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THE MARKETS ON TUESDAY		Chg#
Sensex	40,789.4▲	917.1
Nifty	11,979.7▲	271.8
Nifty futures*	11964.3▼	15.4
Dollar	₹71.3	₹71.4**
Euro	₹78.8	₹79.0**
Brent crude ($/bbl)##	53.7##	53.2**
Gold (10 gm)###	₹40,443.0▼	₹211.0

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

COMPANIES P5
AIRASIA CHIEF STEPS ASIDE AMID BRIBERY PROBE

COMPANIES P2
PUSHED BY DGCA, PRATT PLANS $250-MN MRO UNIT IN INDIA

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AIRTEL POSTS LOSS OF ₹1,035 CR IN Q3

Bharti Airtel on Tuesday posted a net loss of ₹1,035 crore for the quarter ended December 31 (Q3), as it provisioned for the interest accrued on account of adjusted gross revenue payment. Analysts had pegged the loss figure at ₹640 crore. This is the company's third consecutive quarterly loss. The firm had recorded a profit of ₹86 crore in the year-ago quarter. It posted an improvement in average revenue per user from ₹128 to ₹135, sequentially. 2

PNB NET LOSS AT ₹492 CR P4

RESULTS RECKONER

Quarter ended Dec 31, 2019; common sample of 667 companies (results available of 768)

SALES		
Dec 31, '18	**22.8%**	₹10.76 trillion
Dec 31, '19	**1.7%**	₹10.95 trillion
PROFIT BEFORE TAX		
Dec 31, '18	**-22.5%**	₹91,589 cr
Dec 31, '19	**64.0%**	₹1.50 trillion
NET PROFIT		
Dec 31, '18	**-35.3%**	₹56,414 cr
Dec 31, '19	**94.3%**	₹1.10 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

TO OUR READERS

The eight-page pull-out on *DEFEXPO*, being carried as a separate section, is equivalent to a paid-for advertisement. No *Business Standard* journalist was involved in producing it. Readers are advised to treat it as an advertisement.

Markets roar back after Budget shock

Oil fall, global rally help recoup Budget-day losses; indices jump most since Sept; rupee gains 13 paise against dollar

SUNDAR SETHURAMAN
Mumbai, 4 February

A sharp drop in crude oil prices, coupled with a rally in global equities, propelled the domestic market on Tuesday, helping the benchmark indices close at levels seen before the Union Budget.

The Sensex soared 917 points, or 2.30 per cent, to end at 40,790, while the Nifty50 index rose 272 points, or 2.32 per cent, to close at 11,980. Both the indices logged their biggest single-day gains since September. The Sensex had ended at 39,735 on Saturday, following the worst sell-off in three years as investors dumped equities due to Budget disappointment.

The rupee moved up by 13 paise to close at 71.25 against the US dollar as forex market participants gauged improved sentiment in global markets amid efforts to contain deadly coronavirus.

Market players said investors resorted to buying on hopes that the fall in crude oil prices would provide macro stability. Also, investor appetite for risk assets showed an improvement after the sell-off in the China market halted.

Foreign portfolio investors (FPIs) were net buyers to the tune of ₹366 crore, reversing some of the recent outflows. In the past one week, the domestic market has seen a sharp pullback from FPIs amid the coronavirus outbreak. Domestic institutional investors (DIIs) remained strong buyers for a second day in a row. On Tuesday, DIIs bought shares worth ₹600 crore, adding to their ₹1,300-crore buying tally a day earlier.

Besides improvement in the global situation, the slew of incentives announced in the Budget should help improve overseas investor sentiment, said experts.

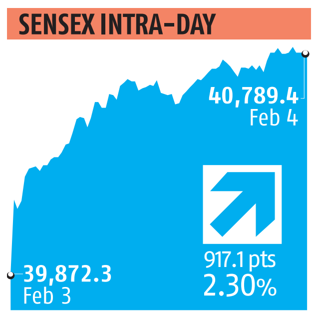
Following a sharp drop in the past few sessions, Brent crude was trading near the $54 a barrel level.

Any fall in the price of crude oil, India's biggest import, is advantageous for India. Every $10 rise in crude oil pushes the headline consumer price index inflation by 0.4 percentage points, say economists.

The latest fall in oil prices is due to worries about a slowdown in China, the world's largest importer of the commodity. Turn to Page 21

THE BULLS ARE BACK

SENSEX INTRA-DAY



TOP GAINERS BSE price in ₹

	Feb 4	1-day chg (%)
Titan	1,275.5	7.6
ITC	215.7	3.9
HDFC	2,345.7	3.8
Bajaj Fin	4,518.1	3.6
Tata Steel	452.1	3.6

TOP SINGLE-DAY GAINS
Since Jan 2019

Date	Sensex	% chg
Sep 20, '19	38,015	5.3
May 20, '19	39,353	3.7
Sep 23, '19	39,090	2.8
Feb 4, '20	**40,789**	2.3
Aug 26, '19	37,494	2.2

Source: Exchange

Ball in your court now to invest, FM tells India Inc

Says govt spending alone can't be enough

SUBHAYAN CHAKRABORTY
New Delhi, 4 February

Finance Minister Nirmala Sitharaman on Tuesday exhorted India Inc to shed its hesitation and make investments to push up economic growth, saying the government had taken several pro-business measures such as reduction in corporation tax rates, removing minimum alternate tax in the new tax structure, and scrapping dividend distribution tax (DDT) levied on companies.

"We have done whatever little we can. We are ready to do more. But I want meaningful interventions from the government and not the ones which are irrelevant to the ground situation. Now, we expect you to be an equal engine to pull the economy forward," she said at a post-Budget interaction, organised by the Confederation of Indian Industry (CII).

Sitharaman said government spending alone could not pull the economy towards the growth rates that all wanted in today's conditions.

"Critics say the government has reduced corporation tax rates, but where are the investments? It is six months now," she said, apparently nudging the captains of industry to pump money into the economy.

She said some people had told her that maybe businesses were repaying their debts to banks by using tax savings. "I am quite happy with that too. At least banks are getting money. If you are giving dividends, it is equally good, as money is going back to shareholders," she said. Turn to Page 21

Finance Minister Nirmala Sitharaman arrives for the BJP Parliamentary Party meeting, on Tuesday PHOTO:PTI

10% TDS ONLY ON DIVIDEND PAYMENT BY MUTUAL FUNDS

Mutual fund (MF) players, who were expecting investor outflows over uncertainty on tax deducted at source (TDS) on capital gains, were relieved on Tuesday with the Central Board of Direct Taxes (CBDT) clarifying that the proposal would be limited to dividend payouts.

The proposed Section 194K of the Income-tax (I-T) Act stated: "Any person responsible for paying to a resident any income in respect of units of a mutual fund ... shall at the time of credit of such income to account of payee ... deduct income tax at the rate of 10 per cent." According to sources, the MF industry had sought clarification from government officials on whether the proposal would apply to investor redemptions, as uncertainty could have led to investors exiting before April 1, 2020, when the proposal would come into effect. **JASH KRIPLANI** reports 10

Indian Hotels playing catch-up with Marriott

Tata-owned firm plans to open a hotel every month; this will add 2,500 rooms

PAVAN LALL
Mumbai, 4 February


Taj Hotel & Convention Centre in Goa

Tata-owned hotel chain Indian Hotels Company (IHCL) is on track to open at least one hotel a month that will add an inventory of about 2,500 rooms for the year ahead, pushing it into an unprecedented growth phase. Market leader, the Marriott International, has also charted its own aggressive plans for growth.

Last year, Marriott opened 13 hotels in India across multiple brands that include Marriott, Courtyard by Marriott, Fairfield by Marriott and the Ritz Carlton. They also include The Four Points, the Le Meridien and the Sheraton. This year, the multinational has another dozen openings planned and the room count of 25,000 rooms is expected to reach around 28,000 by 2020-end, said Marriott officials.

Puneet Chhatwal, managing director (MD) and chief executive officer (CEO) at IHCL, said, "We opened nine hotels in the last nine months of the financial year." The move is part of a strategic target to reach an inventory of 25,000 rooms by 2022, of which 7,000 are under development, he added. Currently, Taj has 18,500 rooms.

The new destinations that will be opened include the Taj Fateh Prakash Palace in Udaipur, the Devi Ratn in Jaipur and the Taj Convention Center Goa, in central Goa.

The opening in Goa will take IHCL's hotel count up to 11 in the resort city, making it one of the largest operators there. Other IHCL openings slotted for this year include Darjeeling, Shillong, Gangtok, Wayanad, Haridwar, Navi Mumbai, Bharuch, Karad and Kalinganagar.

Notedly, Ginger accounts for at least a fourth of the company's number of new hotels for the immediate future.

In the last two years, IHCL has signed on as many as 46 hotels across its four different brands that include Taj, Vivanta, Ginger, and SeleQtions. Those, as well as contracts signed earlier, are now opening. The expansion is about more than just new hotels in existing hotspots.

One analyst, who did not wish to be identified, said there are newer tourism hubs emerging that are getting the attention of larger operators. The key to future traction hinges on how fast "hospitality circles" are built around those spots. For example, IHCL is also looking at previously untapped markets in India. It has inked pacts for two hotels in Gangtok, Sikkim, and one in Tawang, Arunachal Pradesh.

Marriott has also been opening in strategic pockets that include locations such as Siliguri, Surat and Kolkata with future plans for Thiruvananthapuram, Navi Mumbai, and Mahabaleshwar.

Beyond just size and volume, analysts said the key to the tourism industry for any player is staying profitable. On that metric for now, IHCL is on track. "While there is a slowdown, we have looked at various ways of reengineering, restructuring and reimagining our businesses and brands. This is to unlock potential, optimise market share, rationalise costs and monetise non-core assets to ensure we deliver seven consecutive quarters of margin expansion," Chhatwal said.

IHCL's profit after tax (PAT) in the third quarter of FY19 was ₹203 crore, up 26 per year-on-year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) margin was at 32.7 per cent, the highest in a decade. Even so, the hotel chain does have around ₹1,800 crore debt on its books and will have to resolve the matter of the Taj Lands End-Sea Rock Hotel.

This was a property that was acquired over a decade ago and is yet to break ground because of permissions that have been long pending. On that score, while Marriott's overall profitability isn't available because they operate through a franchise of licensed management contracts, their debt is also restricted to individual properties.

It's something that IHCL is well aware of. "Our management contract base has moved from 32 per cent to 42 per cent in the last two years. Barring The Connaught and Taj Fateh Prakash Palace, all other signings are without any investment, thus not having any impact on the balance sheet," said Chhatwal.

'Paytm is clearly ahead of Google Pay and PhonePe'

Infosys co-founder and Aadhaar architect Nandan Nilekani says Paytm founder and Chief Executive **VIJAY SHEKHAR SHARMA** is "democratising digital payments in the country and nobody has done a better job than him." Nilekani also threw a challenge to Sharma to build Aadhaar-enabled payments system and allow Paytm to work on feature phones. In an interview with **Peerzada Abrar** & **Yuvraj Malik**, Sharma says when it comes to paying merchants, Paytm clearly dominates the market share. Edited excerpts:

Q&A

At what stage has India leap-frogged in the fintech sector and have we gone beyond the WhatsApp moment in the financial sector?

I think it is ubiquitous and everybody understands what it can do. People have their concerns if they are not on board yet as digital payment consumers or merchants. As far as the large cities are concerned, the penetration is incredibly big. I understand that people don't use it too often every day, but that will happen once the penetration of merchants becomes even deeper. So, right now, with 10-15 million merchants, at Paytm, we still believe that we could have done another 15 million. There are people like street hawkers and auto-rickshaw drivers who are not even accounted for as small and medium enterprises.

Talking about the banking industry, start-ups in the fintech space, including players such as Paytm, are disrupting the financial services and banking industry. Are banks right to be afraid of the fintech boom in the country?

