were pushed hard by banks to negate the adverse impact of demonetisation.

"FY18 was when Mudra took off. In this regard, the rise in household liabilities could be attributed to banks which, by choice, expanded their personal loan portfolio, as corporate loans started dipping, showing risk aversion," he told *Business Standard*.

LIABILITIES JUMP AFTER DEMO
(₹ trn)



OLD METHOD vs NEW METHOD OF CALCULATION
(₹ trn)



Incidentally, the Union Budget took a decision that could possibly have a downward impact on already diminishing savings. The new income-tax (I-T) regime, wherein a taxpayer would pay tax at a lower rate only if she lets go of tax exemptions on savings such as provident funds and medical insurance, incentivises consumption, experts said.

"It is surprising that a tax policy that does not incentivise savings has come when the savings rate in India is low, and declining, too. Savings form the pool available for investments, and investments in household savings are especially crucial for investments in infrastructure," said Ila Patnaik, who teaches economics at the National Institute of Public Finance and Policy. "This puts the new I-T policy in direct conflict with the goals of the National Infrastructure Pipeline," she told Business Standard.

Observers said that not just household savings, but even those from corporates and government are on a falling slope.

"The investible surplus of domestic savings in the economy has been falling on all fronts, and this is being tackled by bringing measures that tap foreign capital, such as external commercial borrowings or foreign portfolio investments, which are heavily dependent on the growth trajectory and the stability in the economy," said Rajni Thakur, economist at RBL Bank.

The NSO data shows that savings by private non-financial companies too fell in absolute terms in FY19, and declined from 10.7 per cent to 9.5 per cent of GDP in a year. She said that the move to reduce tax and disincentivise savings is primarily meant for those in the early stage of their careers, and would boost consumption only if a sizeable chunk goes to the new I-T regime.

"The incentive to spend or consume could dent savings, but the adverse impact on investments, if that happens, would be visible in the medium term."

'Too radical': Centre likely to implement DTC in parts

SHRIMI CHOUDHARY
New Delhi, 3 February

The wait for the proposed Direct Tax Code (DTC) could get longer because the government is of the view that the recommendations on it are too "radical" and require more deliberation.

In addition, it is in favour of implementing in parts the proposals made by the task force on the DTC. "The report is exhaustive and cannot be implemented at one go. Instead of making the report public, the government would pick some recommendations and implement them," said a source privy to the government plan.

There were expectations that the finance ministry in the Budget would put the DTC in public for consultation and it might approve key proposals.

But there was no reference to the task force report in the Finance Bill or the finance minister's speech. However, the source said some Budget proposals were part of the task force report. One was abolishing dividend distribution tax (DDT). While the Budget has abolished it, the tax liability has been shifted from the company declaring dividend to the receiver.

The new income tax regime is modelled on the task force's recommendations. The report suggested doing away with deductions. The government, however, introduced the regime while keeping the old one.

A lot of considerations go into amendments to existing tax laws. The finance ministry has to consider revenue implications, the end-beneficiaries of the new regulations, the economic impact, etc. Then there are also political considerations and whether the changes are in line with the government's overall plans. The report is being termed "radical" because many of its proposals are not in harmony with the finance ministry's considerations.

The DTC aimed to overhaul the 60-year-old Income-Tax Act, 1961, and make the tax system progressive. The government appointed a task force headed by former Central Board of Direct Taxes member Akhilesh Ranjan, who had submitted the report in August last year. The report, which is not yet public, is learnt to have proposed sweeping changes in the taxation structure.

More on business-standard.com

For the first time, Army to spend more on pensions than on salaries

AJAI SHUKLA
New Delhi, 3 February

For the first time ever, the defence budget for 2020-21 allocates more money towards pensions for retired Army soldiers than for salaries for soldiers still in the standing Army.

Scrutiny of the defence budget reveals that ₹111,294 crore has been allocated for Army salaries, including civilian employees.

The ₹113,278-crore allocated for Army pensions surpasses that.