I always believe that we don't need to disrupt the financial services or banking industry, we need to add to their capabilities. What SBI, HDFC or ICICI have done is phenomenal. What Paytm or Paytm Bank has to do is to serve another set of users. And, that is exactly where we will focus on. In other words, we believe that it is not imperative for us to grow so that somebody else needs to be disrupted.

How do you view competition from players such as Google Pay, PhonePe and Amazon Pay? How do you see Paytm differentiating itself when compared to them in the next few years?

I think when it comes to paying a merchant, Paytm clearly, as the data shows, dominates the market share. Paytm is bigger than everybody else combined in the market. When it comes to person-to-person money transfer, it is not economic transactional value.

More on business-standard.com

Titan pays ₹25 crore to ex-MD as special retirement benefit


Bhaskar Bhat

Jewellery-to-watch maker Titan has paid ₹25 crore to its former managing director (MD) Bhaskar Bhat as special retirement benefit, said the company in a BSE filing on Tuesday.

"During the quarter ended December 2019, the board of directors approved the special retirement benefits payable to the managing director who retired in September 2019, according to the company policy," said the Bengaluru-headquartered firm. Bhat continues to serve as a non-executive non-independent director on the company board.

"This is a distinctive recognition for the kind of fast-paced growth that he created for Titan," said brand consultant Harish Bijoor. Bhat was associated with Titan for nearly 36 years, and was with the company even before the brand existed. The Tata Group JV saw an increase of almost ₹77 crore in the employee benefits expenses for the quarter. It posted a pre-tax profit of ₹648 crore, a rise of 8 per cent as compared to the corresponding quarter of the previous financial year. Net consolidated profit for the same period registered as rise of 15 per cent YoY.

SAMREEN AHMAD

Paytm unveils all-in-one PoS device

PEERZADA ABRAR
Bengaluru, 4 February

Paytm on Tuesday announced the launch of its All-in-One Android POS (point of sale) device for merchant partners. The company said the device helps merchants accept payments on Paytm wallet, all UPI (unified payments interface) apps, debit and credit cards, as well as cash.

Besides accepting payments, merchants will also be able to generate goods and services tax (GST)-compliant bills, and manage all transactions and settlements through their 'Paytm for Business' app in one go.

The android-based device comes with a full-size display and is pre-bundled with Cloud-based software for billing, payments, and customer management.

It can also be used to accept payments, print bills, and scan items for faster checkout. The device works on Wi-Fi and comes with a pre-installed SIM card, ensuring round-the-clock connectivity with all of Paytm's bouquet of services.

"Over the past 18 months, we have invested a lot of time in understanding the needs of small businesses around digital payments.

This device offers a comprehensive business tool right on the desk of millions of small businesses," said Vijay Shekhar Sharma, founder and chief executive of Paytm.

Infosys co-founder Nandan Nilekani, who spearheaded the massive unique identification project 'Aadhaar', was also present at the launch and said Paytm was democratising payments in the country.

"The All-in-One Android POS is a very important device. There are choices that people have; they can use these cards, UPI and wallets. You are saying I will give you one device and any payment can be made. I think that really eliminates this 'A vs B' kind of argument (as) everything is in one device," said Nilekani.

Paytm is eyeing the digital payments space in India, which is expected to rise fivefold to $1 trillion by 2023, and this will be led by the growth in mobile payments, according to a report by Credit Suisse.

Paytm has done a series of successful pilots for the new device in different spaces, including bus ticketing service, logistics, and home delivery.

IRCTC, one of Paytm's partners, is using the All-in-One Android POS machines to bill food items sold inside trains. It helps in keeping track of sales and has proved to be a strong tool for inventory management.

The company also announced the launch of two innovative business solutions for small and medium enterprises (SMEs) that will help them streamline and digitise their business processes.

The firm has introduced 'All-in-One PG' and 'Paytm Business Solutions' that increase the overall efficiency of both accepting payments and making payments. Together, these two solutions complement the newly launched all-in-one PoS device, said the company.

"Two big states (Punjab & Rajasthan) have joined AB-PMJAY only in late 2019. Large states (UP, MP, and Bihar) are implementing the scheme for the first time and hence, their demand is still picking up"

HARSH VARDHAN
Union health minister

"Prime Minister Narendra Modi and Delhi Chief Minister Arvind Kejriwal are not interested in jobs for youngsters, but are keen on making one Indian fight another for staying in power"

RAHUL GANDHI
Congress leader

"When ministers come out to the streets holding guns, then what lies ahead for the country? We do not know what will happen tomorrow"

MAMATA BANERJEE
West Bengal chief minister

LIC STAFF HOLD STRIKE AGAINST IPO

Employees of LIC staged a walkout in Mumbai on Tuesday to protest against the government's move to sell its stake through an IPO. More than 1.2 million agents will strike work for two hours on Wednesday and stage a protest in Delhi next month

PHOTO: KAMLESH D PEDNEKAR

Stress in wholesale book of NBFCs to rise further: CRISIL

ADJUSTED 90+ DPD FOR THE REAL ESTATE PORTFOLIO (in %)

	Share to AUM	19 Mar	19 Sep
Book in moratorium	40	0%	0%
Lease rental discounting	30	<0.5	<0.5
Book out of moratorium	30	5.8	10.2
Reported NPA		1.8	3.3

Realty exposure of non-banking financial companies (NBFCs), which is out of moratorium, has a bad loan ratio of over 10 per cent as of September 2019 and the fear is rest of the book under moratorium may go the same way, said rating agency CRISIL. About 30 per cent of the realty book of NBFCs has come out moratorium while 40 per cent of the exposure is still0 under moratorium. The bad loan ratio of the realty portfolio of NBFCs was 1.8 per cent as of March 2019 and by September it almost doubled to 3.3 per cent. CRISIL said the overall NPA ratio of NBFCs can rise by 30-150 basis points, depending on the asset class as stress in the space is inching amidst the challenging economic environment. **SUBRATA PANDA**

FinMin to assuage concerns of rating agencies: DEA secy

The finance ministry has said it will try to assuage concerns of rating agencies on opting for higher deficit and other Budget numbers while stressing that fundamentals of the economy are strong. Department of Economic Affairs Secretary Atanu Chakraborty said the Indian economy remains robust and more than meets the requirement of investment grade and above. **PTI**

India's economic growth projections ambitious: Moody's

Moody's Investors Service on Tuesday said economic growth projections made by Finance Minister Nirmala Sitharaman in her Budget for 2020-21 appear ambitious given the structural and cyclical challenges facing the Indian economy. The Budget expects nominal GDP growth of 10 per cent in 2020-21, followed by 12.6 per cent and 12.8 per cent in FY22 and FY23. **PTI**

FDI at $34.9 billion till November of this fiscal year

Foreign Direct Investment in India has been increasing on an annual basis and was at $34.90 billion till November of this fiscal year, government informed the Parliament on Tuesday. **PTI**

Looking to create air defence command to cover aerial ops: CDS

The armed forces are likely to collaborate and create an 'air defence command' to cover all aerial operations taking place in the Indian airspace, a 'peninsula command' to look after all naval operations in the closer Indian Ocean region, and a 'logistics command', said India's first chief of defence staff (CDS) General Bipin Rawat on Tuesday. **PTI**

CSB Bank's pre-tax profit up multiple fold to ₹42.4 crore

Fairfax-backed CSB Bank's profit before tax (PBT) rose by multiple fold to ₹42.4 crore in the December quarter, from ₹1.6 crore during the same period last year. **BS REPORTER**

New rules to hit dividends from foreign subsidiaries

Rewriting dividend taxation norms may result in double taxation, say experts

SACHIN P MAMPATTA & ADITI DIVEKAR
Mumbai, 4 February

TAX WOES

- **Foreign subsidiary dividends** taxed at 15% in FY20
- **Dividend distribution** tax calculation excluded such income
- **New regime requires** tax in hands of recipients
- **Foreign subsidiary now taxed** in hands of parent, and again on redistribution
- **Leads to** double taxation

The rewriting of dividend taxation rules may have an impact on dividends received from the foreign subsidiaries of domestic companies.

Easier rules of taxation applicable earlier have changed, potentially leading to double taxation on the amount received from foreign subsidiaries and distributed by their parent companies to shareholders, according to experts.

Dividends received by Indian companies from foreign subsidiaries have been subject to a concessional tax rate of 15 per cent, said Pranav Sayta, national leader, International Tax and Transaction Services, EY India. When the parent firm further paid out dividends to its shareholders, dividend distribution tax only applied to that amount and excluded the dividend from the foreign subsidiary. This avoided double taxation.

For example, consider a parent company which received ₹70 from its foreign subsidiary and paid out ₹100 in dividends.

Dividend distribution tax in FY20 would only be applicable after deducting ₹70 received from the foreign subsidiary, meaning 20.56 per cent DDT would be paid only on ₹30. Only shareholders earning dividend of over ₹10 lakh a year would pay an additional 10 per cent tax in FY20. "Now all of that is gone," Sayta said.

Under the new rules, the dividend on the entire ₹100 would be taxable at the marginal rate for the parent firm's shareholders.

Some of its shareholders in the highest tax bracket would end up paying a tax of 42.7 per cent. This would involve the dividend being taxed twice.

Tushar Sachade, partner-tax and regulatory services, PricewaterhouseCoopers, too, pointed out that there was a kind of cascading credit, provided for dividends paid by Indian companies, which took into account dividends received from foreign subsidiaries.

Dividends from a foreign subsidiary were taxed at 15 per cent, however, if the parent were to pay dividends, it was not required to pay DDT (on foreign dividends).

"Now in case of a foreign subsidiary, there is double taxation. If the Indian parent receives dividend, it pays tax when it declares dividend; the recipient also pays tax," he said.

Indian companies have made several foreign acquisitions over the years. For example, Aditya Birla Group's metal sector major Hindalco Industries acquired global aluminium player Novelis in 2007. Similarly, Tata Steel acquired UK-based Corus in 2007.

Any dividends received from such acquisitions would potentially be subject to higher taxes.

Tata Steel's operations outside India many a time have not been in a position to pay dividends. Hindalco, too, is not looking to return capital at this point, according to a source.

"We have not taken any dividend from Novelis for several years. In any case, we do not look at Novelis as a subsidiary which is (at a stage) to give us dividends. We want to simply grow the company. But going ahead, if we take dividends from Novelis and if that situation arises, we will study the tax implications," said the source.

Spokespersons for the companies mentioned above did not respond immediately to a request for comment on the new tax rules.

The removal of DDT, announced in the Budget, was seen as a positive by some quarters as it ensured that foreign shareholders could get credit for taxes paid on dividends. This also means that companies no longer have the compliance burden of deducting the tax. Tax is now to be paid by the recipient at the applicable rate, instead of the flat DDT rate of 20.56 per cent.

PNB back in red, net loss at ₹492 crore

SOMESH JHA
New Delhi, 4 February

Punjab National Bank (PNB) slipped into losses in the third quarter of 2019-20, posting its first quarterly loss in over a year ahead of its planned merger with two other public sector banks (PSBs).

PNB's net loss stood at ₹492.3 crore in October-December 2019, compared to a net profit of ₹507 crore in the previous quarter.

A big jump of 73 per cent in provisioning for bad loans, from ₹2,565 crore in the same quarter in the previous financial year to ₹4,445 crore, affected the profitability of the second-largest PSB.

PNB was in the red last in the September quarter of 2018-19, when its net loss was ₹453 crore. In the third quarter of this financial year, the bank's net interest income (difference between interest earned through lending and interest paid to depositors) remained flat at around ₹4,355 crore from a year-ago period.

The bank's fresh slippages — the amount of loans that turned from good to bad — doubled to ₹6,783 crore from ₹3,324 crore in the same quarter last year. More than 50 per cent of the fresh slippages happened in agriculture (₹2,100 crore) and the micro, small and medium enterprises (MSME) sectors (₹1,400 crore). The bank had to provide for ₹1,189 crore towards housing finance company Dewan Housing Finance Corporation.

The bank has an exposure of around ₹1,000 crore towards Vodafone Idea, which will add to the stress. The bank is expecting fresh NPAs of ₹3,000 crore in the next two quarters, mostly on account of stress in agriculture and MSME accounts.

"Cases worth ₹8,800 crore will come up for resolution in bankruptcy courts in the fourth quarter and we expect a recovery of ₹3,000 crore from these accounts," PNB Managing Director and Chief Executive Officer S S Mallikarjuna Rao told *CNBC-TV18* on Tuesday.

Q3 SCORECARD In ₹ cr

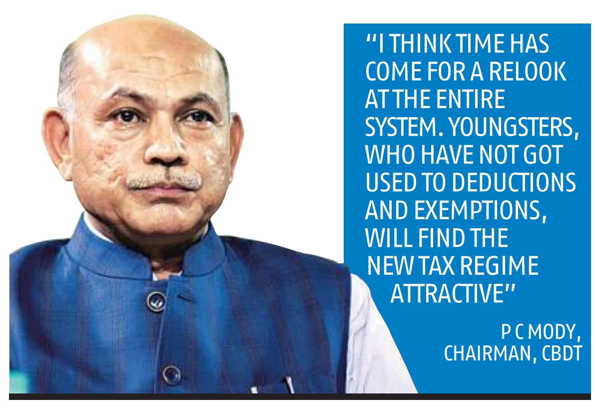
	Oct-Dec 2018	July-Sept 2019	Oct-Dec 2019
Total income	14,854	15,557	15,967
Total expenditure	11,754	11,995	122,045
Provisions towards bad loans	2,566	3,253	4,445
Profit/loss before tax	346	633	-383
Net profit/loss	346	507	-493
% of net NPAs	8.22	7.65	7.18
% of gross NPAs	16.33	16.76	16.3

Source: Punjab National Bank

Govt pegs GST lottery rewards at up to ₹1 crore

CBDT chairman clarifies taxpayers can switch between new and old regime

DILASHA SETH
New Delhi, 4 February



"I THINK TIME HAS COME FOR A RELOOK AT THE ENTIRE SYSTEM. YOUNGSTERS, WHO HAVE NOT GOT USED TO DEDUCTIONS AND EXEMPTIONS, WILL FIND THE NEW TAX REGIME ATTRACTIVE"

P C MODY, CHAIRMAN, CBDT

Interim chairman of the Central Board of Indirect Taxes and Customs (CBIC) John Joseph said the government was working on a lottery scheme for goods and services taxpayers, where the winning amount may range from ₹10 lakh to ₹1 crore.

This is being done to improve compliance and boost collections that have been lagging in the current fiscal year on account of the economic slowdown and fake invoices.

"Every GST bill of a taxpayer will be a price winning lottery ticket," said Joseph.

The lottery scheme will be on the lines of what the Delhi government had under the value-added tax (VAT) regime for consumers, said the official. The Delhi government had introduced the 'Bill Banao, Inaam Pao' scheme in 2015 during the VAT regime.

According to the scheme, a customer was eligible for a prize of five times the taxable value subject to a cap of ₹50,000, if he made a purchase from a registered dealer. About ₹5.65 lakh of reward amount was distributed to customers who participated in the scheme.

Meanwhile, during a post-Budget interaction with industry, Central Board of Direct Taxes (CBDT) chairman P C Mody on Tuesday said that unlike corporates, individual taxpayers will have the flexibility to switch between the new and old income tax rates on a year-to-year basis.

He added that the government wants to phase out all exemptions and deductions that a taxpayer gets in a staggered manner.

Propagating benefits of the new tax regime unveiled by finance minister Nirmala Sitharaman on Saturday, Mody said even the salaried class will benefit from the option of the lower tax regime. This is in lieu of exemptions and deductions and it was time to relook at the entire system.

"Taxpayers will be able to switch between the old and new personal income tax rates on year-to-year basis. The tax structure has been made simple. I think time has come for a relook at the entire system. The younger people, who have not got used to the deductions and exemptions, will find it attractive to go for a lower rate," Mody said at an Assocham event.

The option to switch between the two rate regimes is available only to the individual and Hindu undivided family (HUF) categories that do not have a business income.

The Budget memorandum has specified that those having a business income will not be allowed to revert to the old regime, once they have switched to a lower tax regime.

Sandeep Sehgal, director, tax & regulatory, Ashok Maheshwary & Associates LLP, said the option to switch from the old to new regime and vice versa may not be beneficial for majority of middle-class taxpayers. This is because they would be claiming deductions and exemptions for recurring investments/expenses like health and life insurances, tution fee for their children, home loan and house rent allowance, among others.

"However, this option would serve millennials well as they may not be committed initially to these expenditures and are in a better position to evaluate from year to year which particular slab would save them more tax," he added.

'Budget strikes right balance between growth push & fiscal discipline'

Chief Economic Advisor **KRISHNAMURTHY SUBRAMANIAN** said the hikes in Customs duty in the Budget were not protectionist as they were aimed at finished goods and not raw material. Speaking to **Arup Roychoudhury** and **Dilasha Seth**, Subramanian said that fiscal year 2020-21 (FY21) targets were transparent and realistic. Edited excerpts:

Q&A

Though you have expanded your FY20 and FY21 fiscal deficit targets, compared to earlier estimates, it was still a fiscal contraction year-on-year (YoY). Should there have been a bigger stimulus?

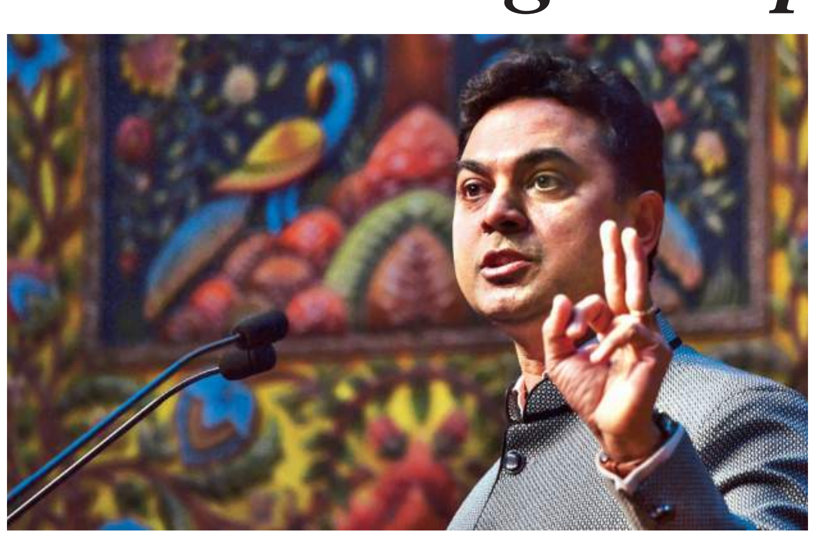
This is the beauty of comparisons. When you use different benchmarks, the same comparison can have different meaning. So, at least for me, the way I would look at it is that before the Budget, we were actually looking at 3.3 per cent for this year and 3 per cent for next year. And we have taken the Fiscal Responsibility and Budget Management (FRBM) Act relaxation of 50 basis points to go from 3.3 per cent to 3.8 per cent for this year, and 3 per cent to 3.5 per cent for next year. That's the way I look at it.

Now, many have commented on whether there should have been a greater stimulus push. In the Economic Survey, what we basically said is in this delicate balance between fiscal prudence and a spurt to growth, we said we need to lean on growth, we did not say put your full weight on growth. Because, if you look at the experience from 2009-10, when after the global financial crisis we let fiscal deficit go up indiscriminately, we had the taper tantrum in 2013 and India became part of the fragile five.

As they say, if you don't learn from history, [you] are condemned to repeat it. So, the worry this time was that if we go for indiscriminate fiscal expansion, 2-3 years later, we may actually have a similar problem. Macro stability is non-negotiable. We have come close to the sweet spot in ensuring that we've given a growth spurt and maintained discipline as well, within the ambit of the framework provided by the FRBM Act.

With so many import duty announcements in the Budget, are we going back to being protectionist?

I like making a distinction between finished goods and raw materials. In raw materials and intermediate goods, custom duties have been brought down, which is good. For exports of finished goods, imports of some of these intermediate products are important. And that's what we've shown in the Economic Survey as well. It is important to keep in mind this distinction between finished goods and intermediates and raw materials. This is important, rather than painting it in one stroke... calling it protectionist.



High-cost economy comes from imports of intermediates and raw materials not being allowed. The cost for a producer is basically either the raw materials or the intermediates, and I've been very clear on that. This is about the delicate balance between domestic production, imports, and enabling exports as well. If you are charging higher import duties for finished goods, that doesn't really affect the cost structure for producers, so it's really important to make that distinction.

In media interactions, the Economic Affairs Secretary said economists want to play T-20 cricket match to make themselves popular, and DIPAM Secretary said the idea of a Temasek-like holding company for PSUs (proposed in the Economic Survey) needs to be debated. What are your thoughts as an economist and author of the Survey?

I think the T-20 versus test match debate is a good characterisation of economic policy, of taking care of the short run versus taking care of the long run. I think what we have done is we are playing a test match. With the Budget, we are in test-match mode. The role of the Economic Survey, in some parts, is to foster debate. Mentioning the Temasek model has led to discussions on its pros and cons. I think that is important. Just because we have recommended something does not mean it should immediately get implemented. It has to be debated. But by bringing it into the into the policymaking arena, we actually encouraged debate on that. As an academic, I am absolutely comfortable with that.

The revenue estimates for the next fiscal again appear unrealistic with direct tax growth pegged at 12.7 per cent, as against a nominal gross domestic product (GDP) growth rate of 10 per cent. Besides, for FY20, even the revised target of 2.9 per cent appears high, considering that we are hovering at a negative 6 per cent...

There has been a strong emphasis on getting the projections as realistic as we can. Therefore, in this Budget there has been an emphasis on transparency compared to the previous two Budgets. The realistic 10 per cent growth rate and a tax buoyancy at 1.2 per cent is easily achievable. And with some of the measures like "Vivaad se Vishwas" scheme introduced, I don't think they are unrealistic. There are close to 500,000 cases under dispute... While it is very hard to Budget the exact amount of these, even normal tax numbers should be achievable. The annexure to the Budget speech showing off-Budget items is a step towards transparency. Overall, there has been a real emphasis on being as realistic and transparent as possible.

With you being a member of the direct tax committee that submitted its report in August last year, what do you have to say on the personal income tax cuts introduced in the Budget?

The report is not in the public domain, so I cannot talk about that. But, I can talk about the tax proposals in the Budget. As an economist, if I were to design a tax scheme it will be a flat rate scheme. I will get rid of all exemptions. The income tax act is so voluminous because we kept adding clauses for the last 50 years, which gives people the opportunity to interpret it in different ways. Tax research shows that a simple scheme is efficient and enables to garner greater revenues. Getting rid of exemptions is a move in the right direction. If you do quick back-of-the-envelope calculation, someone earning ₹10 lakh can get a benefit of anywhere between ₹35,000 and ₹45,000, even if he or she is availing exemptions. According to the data put out by the department of revenue, a large proportion of people do not avail full exemptions as they don't have money to invest in those schemes. It is a step in the right direction, but we need to keep working on it to have a flat tax and no exemptions.