There are slightly under 1.3 million soldiers serving in the Army, including officers. Meanwhile, 2.06 million individuals, including Army widows, are drawing pensions, according to the defence ministry, in answer to a parliamentary question in November 2016.

The pension budget has steadily risen since the grant of One Rank, One Pension (OROP) in 2015-16.

That year, it was ₹60,000 crore for the entire military. For 2020-21, it will stand at ₹1.33 trillion.

Army planners are increasingly worried about this drain on funds that could otherwise go towards equipment modernisation.

WHO GETS HOW MUCH

(Figures in ₹)

	2018-19 (Actual)				2019-20 (RE)				2020-21 (BE)			
	Total Budget	Share (%)	Capital Budget	Share (%)	Total Budget	Share (%)	Capital Budget	Share (%)	Total Budget	Share (%)	Capital Budget	Share (%)
Army	256,365	66.8	29,561	33	277,113	65.2	32,023	30.5	297,056	66.7	34,692	32
Navy	52,684	13.7	23,770	26.5	60,882	14.3	28,756	27.3	61,889	13.8	29,188	27.5
IAF	74,563	19.5	36,481	40.5	86,812	20.5	44,869	42.2	86,558	19.5	43,282	40.5
Total	**383,612**		**89,812**		**424,807**		**105,648**		**445,503**		**107,162**	

Source: Budget

However, there is no going back from the political commitment for granting OROP, which the Bharatiya Janata Party gave in the run-up to the 2014 general elections.

The Navy and the Indian Air Force (IAF), too, are facing this problem, but not to the extent the manpower-heavy Army does.

The Navy's salary allocations stand at ₹13,059 crore for the coming year, while its pension liability is ₹7,234 crore.

IAF salaries for next year are projected to be ₹17,939 crore, while its pension allocations stand at ₹13,313 crore.

The Chief of Defence Staff (CDS) General Bipin Rawat, who was the Army chief until he was elevated on New Year, had grappled with this problem while heading the Army. He initiated four studies that aimed primarily at reducing the Army's salary and pension bill.

While the recommendations have not yet been implemented, pensions are sought to be reduced through measures like recruiting soldiers for shorter tenures and discharging them from service before they qualify to earn a lifelong pension.

The Budget highlights another key area that would require the CDS' focus: the need to prioritise between the Army, Navy, and IAF.

Disaggregation of the budget reveals a pattern of fund allocation that has continued over the years, with each service getting a standard share, instead of allocations being made according to operational priorities identified each year by the higher defence planners.

Stretching back for several years, the Army has been allocated a standard two-third of the services' budget, while the Navy gets 13-14 per cent and the IAF about 20 per cent.

Analysis reveals that the services' capital budget is also allocated pro forma, with the Army getting a standard one-third, the IAF a little over 40 per cent, while the Navy gets the remaining 26-28 per cent.

With each service strongly lobbying for a larger share, the defence ministry tends to avoid controversy by sticking to an existing pattern, rather than evaluating operational needs and spending priorities, which can then govern the allocation of funds.

It remains to be seen whether the appointment of a CDS changes this pattern.

Back from China, man kept under watch in Miraj

An air passenger arriving from China has been isolated and kept under observation for the new coronavirus in a civil hospital of Miraj town in Sangli district of Maharashtra, taking the number of such people to six in the state, said a health department official on Monday.

The swab sample of the passenger, who had travelled to the coronavirus-affected China, has been sent to Pune-based National Institute of Virology for analysis, he said. With this, six patients have been kept in observation wards in the state (in various hospitals) - of which four are in Pune, while one each in Mumbai and Sangli, he said. PTI

Bonds rally as govt stays away from extra borrowing

ANUP ROY
Mumbai, 3 February

Bond yields fell 10 basis points as a reaction to measures taken by the government for opening up domestic bond markets to overseas investors, including the idea of inclusion of Indian bonds in global bond indices.