Tony steps aside as AirAsia boss

Chairman Kamarudin Meranun, too, relinquishes post temporarily over links to bribery scandal

CHARLOTTE RYAN, YANTOULTRA NGUI & ASANTHA SIRIMANNE
London, 4 February

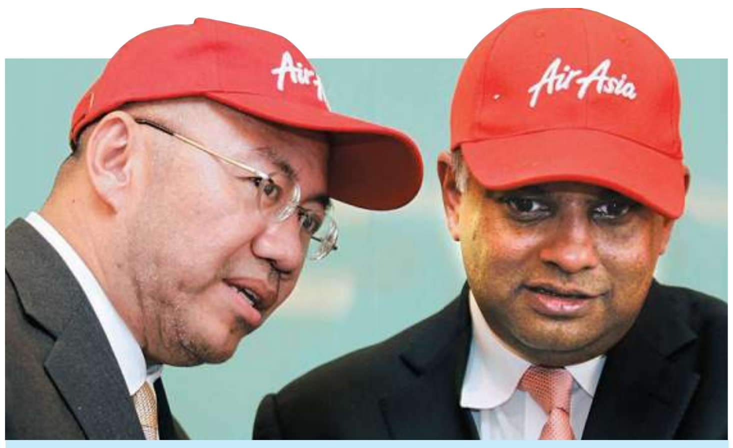
Airbus SE and AirAsia, the discount airline built by Tony Fernandes, were inseparable for years, with the boisterous aviation executive gorging on ever-larger aircraft orders to become the manufacturer's biggest customer for single-aisle jets.

That happy marriage ended in acrimony last week after Airbus admitted to illegally trying to sway plane sales and agreed to a record $4 billion bribery settlement. By Monday, Fernandes stepped away from the Malaysian airline he bought in 2001 and turned into one of the best-known brands in Asian aviation.

Fernandes was one of Airbus's most loyal customers, a fixture at air shows where he'd make a splash with huge deals while bucking the stodgy formalities of traditional business. Among his most memorable moments was the signing of the European company's biggest order at the 2014 Farnborough expo, where he exchanged man-hugs with legendary, since departed sales chief, John Leahy.

Now a corruption probe that has ricocheted through Airbus for almost four years, claiming the scalps of many senior staff, is coming for its airline counterparts. Fernandes will leave his role as chief executive officer of AirAsia for two months while the government examines corruption claims, according to a statement Monday. Chairman Kamarudin Meranun also stepped down, in a sign of further repercussions from the bribery case.

Fernandes, 55, who is already facing corruption charges in India, and Meranun on Monday denied allegations of wrongdoing, saying they stood down to ensure a full and independent investigation. They added in a newspaper op-ed Tuesday that a Formula 1 sponsorship deal which was the subject of the Airbus accusations was "a branding exercise" and not a venture to make money. Malaysia's anti-graft agency said Saturday that it was looking into corruption at AirAsia. Airbus, which admitted to the SFO's allegations as part of its settlement, declined to comment.



"Caterham F1, the company alleged to have been sponsored improperly by Airbus, was at the relevant time a Formula 1 racing team that had gone round the globe promoting amongst others AirAsia, AirAsia X, GE and Airbus... Throughout the period we were shareholders in Caterham, the company made no profit and was eventually disposed of for 1 pound sterling in 2014. From start to finish, this was a branding exercise and not a venture to make profit"

Tony Fernandes *(right)* and Kamarudin Meranun
After stepping aside as CEO and chairman of AirAsia, respectively

Shares of AirAsia tumbled as much as 12 per cent Tuesday, after losing 10% of their value on Monday. Fernandes and Meranun are still the company's biggest investors through Tune Group.

"AirAsia is clearly a major Airbus customer," said Sash Tusa, an aerospace and defense analyst at Agency Partners in London. "At times they have given the impression of ordering aircraft at an exceptional rate."

After starting his career in Richard Branson's Virgin Group in the UK, Fernandes returned home to Malaysia and teamed up with Meranun to buy an ailing and indebted AirAsia for 1 ringgit.

Affable and almost always casually dressed, Fernandes was rarely seen without a grin and a red baseball cap bearing the AirAsia logo. Like Branson before him, he was never shy of the limelight. AirAsia would become Malaysia's first low-cost carrier and its explosive growth across the continent coincided with unprecedented demand for air travel in developing nations.

Fernandes then ventured into other businesses including hotels, insurance, telecommunications and motor racing. In 2011, he took control of the Queens Park Rangers soccer club in the UK. Two years later, he hosted an Asian version of The Apprentice reality show.

Prosecutors at the UK's Serious Fraud Office said Airbus paid $50 million in sponsorship to a sports team jointly owned by two AirAsia executives as a reward for an order of 180 aircraft, later amended to 135.

The executives and the sports team weren't named in the case, but AirAsia over the weekend called the sponsorship "a well-known and widely publicized matter bringing branding and other benefits to Airbus." Fernandes and Meranun in their op-ed article identified it as the Caterham Formula 1 team, founded in 2009 with Nasarudin Nasimuddin, chairman of car assembler Naza Group. They said the team made no profit and "was eventually disposed for £1".

The July 2014 Farnborough deal that produced such fraternal bonhomie — for 50 A330 wide-bodies — was supposed to trigger an additional $55 million payment, though it was never received, according to the prosecutors.

Four days after the order announcement, an AirAsia executive emailed a senior Airbus employee saying that "instead of sponsorship we want to put it as a grant." The A330 purchase was finalized in December, but by then the strategy and marketing department at the center of the Airbus corruption was no longer in a position to fulfill its commitments. "We have kept our side of the deal," the AirAsia executive emailed. "Pls don't let us down".

In all, corruption dating back 13 years boosted profit at Airbus by more than $1 billion, prosecutors said in court documents.

Fallout from the scandal has already rippled across the globe. Colombia's Avianca Holdings SA said Monday it had retained a law firm to conduct an independent internal investigation into the carrier's relationship with Airbus, and whether it was the victim of wrongdoing. Taiwan's chief prosecutor started investigations of former executives in charge at now-defunct TransAsia Airways, which was also named in the documents, a prosecutor said by phone Tuesday.

In Sri Lanka, prosecutors are seeking the arrest of the state-owned airline's former top boss and his spouse. The attorney general's office said Kapila Chandrasena, the ex-CEO of SriLankan Airlines Ltd., and his wife, Priyanka Niyomali Wijenayaka, were suspects in a money-laundering case linked to aircraft sales at Airbus.

Sri Lankan police were ordered to obtain an arrest warrant, according to a statement Monday. Chandrasena didn't respond to multiple calls seeking comment. BLOOMBERG

Henkel steps up investment in adhesives

VIVEAT SUSAN PINTO
Mumbai, 4 February

After exiting fast-moving consumer goods (FMCG) segment in India a few years ago, German major Henkel has been quietly ramping up its presence in adhesives, a business that gives it nearly ₹2,500 crore in revenue. While rival Pidilite is best known for its consumer-centric brands such as Fevikwik and Fevicol, Henkel is strong in the industrial adhesives segment, providing solutions to sectors such as automotive, metals, packaging and aerospace.

On Tuesday, the company launched is eighth plant in India, which is its first multi-technology unit, at an investment of ₹400 crore. The plant, also Henkel's largest adhesive manufacturing unit in the country, is located near Pune in Maharashtra.

Besides its manufacturing facilities, Henkel also has an innovation and product development centre and a flexible packaging academy in the country for its adhesives business.

Invests ₹400 crore in eighth plant in India launched on Tuesday

Jan-Dirk Auris, member of the management board at Henkel AG, said the plan was to push India up the pecking order of markets in terms of top line from its current 10th position, using acquisitions, joint ventures and alliances as way forward. The consumer adhesive space, in particular, he said, was an area that Henkel was eyeing closely for future growth.

"India is an important emerging market, with tremendous growth opportunity for our adhesives business. I will not exclude moving into consumer adhesives in the future, given that we would like to see India get into the top five markets for Henkel globally in the next few years," he said.

The statement acquires significance since Pidilite has been strengthening its presence in industrial adhesives, tying up with German player Jowat recently. Jowat is counted among Henkel's competitors globally and the collaboration with Pidilite will see its portfolio available in India, Sri Lanka, Bangladesh and Nepal, experts tracking the market said.

Pidilite has also stepped into areas such as floor coatings, wood finishes and specialised water proofing in recent years using acquisitions and JVs as an entry point.

Auris said the India business of Henkel had been growing at a clip of 10-11 per cent annually, which it is expected to maintain in the future. The eighth unit would not only cater to the domestic market, he said, but would also take care of needs in West Asia, Africa and South Asia.

A splash of sunshine and a hint on thermal

VANDANA GOMBAR

For those concerned about the issues of clean air and sustainability, there were four things of interest in Finance Minister Nirmala Sitharaman's Budget. The announcements were, however, incremental in nature, rather than path-breaking.

Solar power: The recently-launched solar pump scheme is set to be expanded. The government aims to provide two million farmers (1.75 million earlier) with subsidised standalone solar pumps, help another 1.5 million (1 million earlier) to solarise their grid-connected pump sets, and set up solar plants on barren land under KUSUM scheme. The targeted installation of 25,750 megawatts by 2022 under the original plan would also be increased, though no new number has been announced.

A proposal to set up "large solar power capacity" along railway tracks on land owned by Indian Railways is also under consideration.

Thermal power: The finance minister acknowledged that there are "thermal power plants that are old and their carbon emission levels are high."

GREEN POWER

State	Renewable energy capacity (gigawatts)*
Karnataka	15.2
Tamil Nadu	14.2
Gujarat	10.3
Maharashtra	9.6
Rajasthan	9.3
Andhra Pradesh	8.3
Others	19.0
TOTAL	**85.9**

*As on December 31, 2019
Source: Ministry of New and Renewable Energy

The action proposed is, however, tentative: "For such power plants, we propose that utilities running them would be advised to close them, if their emission is above the pre-set norms. The land so vacated can be put to alternative use," she said.

Clean air: Mention of clean air in the Budget indicates that some sort of priority is accorded to it. As cities roll out their clean air plans, minister Sitharaman announced that ₹ 44 billion ($616 million) would be set aside to encourage them in 2020-21.

By comparison, a new National Mission on Quantum Technologies and Applications was allocated Rs 80 billion ($1.1 billion) over a five-year period.

Electric vehicles: To encourage domestic value addition, customs duty has been increased by varying degrees on completely knocked-down, semi-knocked-down and completely built units of buses, trucks, two-wheelers, three-wheelers and passenger cars.

There were other announcements that could prove positive for the renewable energy sector. Sovereign wealth funds will now enjoy 100 per cent tax exemption on their interest, dividend and capital gains income for investments made in infrastructure and other specified sectors before March 31, 2024. The renewable energy sector has been of particular interest to these funds, with recent commitments from the likes of Abu Dhabi Investment Authority and UAE's Mubadala Investment Company.

The new concessional corporate tax rate of 15 per cent — available to new manufacturing domestic companies set up on or after October 1, 2019 — is now extended to the business of electricity generation. This will also be a plus for renewable energy companies.

The decision to move to prepaid smart electricity meters for all consumers in the next three years — if it happens — would help the distressed distribution companies, and in turn, the renewable energy companies.

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CHINESE WHISPERS

Ministry of recycling

Finance Minister Nirmala Sitharaman got unique policy suggestions in her first interaction with industry after presenting her Budget. While lauding her big disinvestment target of over ₹2 trillion for the next fiscal year at a gathering organised by the Federation of Indian Chambers of Commerce and Industry, an industry executive observed public sector assets were not really for sale but were being "recycled". "You should call it a department of recycling so that there is a positive twist to the government's intent. Even my father keeps asking me why government companies are being sold," the executive quipped. It was followed by a silent nod by the finance minister, who moved on to the next question in a jiffy.

Memorable reply

Over the past almost six years, it has been rare for Prime Minister Narendra Modi to reply to the motion of thanks to the President's address on the same day in the Lok Sabha and Rajya Sabha. However, this time, he will speak on the motion in the two Houses the same day, that is, Thursday. Opposition sources suggested this change might have something to do with the Delhi Assembly polls, which are on Saturday. The Opposition has moved over 400 amendments to the motion. In the past six years, there have been two occasions when the Opposition forced amendments to the President's address in the Rajya Sabha. But its numbers have dwindled since then and it is not in a position to push through the amendments. The two Houses will take up a discussion on the Union Budget next week, on the last two days before the Budget session takes a pause on February 11, to meet again on March 2.