The yields on the 10-year bond fell to 6.50 per cent, from 6.60 per cent on Friday, as the markets were happy there won't be any extra borrowing in this fiscal year, as the balance would be taken from small savings.

The government has kept its borrowing programme limited to ₹7.1 trillion in the current fiscal year, and ₹8.1 trillion in the next fiscal year, including the buyback of ₹30,000 crore. The government borrows from the market for the buyback, but it is not doing so for the next year. It, instead, will straightaway buy bonds of ₹30,000 crore from the market, reducing the gross borrowing programme to ₹7.8 trillion.

The yields on the 10-year bond fell to 6.50 per cent, from 6.60 per cent on Friday

Among other measures, the government said it would float specified bonds where FPIs would be allowed full access, along with local investors.

Besides, the government also proposed to float debt-exchange traded funds with government securities as underlying, which should allow retail participation in government debt market, noted rating agency ICRA.

"However, the proposal to increase the FPI holding to 15 per cent of outstanding bonds from 9 per cent now will have a positive impact on debt capital markets over the medium term as the current utilisation is estimated at about 6.1 per cent," it said.

The bond market is, however, concerned if the government will be able to mobilise ₹1.2 trillion from small savings between January and March. If the government is not able to mobilise so much, then there is a possibility it will have to hit the bond market route in March.

DOMINATES BAFTAs 2020

Sam Mendes won the Best Director award for directing the movie *1917*

The Leading Actor award went to Joaquin Phoenix for his role in the film *Joker*

Renee Zellweger won the Leading Actress award

British filmmaker Sam Mendes' war drama *1917* ruled the 2020 edition of The British Academy Film Awards (BAFTAs) with seven wins, including Best Film, Best British Film and Best Director. However, it was the Best Actor winner Joaquin Phoenix who called out the 'systemic racism' of the industry, which received heaps of attention at the awards ceremony.

Actor Renee Zellweger took home the Best Actress honour for her role as legendary singer-actor Judy Garland in *Judy* and had a brief reunion with her *Bridget Jones* co-star Hugh Grant near the stage. Prince William, who presented this year's BAFTA fellowship to *Star Wars* producer Kathleen Kennedy, also addressed the issue of diversity.

BJP notice to Hegde as Cong seeks sedition case against him

PRESS TRUST OF INDIA
Mumbai, 3 February

The Congress on Monday demanded a sedition case against BJP MP Anantkumar Hegde for his swipe at Mahatma Gandhi, while a red-faced BJP initiated disciplinary proceedings by serving him a show cause notice seeking an explanation.

A senior BJP leader said its top brass, including Prime Minister Narendra Modi, is "upset" with the sixth-term Lok Sabha MP, who was a minister in the first Modi government, and the Karnataka leader has been asked to take remedial measures, including tendering an apology.

The party will take its next course of action after receiving his reply, he added.

Amazon rings a halo around the brand

With a campaign centred around the sellers on its platform, the e-commerce giant is pitching for loyalty, from vendors and buyers

Vijaya Rajan, a Bengaluru-based healthy snacks seller, is part of the e-commerce company's ongoing campaign

T E NARASIMHAN
Chennai, 3 February

Ever since Amazon opened in India, its advertising has focused on building trust. Be it the small town customers that it has assiduously wooed or urban shoppers wary of digital commerce, the American e-commerce behemoth has sought to assure everyone about quality and convenience on its platform.

Now Amazon is turning the spotlight on those who sell on its platform. Using their stories as part of its packaging, the company hopes to transform what is a faceless transactional relationship with its buyers and sellers, into an emotional one and at the same time, build brand stickiness. But importantly, Amazon is turning up the pitch on its trust narrative through story boxes and #IAmAmazon, exhorting buyers to trust the face on the pack and sellers, the platform that helped them find a national market.

"Ever since we launched Amazon StoryBoxes prior to the festive season, millions of customers from across India have received their orders with transformative seller stories," said an Amazon India spokesperson. Amazon has over 5.5 lakh sellers selling a selection of over 200 million products to millions of customers from across the country.