Mixing up dates

The Bharatiya Janata Party's (BJP's) Bhupender Yadav on Tuesday opened the discussion on the motion of thanks to the President's address. Yadav said the opposition, particularly the Congress, questioned the government's implementation of Aadhaar and goods and services tax (GST). The Congress' Jairam Ramesh reminded Yadav that it was Narendra Modi who as Gujarat chief minister had first questioned Aadhaar and GST. Yadav said the opposition had launched the "award wapasi" campaign in 2014, just as it was now covertly sponsoring protests against the amended Citizenship Act. However, what the BJP terms the "award wapasi" campaign took place in 2015. He said the Congress questioned "the surgical strikes of 2017". The Uri surgical strikes took place in 2016. He repeatedly said the government would mark the hundredth birth anniversary of Bal Gangadhar Tilak this year, and eventually corrected himself and said it would be the freedom fighter's hundredth death anniversary.

Flickering interest in 'round-the-clock' power

Why power producers are not exactly enthused by the govt's scheme to bundle renewable energy with thermal power

SHREYA JAI

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

The Union government recently announced a scheme to bundle renewable energy with thermal (coal/gas)-based power and sell them together. The idea is to ensure optimum utilisation and sale of renewable power and thereby reduce the cost of power at the consumers' end. This would also help states meet their mandatory renewable purchase obligations (RPO).

The thermal power industry is elated at this decision, but the renewable energy sector is divided on the scheme. Some have called it a plan to salvage under-utilised stressed thermal power units and others think it detrimental for renewable power units.

The draft scheme proposed by the Centre said power generators "shall supply renewable power along with thermal power, in 'Round-The-Clock' manner, keeping at least 80 per cent annual availability".

"Minimum of 51 per cent of energy shall be dispatched from renewable energy sources. This 51 per cent shall also include dispatch from storage system, provided RE (renewable energy) sources were used to store energy in the storage system," said the draft.

Generators who plan to sell bundled power under this scheme will have to quote a composite tariff at which they will sell the combined power. Tariff calculations would include renewable tariff and the first-year tariff of thermal power, adjusted to cover any changes in coal prices.

The payment to the generator would be in the similar ratio as the energy share in the composite supply. The scheme has proposed that the total composite tariff will consist of 51 per cent RE tariff, 30 per cent variable thermal tariff and 19 per cent fixed thermal tariff. The renewable tariff is a single-part tariff quoted for 25-30 years. Thermal tariff, however, has two portions – variable tariff, which is the cost of the fuel, and fixed tariff, which is the capital cost incurred on the project.

"It will help both developers and distribution utilities as it will add another source of power in the procurement profile. If the bid design is formulated properly the composite tariff would be lower than when purchased separately," said A K Khurana, Director General, Association of Power Producers – a representative body of the thermal power sector.

Most industry executives believe this scheme could help salvage stressed thermal power assets. "The thermal power projects which do not have any sale agreements can be bundled with actively selling renewable projects. This will help them stay afloat," said a sector expert.

The power sector has Rs 2 trillion worth of stressed assets with 40 projects declared non-performing assets. Of this, more than two dozen are under stress because they have no power purchase agreements (PPAs) to sell power.

The challenge, however, lies in the fact that government will have no role in the bundling, apart from setting rules. The initiative would have to be taken by the power producers themselves. Renewable energy players are doubtful if any mainstream player will even evince interest. "Even if they do, how does that benefit me? I will be supplying 50 per cent of the total demand and will be paid 50 per cent," said a senior sector executive.

POWER ASSETS

2,30,701 MW	40,130 MW	84,399 MW	₹3.05 kwh
Total thermal power capacity	Stressed thermal assets	Total renewable capacity	Average coal tariff

₹2.6/kwh Average solar tariff | ₹3.5/kwh Average wind tariff

*average tariff for 2019
Source: Central Electricity Authority, power industry

Renewable sector consultancy Bridge to India in a recent note said, "We suspect that because of limited number of potential bidders, the scheme would not attract very competitive bids and may therefore not be cost attractive for discoms. With proposed mandatory blending of thermal power, the scheme remains beyond scope of most renewable power developers."

The idea is to ensure optimum utilisation and sale of renewable power and thereby reduce the cost of power at the consumers' end

The situation could get grimmer given the delayed payment by the states. Both thermal and renewable energy projects are facing payment delays from the states. Outstanding dues of thermal power projects stand at record high of Rs 83,000 crore. In case of renewable, the amount is close to Rs 11,000 crore (last recorded in July 2019), but the delay runs are for more than six months to one year.

Several states also do not honour the PPA they sign with renewable power projects. The ministry of power has mandated the "letter of credit" system of prepayment for the states to purchase power from any unit. However, that is for the current and future payments and offers no relief on dues.

Another challenge would be the "merit order despatch" of power based on tariff and energy source. While bundled power will get priority in the merit order, different composite tariff of the bundled power could add to the confusion. Some of the renewable power projects and large thermal projects have super-low tariffs in the range of Rs 1.75-2.5 per unit.

Sector experts believe the composite tariff would come to around Rs 3 per unit or so, according to the cost of thermal power in the bundled scheme, which varies across the country. As the cost of coal increases, the cost of thermal and thereby of the bundled scheme would go up. The cost of renewable power, however, is dependent on the cost of equipment in case of solar and on market demand in case of wind.

The draft scheme has mentioned, but not addressed the concern on the cost, said the executive quoted above. "But as hybrid projects (solar and wind projects built together) did not fly off, this initiative should be given a chance," he said.

State-owned power generator NTPC has been preparing the ground for bundled power for some time. The company decided to back down some of its thermal power in order to blend with renewable and sell together last year. It has also decided to set up small solar and wind power plants at its thermal power sites.

No other major power developer has announced any such plan especially privately owned units. With most of them battling stress, this scheme would have to aim at plants with low utilisation first, said an executive, killing two birds with one stone.

INSIGHT

Modi-Shah regime not same as Manmohan's UPA-II

YOGENDRA YADAV

Is NDA-II heading the same way as UPA-II? The latest Mood of the Nation (MOTN) survey findings published by *India Today* invite us to think of this tempting, but false, equivalence. As a nation-wide popular movement confronts the Narendra Modi-led BJP government floundering in its second term, it is natural to think of the disastrous term of the UPA-II under Manmohan Singh, especially after the anti-corruption movement. It is a misleading comparison though.

India Today's six-monthly 'Mood of the Nation' poll is the oldest data series of its kind in India. (The other, the one I prefer, CSDS-Lokniti on State of the Nation Survey has been interrupted again.) Although its method and quality have varied over the years, I still trust *India Today*. This latest round was carried out during the last 10 days of 2019. As always, the pollsters spoke to a small, but representative sample of about 12,000-plus voters across 19 states. Remember, a less-than-perfect survey is a superior source of information than drawing room gossip.

Decline in BJP popularity?

There are many indicators in MOTN survey to support the idea of a decline in the BJP's popularity. The headline forecast shows a drop of 50 seats compared to the NDA's tally in 2019 Lok Sabha polls. It would look worse if we imagine a grand alliance of the Opposition, including the Shiv Sena. The poll finds a loss of four percentage points in the NDA vote share, from 45 per cent in the Lok Sabha elections to 41 per cent now. Add this to the outcomes of Assembly elections following the Lok Sabha polls and you have a trend line of a consistent decline in the BJP's fortunes.

I would, however, not rush into such a conclusion. For one thing, I never take seat forecasts very seriously, especially when the Lok Sabha poll is some years away. Voters don't quite know their mind. And the pollsters don't know what the nature of alliance arithmetic would eventually look like. Besides, one should not read too much into a small drop after an extraordinary peak as in 2019. In any case, the poll shows that the BJP's loss is not the gain of its principal national opponent, the Congress. In this respect, *ThePrint*'s editor-in-chief Shekhar Gupta's reading is bang on.

Despite a minor drop, Prime Minister Modi's approval rating continues to be high at 68 per cent. He continues to be way ahead of his competitors (53 per cent prefer him over 13 per cent for Rahul Gandhi) in the PM race. He can afford to shed a few points as the Opposition has no half-credible face to take him on. The supreme leader's rating is more important to assess the strength of an authoritarian regime than any projected vote share for his party.

Split on economy

The poll's indications on India's economy are more significant, though not as robust as I had expected. I wish the poll had asked more pointed questions on the economy.

At 32 per cent, unemployment is the top-most anxiety of people. It has been so since the MOTN survey held in August 2016. If anything, the reality of joblessness finds a mild expression in the mirror of this poll.

Farm crisis may have slipped from the headlines, but continues to feature among top concerns. While Modi did win farmers' votes, he has not been able to wash away the impression that the farmers' condition has deteriorated under his regime. At the same time, food inflation is beginning to hurt the consumer, though this anxiety is yet to peak.

The bad-old UPA is now seen in a fairer light for its handling of the economy. All in all, the population is almost equally divided into three: 29 per cent believers who see no reasons to worry, 28 per cent sceptics who fear that the economy is stagnating or regressing and 32 per cent agnostics who say it is growing, but at a slower pace. It's bad news for the Modi and Amit Shah regime, but not as bad as the reality of the economy warrants. The public opinion has still not crossed the tipping point.

Are majoritarian policies working?

To my mind, the most significant findings of this round of MOTN survey are about the majoritarian policies followed by the Modi government since the Lok Sabha elections.

With Amit Shah as its mascot, the NDA-II has pursued an aggressive agenda of polarisation through Kashmir, Citizenship (Amendment) Act and the proposed nationwide National Register of Citizens (NRC). Although these policies are disastrous for our long-term national interest and India's international standing, I feared that this would bring short-term political dividends to the BJP.

The survey shows the BJP may have overplayed. The move to scrap Article 370 gets popular approval, but not as high as the BJP may have hoped for. Similarly, those who support the CAA outnumbered those who are opposed (41 per cent to 26 per cent) to it. The same is true of the NRC (49 per cent to 26 per cent).

A majority of the people (52 per cent) agree minorities are feeling insecure. More significantly, 53 per cent agree the minorities are justified in feeling so. The most damning news for the regime is that more people feel that CAA-NRC is a ploy to divert peoples' attention than otherwise (43 per cent to 32 per cent). Remember, this survey was completed before the JNU episode that may have eroded the regime's legitimacy even further. Clearly, at least some Modi supporters have begun to think that he is committing excesses. This sentiment brings authoritarian regimes down.

Not the beginning of the end

But this is not the beginning of the decline of Modi. For one thing, the NDA victory in 2019 was much higher than the UPA in 2009. Besides, the anti-CAA-NRC-NPR movement is not the darling of the media that the Anna Hazare movement was. Above all, the character of the Modi regime is radically different from that of the Singh government. Whatever happens, it will never quietly preside over its own decimation as UPA-II.

If the Singh government was characterised by policy paralysis, this one is afflicted by hyper-activism, sans a roadmap. We cannot compare this regime with the previous because it is led by not one but two consummate political players unrestrained by norms, conventions or compunction. Their exit route cannot be like the UPA's tame surrender in 2014.

We are dealing with political animals who would turn a setback into an opportunity and invent crises. Indira Gandhi's shock defeat in 1977 is the closest parallel that we can think of. Perhaps, we need to look beyond India, to our neighbours who have fought against authoritarian regimes, to visualise an exit route for the Modi-Shah regime.

By special arrangement with ThePrint

The author is the national president of Swaraj India. Views are personal

LETTERS

Disservice to people

This refers to "Household savings drop to 6.5% of GDP in FY 19" (February 4). At a time when the rate of household savings has fallen to the lowest in eight years, the government has introduced the option of exemption-free tax structure. It is looking at lowering the interest rates of small savings and reducing tax incentives for them. This is not a wise move at a time when the rate of household savings is falling. India has practically no social security system for the old and the unemployed. It has no real efficient and affordable public health system. Small savings help in the education and marriage of children, besides providing support during old age and sickness.

By weakening the foundation of small savings in a country where people are afraid to keep their money in banks, where interest rates are falling steadily, where the bond market is not developed and equity markets not understood by many, the government is doing a disservice to the people. Income Tax laws and regulations form a part of fiscal and economic systems and should not work at cross purposes with them. Better sense must prevail.

Arun Pasricha New Delhi

An inclusive Budget

Walking a tight rope and well within her limitations, the Union finance minister has attempted to present a Budget that is pragmatic and development-oriented with focus on wealth creation and building infrastructure for socio-economic welfare, given the available fiscal space and geo-political and geo-economic equations. The Budget has attempted to cover all sectors of the economy with massive spending indicated in critical sectors. A sense that we get in the Budget is that a virtuous cycle for growth must assume centre stage. If the fundamentals are firmly laid out and the capacity to bear risks and setbacks are deftly managed to counter looming uncertainties, things will automatically fall in place for growth to happen on the expected lines and in a sustained manner.

Srinivasan Umashankar Nagpur

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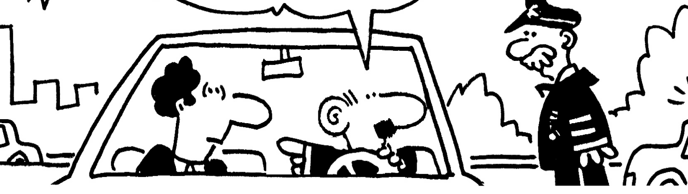
HAMBONE



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Accessing foreign funds

Govt should not ignore fundamental weaknesses

After shelving the idea of issuing foreign currency sovereign bonds to fund the fiscal deficit, the government has now decided to issue specified categories of securities to non-resident investors. The idea behind the proposal mentioned in the 2020-21 Budget is to further open up the sovereign debt market for foreign investors and make sure that Indian government bonds figure in global indices. Inclusion in global indices would result in a stable flow of foreign savings. Some of the large and long-term investors such as pension funds invest on the basis of the composition of such indices.

The government's intention to tap foreign savings is not very difficult to understand. According to the latest data, net household financial savings dropped to an eight-year low of 6.5 per cent of gross domestic product (GDP) in 2018-19. It is likely that household financial savings are at similar levels, which are not sufficient to fund the needs of both the government and the corporate sector. Total public sector borrowing itself is said to be at around 9 per cent of GDP. The decline in savings is putting upward pressure on interest rates, which is being reflected in the bond market. The flow of foreign savings would ease some pressure in the debt market and help encourage real investments. The government is also increasing the limit for foreign investment in the corporate debt market.

However, things will not be this easy and straightforward. There are well-grounded reasons why policymakers in the past resisted opening up the debt market to foreign investors beyond a point. In the given context, it is likely that India will not immediately get included in bond indices and would need to offer a significant stock of bonds to foreign investors before being considered for addition in indices. Inclusion in such indices often depends on availability and liquidity. But large foreign inflows will put upward pressure on the rupee, which could affect India's external competitiveness and increase the current account deficit. To avoid currency appreciation, the Reserve Bank of India will need to actively manage the currency, which could affect its monetary policy objectives. In fact, the Indian central bank had to make large interventions in 2019, which has resulted in surplus liquidity in the system at a time when inflation has gone above the upper end of the target band. Availability of foreign funds could also reduce bond market pressure in the short run and encourage the government to increase spending. This can pose financial stability risks in the medium to long term. The government is already running a fiscal deficit of well over 4 per cent of GDP, once the extra budgetary spending is added, and is mostly being used to fund consumption expenditure.

Thus, while the idea of inclusion in global bond indices and accessing global savings has merits at a theoretical level, policymakers should not ignore the fundamental weaknesses of the Indian economy. Some of the reasons such as the persistently high fiscal deficit and weaknesses in the financial system discouraged policymakers in the past from opening up the capital account. These weaknesses still exist. Therefore, it is important to first strengthen the fundamentals of the economy. Increasing dependence on foreign flows with weak fundamental could raise financial stability risks.

Beyond numbers

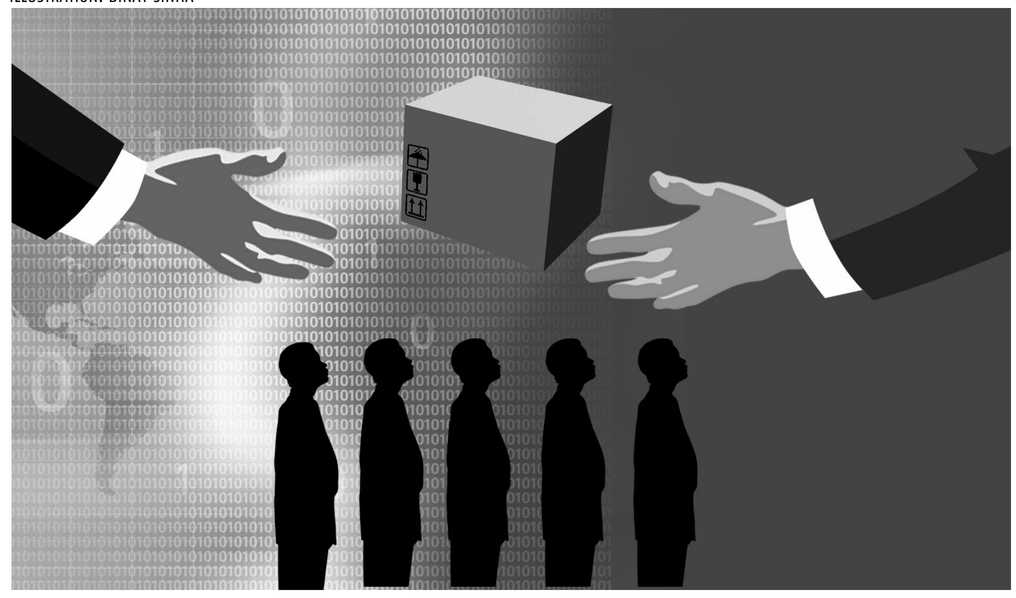
Budget speech should have been fact-checked

Finance Minister Nirmala Sitharaman, in her presentation of the Union Budget for 2020-21, sought to restore trust in the Indian government's numbers. Concern has built up over such matters as the scale of the fiscal deficit, the actual growth performance, and the extent of unemployment. She deserves credit for making elements of extra-budgetary borrowing much clearer, and the government has also set up a committee to examine how its official statistics are produced. This is, in effect, a recognition that the credibility associated with official pronouncements has been undermined, and there is a need to recover it. Such an effort is particularly important at a time when India is increasingly depending upon foreign capital to fill the gap caused by a collapse in private investment and overspending by the government.

While this effort towards credibility is praiseworthy, it is important to note that it has to extend beyond the question of growth and budgetary numbers. Credibility emerges from the entire set of statements that surround such matters as a Union Budget. In the past, every word and fact that went into the Budget speech was known to be true, and could if necessary be footnoted and backed out of official documentation. However, there were elements of the Budget speech that stood out this time as clearly not having gone through such a process. An introductory section that mentioned that 271 million people had been lifted out of poverty in the decade between 2006 and 2016 is worth considering as an example. That number emerges from the United Nations Development Programme's report on multidimensional poverty. It would have been better to have relied on the official Indian numbers for poverty, to give a clear sense of what the state's own perception of its achievements are. The same section also provided various numbers for growth and inflation in various decades that were frankly incoherent. There is little doubt that growth over the past two and a half decades has been robust, on average, and that in recent years, inflation has largely been controlled. These points could have been made without appearing to stretch the data unduly.

Elsewhere in the speech, there were points that simply undermined the seriousness of the occasion and made the government look ideological and amateurish. For example, in a section dealing with trade, the speech mentioned that seals from the Harappan civilisation had been deciphered: "Words from the Indus Script hieroglyphs have been deciphered. Commerce and trade related words show how India for a millennia is continuing as rich in skills, metallurgy, trade etc." One of the examples provided was of the name "Sethi", which in modern India is associated with those who traditionally work in wholesale trade. The Budget speech claimed that this name was also visible on seals from the Harappan civilisation — a claim that is at best not peer-reviewed and at worst ideologically tinged. There is every reason to suppose ancient Indian civilisations were maritime-oriented and trade-intensive — the archaeological record is evidence enough. There is no reason to make claims of this sort that undermine the seriousness of the Budget speech and raise eyebrows all around.

ILLUSTRATION: BINAY SINHA



E-commerce in India: To be or not to be

A thinking man's guide to e-commerce controversies

If you have been befuddled by news headlines which alternately feature the astronomical losses being posted by online shopping sites and the equally astronomical market capitalisations they seem to secure from private equity investors, be comforted that you are not the only one to be so confounded. The mechanisms that drive internet-based businesses, particularly those that deal with consumer e-commerce, are not the same that have driven traditional businesses. Unravelling these new processes will go a long way towards taking a rational public policy stance on the controversies surrounding consumer e-commerce in India.

AJIT BALAKRISHNAN

At the core of any internet model of commerce is "disintermediation"— or eliminating the multiple layers of wholesalers and dealers between a principal (producer or importer) and the buyer. In the case of, say, mobile phone headphones, the manufacturer in Shenzhen, China, sells to an entity in Shenzhen who has trade connections in India, who, in turn, sells these headphones to an entity in Delhi (the importer) who then sells these headphones to someone based in Mumbai (the wholesaler for Maharashtra) who, in turn, sells the headphones to an entity in Pune (Pune distributor) who then sells the headphones to a retailer in Viman Nagar area of Pune, who finally sells it to the consumer. This simplified model comprising the manufacturer, China exporter, India importer, Maharashtra wholesaler, Pune distributor, Pune retailer and Pune consumer shows that between the China manufacturer and the Pune consumer, there are five entities.

When the China-based manufacture and the Pune -based consumer adopt the internet and become proficient in its use, the Pune-based consumer will buy the headphones directly from the Shenzhen manufacturers' website; the five entities who stood between them get "disintermediated"— that is, there is no role for them and they must close down their businesses and fire all their employees.

As you can see, this disintermediation saves on the markups made by the five entities which stand between the manufacturer and the consumer, making the product, in this case headphones, cheaper for the consumer and more profitable for the manufacturer. This is an outcome that rational thinkers will accept as what "efficiency" is all about and consider it undisputedly good for the economy as a whole.

This sounds like music to the ears of consumers. Where does this music queer its pitch? For one, to facilitate the elimination of this chain, several e-commerce companies have sprung up, which enable this disintermediation partly by enticing manufacturers and end-consumers by subsidising the price. This, they hope, will entice consumers to quickly choose to buy from their site instead of buying from the retail shop. These subsidies cost a fortune but private equity and venture firms will provide them the capital to carry on till all the five elements in the chain are eliminated.

Where this music queers its pitch again is that in countries such as India, this four-level chain (India importer, state-level distributor, city-level distributor, city shop) is where economic power has always resided. The folks who own these distribution businesses are the ones who lead chambers of commerce, Rotary Clubs and Lions Clubs and serve on the boards of local co-operative banks and educational institutions. In other words, they are the true grandees of the Indian business establishment.

And looked at from another angle, this four-level chain accounts for 30-40 per cent of the gross domestic product and 55 per cent of the employment in India. The complete destruction of this chain will destroy half of India's employment.

What are the consumer behaviour patterns that are shaping the behaviour of consumer product e-commerce firms worldwide? To start with, how big is online shopping right now after two decades from its starting days in the late 1990s? Authentic data is available only for the United States. According to the US government Census, US retail e-commerce sales in the last quarter of 2019 as a per cent of total retail sales was a mere 10.5 per cent. But this overall number masks many different underlying movements. For example, many traditionally offline department stores (such as Walmart) are increasingly selling online and traditionally native online marketplaces such as Amazon have started private labelling (putting their own brand name on products made by others). Online e-commerce seems to flourish in some product categories — books, fashion, consumer electronics, for example — and has barely made a dent in some others.