The sellers say they are invigorated by this exercise. "The moment I received the Storybox, with my own story on it, my happiness knew no bounds. This initiative has given me a sense of great self-worth, over and above taking my story to lakhs of households in India." said Rani Ravindran, Ravindran Silk Cotton.

Ravindran, a homemaker and mother, sells wooden toys and cotton pillows on Amazon; as Periyakulam's (a small town in Tamil Nadu) first Amazon seller, she helps Amazon sharpen its narrative of a marketplace that helps small sellers and buyers find each other. Sirimiri, a Bengaluru-based healthy snacks seller had its promoter Vijaya Rajan featured in the box and the company tweeted as soon as the campaign hit the boxes. "Not only our sales grew 3X times, our story was delivered on an Amazon Box. Can't imagine how many people in India will see our story!"

Experts say that Amazon's efforts at building trust is based on customer insights and experience that suggest Indian buyers want to know who they buy from and aimed at extracting loyalty in a fickle market. Acquiring customers is significantly more expensive than retaining them and efforts such as these go a long way in keeping buyers engaged. "Loyal customers are valuable in themselves as a reliable repeat source of revenue," said a recent report by KPMG (The truth about customer loyalty). 52 per cent of the consumers surveyed say they will buy their favourite brand even if it is cheaper and more convenient to buy a rival product is proof that loyalty endures.

What generates loyalty? Six out of ten consumers surveyed by KPMG said that they are loyal because they feel a personal connection to a company — in India, 74 percent said as much — suggesting that companies need to appeal to customers' hearts as well as their minds and wallets. "Consumers want to buy from businesses they like — apart from sustainability and corporate transparency, many identify innovation as nurturing loyalty — and which, they believe, share their values. René Vader, global sector leader, Consumer & Retail, KPMG International said in the report, "If you're trying to build brand loyalty today, an emotional connection is no longer a nice-to-have, it's a need-to-have."

For Amazon that has to face the ire of millions of buyers for a purchase gone wrong or a delivery delayed, gaining the trust of its buyers and the commitment of its seller community is imperative. And the campaign expects to move a little closer towards winning loyalty, while creating a halo effect. By crafting a story of inspiration and courage around every purchase, Amazon expects some of the goodwill to rub off and add some shine to the brand.

THE ROAD TO TRUST AND LOYALTY

- To drive volumes and value, the *#ApniDukan* campaign reassures buyers about the authenticity of products on its platform
- To assure buyers about quality, the campaign *#SabAmazonWaale* asks buyers to check out the reviews on chosen products
- The IPL campaigns use a fictional team set in a fictional small town, *#ChonkpurCheetahs*, use humour to create familiarity with the brand

FROM PAGE 1

G-secs without...

Hence, as it stands, a portion of the government's ₹7.8 trillion borrowing will be through these special issues as well as the G-sec exchange-traded fund (ETF) being planned. This is apart from the usual instruments.

Government officials such as Sanyal, as well as bond market analysts, said being part of global bond indices would help Indian G-secs attract large global funds from major global investors, including pension funds.

"A large number of bond investors are passive. They follow what is on the benchmark indices. So, if the bond is not in an index, they will not invest. On the reverse side, the moment you become part of the index, they will come in," said Ananth Narayan, assistant professor at the SP Jain Institute of Management and Research. Narayan was previously Standard Chartered's regional head of financial markets for ASEAN and South Asia.

"Clearly, they had some discussion with index administrators, which is why they are trying to implement this. But it won't happen very fast. Index inclusion for China took several years. It is a great step, but it will take a long time. Because these bonds will be bought by overseas fund managers following the index, the yield on these will actually be lower," he said.

Narayan said the issues would have to be large ones to have a decent weighting in the index. "If they are issuing fresh bonds, these will have to be built up over time," he said.

Sanyal clarified the different indices had certain minimum requirements of size and liquidity, which the Centre had studied and was confident it would be able to meet.