Increasingly, online consumers resent being charged for delivery, but at the same time want delivery either the same day or the next day. To achieve this, online companies are investing in vast warehouses and in their struggle for industry dominance are also subsidising delivery charges and product prices.

What drives this subsidising behaviour is a shared belief in the American financial community that "Winners Take All"— that the leading company in any market tends to take most of the profits— and because of this belief tend to give that early leaders mega-sized valuations.

The dilemma that India faces in 2020 is, if you reflect deeply, not much different from what we as a country faced in the late 19th century when the textile spinning and weaving machines arrived threatening the livelihoods of India's handloom spinners and weavers. The use of such machines (broadly called the Industrial Revolution) did put many spinners, weavers and cloth retailers out of jobs but also made cotton cloth affordable for the Indian masses — not just for the *zamindars* and other wealthy folk.

Turning our eyes away from the consumer e-commerce controversies could lead to a trader-led social revolt; hindering the progress of e-commerce could make the Indian economy less competitive. Letting a few companies, particularly foreign ones dominate the market is nationally suicidal. It will take a mega effort to update India's Competition Law, laws dealing with foreign direct investment and taxation laws dealing with venture funding if we have to realise our full national potential from e-commerce.

The writer (ajitb@rediffmail.com) is an internet entrepreneur and as a member of the government committee to update India's Information Technology Act wrote Section 79 which defines and governs the role of Internet players

Coronavirus puts Beijing model to the test

It is still early to assess the short- and medium-term economic impact of the coronavirus crisis. But beyond the day-to-day monitoring of the victims of the epidemic, we can already question its causes and consequences for the global economy. The global financial crisis of 2008 had sounded the death knell of the liberal globalisation model. The Chinese crisis of 2020 could be the death knell for its great competitor: The authoritarian developmental state model. Orphaned by the two great paradigms, the Washington consensus versus the Beijing consensus, the world is now condemned to find a third, more sustainable paradigm between the all-market and all-state, the core of Raghuram Rajan's last book, *The Third Pillar*.

JEAN-JOSEPH BOILLOT

The crisis of the Beijing model, first of all, is reflected in the very causes of the epidemic and its management. While the viral video of the construction of a 1,000-bed hospital may have reinforced the fascination of some for the state model, the precise information on the outbreak of the epidemic since the first case in Wuhan on December 8 confirms the thesis of the great economist Amartya Sen on the link between democracy and famine. The latter are never due to food shortages as such but the control of information by an authoritarian central power. Minxin Pei's analysis of Wechat feeds in an op-ed piece in the *Japan Times* on January 29 shows it has been a case of strict censorship delaying the rational adaptation of behaviour and provoking a self-perpetuating feeling of panic among the population.

The second structural cause is clearly linked to the "Beijing model", a veritable hymn to progress of the type depicted in Aldous Huxley's *Brave New World*: Urbanisation, food, industrialisation, communication, planning, all in excess, with this paradox where efficiency gains linked to economies of scale and a scientific vision of the future boomerang in exponential damages. So TGVs are becoming high-speed propagation trains, and the new silk routes are regaining their status as the royal road for infectious and parasitic diseases, as shown by a team from the University of Cambridge published in 2016 in the *Journal of Archaeological Science*.

What are now the possible consequences of the epidemic? Clearly, we have not yet emerged from the crisis of liberal globalisation, judging by the multiplication of social crises that the International Monetary Fund itself has just acknowledged in its latest World Economic Outlook. How will we get out of the crisis of the authoritarian developmental state model? Beyond a short-term economic impact that should bring the Chinese growth trend below 4 per cent in the coming years, the medium-term consequences could be a good illustration of the ideogram of the word "crisis" in Chinese: Both danger and opportunity.

On the Chinese side, what better symbol than the 200 million surveillance cameras condemned to scrutinise the irises behind the masks of a billion people. All the information from the ground points to a strengthening of censorship and authoritarianism, the expression of a crisis of legitimacy of a regime that has played the prosperity card against freedoms, but also the expression of a deaf protest, of which the crises in Hong Kong and Taiwan are only the visible face on the margins of the empire, like the viral silence on Tibet and Xinjiang.

For a year now, moreover, the Chinese population has been experiencing the crisis of the so-called "African" swine fever, which has led to the slaughter of at least 300 million heads and an explosion in the prices of its basic meat. To this crisis, the authorities responded as usual with more "scientific and technical progress", with huge factory farms of about 10 floors, while family farmers were chased by the police. This type of response, however, only served to increase the mistrust of a population that aspires more and more to a healthy life as it ages and to a return to nature, as evidenced by the very visible revival of Taoism or Buddhism. These have inspired the great popular revolts in Chinese history, such as the Yellow Turban revolt around 180 AD, which contributed to the fall of the Tang Dynasty.

There is another dimension to this crisis on a global level: Deglobalisation and economic relocation, that is to say, the re-embedding of the economic into the social and territorial fabric. This should indeed experience a new impetus with a likely halt to the "Go Global" strategy declared by Xi Jinping when he came to power in 2013. Mistrust of its new Silk Roads represents the possibility for India and Africa to reemerge from the neo-colonial "made in China", which was nipping in the bud any prospect of local industrialisation. For the developed countries, this represents a possible acceleration of relocation and the end of a destructive consumerism based on dumping prices far below the real social and environmental cost.

The writer is an economist at the French Institute of International Relations

Looking into Kashmir

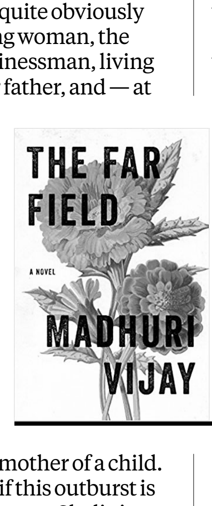
BOOK REVIEW

UTTARAN DAS GUPTA

On August 7 last year, the President of India abrogated all sections of Article 370 of the Indian Constitution, except one, after both Houses of Parliament passed his government's resolution to dissolve the special status of the erstwhile state of Jammu and Kashmir, dividing it into two Union Territories. In the run-up to the changes, the government detained democratically elected leaders of the state, increased security personnel manifold, and blacked out internet and telephone services in a brutal clampdown that has lasted, in some form or the other, till now. The book under review, which won the prestigious JCB Prize for Literature last year, was written before these developments but manages very successfully to echo all of it.

Kashmiris, of course, have lived with conflict and suppression for decades, since an armed struggled for its independence started in the late 1980s. The repression unleashed by the Indian state and displacement of people have found voice in the poetry of Aga Shahid Ali, the novels of Mirza Waheed and Malik Sajad, and the journalism of Basharat Peer and Rahul Pandita, and films such as *Roja*, *Haider*, and others. But most of these works are by Kashmiris, revealing the conditions in which they and their compatriots are compelled to live. Ms Vijay's novel — her debut — is a rare and sympathetic look into Kashmir from the Indian perspective.

The narrator of the novel is Shalini, "young, wealthy, and quite obviously adrift", a 20-something woman, the daughter of a rich businessman, living in Bengaluru with her father, and — at the beginning of the narrative — reeling from grief at having lost her mother. The character Ms Vijay creates is layered. Shalini is entitled at having never faced scarcity. Early in the novel, she gets a job at a government-run school for children with cerebral palsy, which she loses after a showdown with the mother of a child. One is left wondering if this outburst is not a product of privilege — Shalini can indulge herself because she doesn't really need the job. Soon after, her father gets her another job with a non-government organisation (NGO).



THE FAR FIELD
Author: Madhuri Vijay
Publisher: Fourth Estate
Price: ₹599
Pages: 432

Ms Vijay makes excellent use of her plot material. The NGO in which Shalini works in Bengaluru — and from which she is fired for being disinterested in her work — is set up as a contrast to another one in Kashmir: "Ritu (the NGO's founder) was tough and smart and had an MBA from Yale, where, she liked to keep reminding us lest we think her soft and privileged, she had been mugged four times, once at gunpoint. She drank oolong tea from a stained mug and was married to a World Bank man." The perfect picture of mainland privilege, indulging in social work because they have nothing better to do.

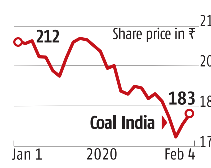
In contrast, Zarina's NGO at Kishtwar in Jammu feels like "an antiquated library minus its books, or some sleepy backwater government office". As Shalini gets down to sorting out the mess of the organisation's bills and invoices, she cannot help being reminded of Ritu "... and I was seized all at once by vertigo, by a sense of how far I'd come from everything I'd known." Zarina and Zoya, Shalini's hosts in Kishtwar, are obviously modelled on Parveena Ahanger, the founder of the Association of Parents of Disappeared Persons in Kashmir. Ms Ahanger has worked relentlessly since the mid-1990s when her son was made to allegedly disappear — like Zoya's son — by the Indian army, among the many thousands.

Ms Vijay creates a formidable novel, but her prose style appears to slip up occasionally. For instance, very early in the book, she writes: "I volunteered as an assistant teacher — a title vastly out of proportion with my actual role." The parenthesis hardly makes sense. Similarly, a little later, while describing Kishtwar, Shalini says: "I could not escape noticing, either, the number of Indian soldiers and policemen in town." There seems to be a desire in the author to explain everything. Surely everyone who knows anything about Kashmir knows about the high presence of security personnel in the area.

Or maybe they don't. Shalini is not only a product of privilege, but also of the specific post-Liberalisation kind, which includes holidays to resorts and Europe, and an entitlement to outrage. Outrage and anger seem to be the two most common emotions Shalini feels. On seeing the large cupboard of files about disappeared people in Zarina's office, she can't believe her eyes, and her outrage seems to drive her to work harder. The novel progresses to an epic ending — but it is not the job of a reviewer to provide spoilers. I can only hope that those Indians still ignorant of the plight of Kashmiris will be as outraged as Shalini when they read Ms Vijay's book.

Business Standard
The Smart Investor
MUMBAI | WEDNESDAY, 5 FEBRUARY 2020

QUICK TAKE: COAL INDIA FINDS FAVOUR



The CIL stock has risen 5 per cent this week. Analysts see a 50 per cent upside from here. They say the worst in terms of volumes is behind and the stock should get more attractive in terms of dividend yield after removal of dividend tax. In FY19, it had dividend yield of 5.6%

"With China's central bank signalling liquidity injection, markets' inclination will again be to buy the dip. But the coronavirus is China economic sudden stop with cascading contagion for EM and Europe in particular.."

MOHAMED A. EL-ERIAN,
Chief Economic Adviser, Allianz

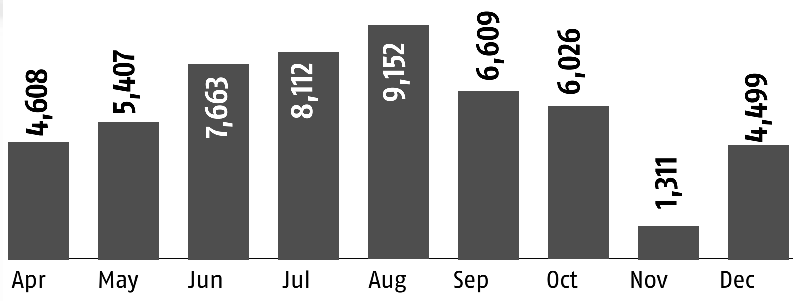
WWW.SMARTINVESTOR.IN FOR INFORMED DECISION MAKING

10% TDS only on dividend payment by mutual funds

CBDT clarification removed uncertainty over treatment of capital gains

JASH KRIPLANI
Mumbai, 4 February

ON THIN ICE
Investor sentiment has weakened in recent months
Equity flows (₹ crore)



Source: Amfi

Mutual fund (MF) players that were expecting investor outflows over uncertainty on tax deducted at source (TDS) on capital gains were relieved after the Central Board of Direct Taxes (CBDT) on Tuesday clarified that the proposal would only be limited to dividend payouts.