"For a small country you may not be able to create a special series of adequate scale, but we are a large country and we will be able to. The issues will have to be on some scale. If they are not large enough, you won't be getting into these indices," he said.

Analysts said the structure of the instruments, not the state of the economy, would decide the attractiveness of these bonds. "Most investors are still bullish on India. The investors will consider the interest rates and yields on these bonds, and the hedging costs," said Harihar Krishnamoorthy, treasurer at FirstRand Bank India.

As of February 3, 71.75 per cent of the FPI limit in general government debt has been utilised, while only 26 per cent of the FPI limit in long-term government debt has been used up.

"Clearly, they have focused on this, and Prime Minister and Michael Bloomberg speaking about this in New York is also a great sign," said Narayan. In September, when Prime Minister Modi had gone to New York, the possibility of Indian G-secs being included in global bond indices was discussed. Michael Bloomberg had said Bloomberg would help Indian authorities navigate a course to inclusion in international bond benchmarks.

FM...

"You may want the government to pump prime the economy, to use the socialist expression. Yes, we are willing to do that but we shall not repeat the mistake of splurging that had happened," she said.

She said expenditure on infrastructure will have cascading effect on the economy.

The UPA government had widened the fiscal deficit to over 6 per cent of the gross domestic product (GDP) in 2008-09 to revive the economy facing the ripple effects of the collapse of Lehman Brothers against the Budget Estimates of 2.5 per cent that time. The Manmohan Singh government gave the fiscal stimulus to the tune of over ₹1.8 trillion that time.

Talking about the Citizens Charter that will come in the statute, Sitharaman said this is being done to invoke those provisions in the law so that tax payers are not harassed.

She said her ministry is motivating tax officers to meet the collection targets and not forcing them to do so.

"It is the intent of the government to trust the assessees. For that purpose, technology is being given a bigger role," she said.

The FM said the government is transparent and clearly showing where the money will come from and where it will go. She said the Budget may not have given anything sector-specific, but it was a macro blueprint.

The finance minister further said Budget proposals are not de-linked from ground realities as the finance ministry officials took various suggestions from the stake holders even though there is an impression that sometimes bureaucrats have Lutyens' approach.

Coronavirus...

These meets, he said, are also indispensable for companies that are not well understood or that come with a unique value proposition, with fewer comparable peers.

Global investor meets are also getting affected. "We have deferred our global investor meet (in Singapore and Hong Kong) due to the outbreak of coronavirus," said ICICI Securities in an e-mail response.

The coronavirus outbreak in China and its spread has roiled markets across the world, with Asian equity markets down by 4-6 per cent from their mid-January peak.

"In China and Asia, near-term business activity and consumption will likely be significantly impacted as people curtail their movements as a preventive measure... Given expectations of further escalation in the numbers of infections and deaths related to the coronavirus, anxiety, nervousness and market pessimism internationally should increase globally in the short term," goes a recent note from Franklin Templeton.

'M&M...'

How do you see the coronavirus outbreak and the global trade friction impacting India?

It should be seen as an unprecedented opportunity because no matter how quickly it is resolved, people will react to how a country like China can be shut down by a biological crisis. And, this is the second time it has happened. China can't be seen as the only powerhouse in manufacturing and there has been some desultory diversification with places like Myanmar and Vietnam. But India can really take advantage of this.

How would you suggest that happen?

The NITI Aayog had floated an idea of creating two large coastal special economic zones on the scale of Guangdong and Shenzhen. These SEZs could become a place for businesses to come to. If that would have been one of the big ideas in the Budget, it could have been capitalised on. And India can also become a tourism alternative to China. Tourism is the highest value-added industry. We have a unique opportunity but the bulk of the world's tourism is not coming here because of a lack of sanitation. If agencies can guarantee that, it could change the game.

BS SUDOKU # 2964

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SOLUTION TO #2963

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Hard: ★★★★

Solution tomorrow

HOW TO PLAY

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