The statement from the CBDT read: "A mutual fund shall be required to deduct TDS at 10 per cent only on dividend payment and no tax shall be required to be deducted on income which is in the nature of capital gains".

The proposed Section 194K of the I-T Act stated: "Any person responsible for paying to a resident any income in respect of units of a mutual fund ... shall at the time of credit of such income to account of payee ... deduct income tax at the rate of 10 per cent."

The MF industry had sought clarification from the government on whether the proposal would apply to investor redemptions, as uncertainty could have led to investors exiting before April 1, when the proposal came into effect.

Industry players said lack of clarity on how officials would categorise income from MF units was the primary reason for the uncertainty. Further, experts said calculating capital gains would have been operationally challenging.

Experts say the correct interpretation was likely to be that TDS applies only to dividends. "This is not the first time that a Section with this language has appeared in the Budget document. Back in 1995, when such a Section was introduced, TDS was kept limited to dividend income and not capital gains or redemption," said Ashok Shah, founding partner of NA Shah Associates LLP.

Following this, the government issued a set of clarifications stating that Section 194K only pertained to dividend and not repurchase or redemption of units. The latest Budget memorandum also stated that dividend over ₹5,000 would be subject to 10 per cent TDS.

"It is difficult to calculate principle or original investment in the case of mutual funds, especially if investments have been made through systematic investment plans," said a senior executive of a fund house.

Amol Joshi, founder of Plan Rupee Investment Services, said: "While we have advised investors not to act hastly as the issue should get clarified soon, direct plan investors could have acted in a knee-jerk manner if uncertainty had continued." Sentiment has been weak and there were fears additional tax liabilities could take further a toll on flows.

Sebi unveils new FPI registration application

PRESS TRUST OF INDIA
New Delhi, 4 February

Capital markets regulator Securities and Exchange Board of India (Sebi) on Tuesday come out with a common application form for registration of foreign portfolio investors, in order to enhance operational flexibility and ease of access to Indian capital markets.

Depository participants have been asked to continue to accept in-transit FPI registration applications for a period of 60 days, Sebi said in a circular.

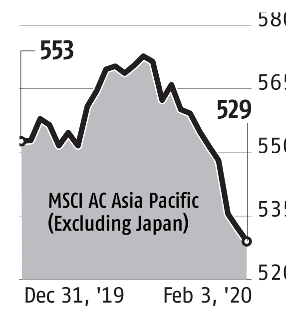
The regulator has come out with a Common Application Form (CAF) for registration of FPIs, allotment of Permanent Account Number (PAN) and carrying out of Know Your Customer (KYC) for opening of bank and demat accounts.

The applicants seeking FPI registration need to fill the common form prescribed by the regulator, declaration providing supporting documents and applicable fees for registration and issuance of PAN.

Asian stocks rise amid revival in Chinese indices

WAYNE COLE & TOMO UETAKE
Sydney/Tokyo, 4 February

STEEP SLIDE



Source: Bloomberg

Asian stocks bounced back on Tuesday, with Chinese markets reversing some of their previous plunge amid official efforts to calm virus fears, although investor sentiment remained fragile with oil near its 13-month lows.

MSCI's broadest index of Asia-Pacific shares outside Japan rose 1.5 per cent, led by gains in South Korea and Australia. Japan's Nikkei edged 0.6 per cent higher.

Chinese indices steadied in choppy trade, after anxiety over the spreading coronavirus erased some $400 billion in market value from Shanghai's benchmark index on Monday once markets resumed from the Lunar New Year holiday.

The Shanghai Composite gained 1.2 per cent, while the blue-chip CSI300 rebounded 2.5 per cent, one day after a nearly 8 per cent slide on Monday. Hong Kong's Hang Seng advanced 1 per cent.

Despite the relative market calm on Tuesday, the outbreak continued to generate concerning headlines with Hong Kong reporting its first coronavirus death — the second fatality outside mainland China with the total death toll now at 427.

"Chinese authorities have been providing a lot of support to the financial markets. There's a level of assurance that the rout would not be allowed to go on much further than necessary," said Christy Tan, head (markets strategy for Asia), National Australia Bank, Singapore.

REUTERS

DDT removal step in right direction: Tyagi

SUNDAR SETHURAMAN
Mumbai, 4 February

STRIKING A CHORD

Country	Effective rate of withholding tax (WHT) on dividends paid
US	30%
UK	No withholding tax on dividends
Germany	26.375%
Netherlands	15%
Singapore	No withholding tax on dividends

Note: Rates subject to applicable lower tax treaty rates under the respective tax treaty
Source: KPMG

The Securities and Exchange Board of India (Sebi) has welcomed the move by the government to shift the dividend taxation liability from companies to investors.

"Removal of dividend distribution tax (DDT) was something the market has been asking for. DDT was not logical. It was perhaps introduced to facilitate imposing tax at the unit stage. Ideally, it should be paid by the recipient as per their tax slab," said Ajay Tyagi, chairman of Sebi, on the sidelines of an event organised by the National Stock Exchange (NSE) to launch the request for quote (RFQ) platform for debt securities.

The Budget announcement got a mixed response from the market. While removal of DDT will result in tax savings of 20 per cent for companies, promoters and other wealthy shareholders may be taxed as high as 43 per cent on the dividends they receive.

Analysts believe firm will now resort to buybacks instead of paying dividends.

Globally, dividends are taxed differently across geographies. While the US and Germany impose withholding tax on dividends, other markets like UK and Singapore don't.

Meanwhile, Tyagi said Sebi has asked Franklin Templeton Mutual Fund to explain its decision to assign zero value to Vodafone Idea debentures even before any action was initiated by rating agencies.

"If the asset isn't below investment grade, there is no stipulation as such. We have asked the fund house for an explanation," he said when asked about the issue.

The action differed from peers UTI MF, Nippon MF, and Birla MF, which went for write-downs as per the valuation metrics provided by rating agencies. Tyagi wasn't specific when asked if Sebi asked other fund houses for an explanation.

On the proposed share sale of LIC, Tyagi said the insurer will have to follow the same process as any other firm. He refused to comment further saying "no formulation has come to us yet".

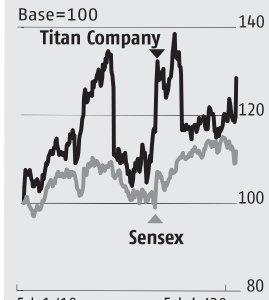
Tyagi also said Sebi is reviewing the classification framework meant for mid-cap and small-cap mutual funds.

On the launch of NSE's new platform, he said, "The RFQ platform would definitely help in pre-trade transparency, bringing in core confidence among participants by providing exit route in the secondary market and bond market in a transparent manner."

THE COMPASS

Titan's jewellery business braves slowdown storm

Better jewellery product mix led to sales rise, gold price trend will be key hereon



Compiled by BS Research Bureau

SHREEPAD S AUTE

Recovery in growth of Titan's jewellery business in the December quarter (Q3), despite the weak consumption scenario, was the key takeaway in the December quarter results.

Therefore, despite a tad lower-than-expected Q3 numbers, the Titan stock surged 7.6 per cent to ₹1,275.5 apiece on Tuesday. The bullish trend in the market (Sensex was up 2.3 per cent), too, supported the stock.

On a stand-alone basis, while Titan clocked an 8.4 per cent year-on-year (YoY) rise in net sales to ₹6,106 crore, its profit before tax (PBT) grew 6.3 per cent YoY to ₹637 crore.

Analysts were anticipating these two figures at ₹6,251 crore and ₹685.7 crore, respectively.

Following a 1.5 per cent YoY fall in the September quarter, Titan's jewellery business (80-85 per cent of overall sales and operating profit), grew 10.6 per cent YoY in Q3.

A good product mix, with higher share of studded jewellery, led to the sales uptick for the jewellery business. Like-to-like sales of Titan's Tanishq store moved up to 9 per cent in Q3, from 2 per cent in Q2. The watches and eyewear segment performed relatively poor in Q3, with a 2.4 per cent YoY decline and about 3 per cent YoY growth in sales, respectively.

Despite good demand for high margin studded products, Titan's Ebitda (earnings before interest, tax, depreciation and amortisation) margin saw limited improvement of 73 basis points YoY, to 11 per cent. This was on account of higher store commission and high gold prices. Unlike the year-ago quarter, Q3 witnessed good contribution of L2 stores (company-owned inventory but operated by franchisee), which typically attract higher commission outgo.

However, in the March quarter, the overall operating performance mainly of jewellery business is expected to improve. According to Priyank Chheda, analyst at Reliance Securities: "Given the higher number of wedding days in the March quarter, demand for high-margin studded jewellery is expected to be better. This should propel the overall operating performance of Titan." Store expansion and profit contribution by CaratLane would be the other trigger for Titan.

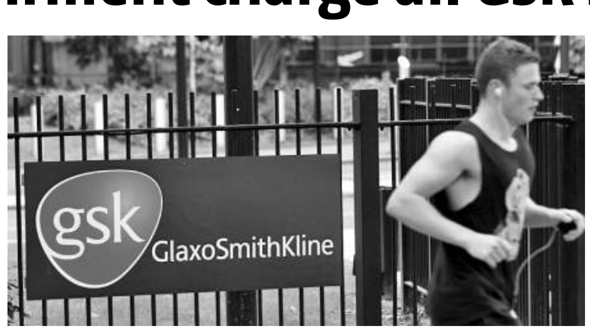
While the management has maintained its jewellery growth target at 11-13 per cent for the October 2019-March 2020 period, higher prices impacted customer footfall initially in January.

Thus, the gold price trend is crucial for the stock, which is trading at a valuation of 55x its FY21 estimated earnings, which is 28 per cent higher than historical long-term average.

Weak financials, impairment charge ail GSK Pharma

Trading at 41x its FY21 earnings, most analysts have 'sell' rating

RAM PRASAD SAHU



An impairment charge and weak financial performance led to an over 12 per cent fall in the GSK Pharmaceuticals stock on Tuesday.

In addition, the company — as part of its strategic review — is looking at options including sale of its Vemgal facility in Karnataka.

The financial impairment was on account of a global voluntary recall of ranitidine (antacid) products, which include its top brand Zinetac in India.

The move was prompted by the detection of a carcinogen in the drug, with the firm indicating it would continue its probe into the potential source of the carcinogen.

It reported a ₹660-crore loss in the quarter because of a one-time financial impact of ₹750 crore. This pertained to a ₹640-crore financial impairment on account of under-utilisation of manufacturing facilities, ₹97 crore of impairment of other assets and costs, and ₹17 crore on account of litigation.

The decision to sell the Vemgal facility, built at a cost of ₹1,000 crore, came as a surprise. Capex on the facility, with the capacity to manufacture 8 billion tablets and 1 billion capsules, had been weighing on its cash flows over the last few years. With production from the plant expected to begin in the March quarter, return ratios were expected to improve.

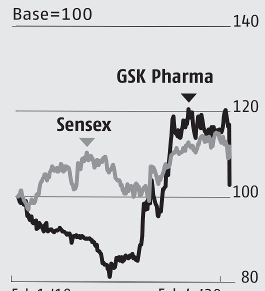
However, the recall of Zinetac, which would have accounted for 60 per cent of production, led to the sale decision. If this goes through, it will be the second major sale in the last one year after the sale of a land parcel in Thane for ₹550 crore.

The recall of Zinetac and portfolio optimisation led to a 6 per cent fall in reported revenues. However, even after adjustments for one-offs, sales growth in the quarter stood at just 6 per cent.

Barring top brands, most other portfolio products are underperforming, leading to muted sales performance.

Its operating profit margin, which was up marginally to 16 per cent, was affected by a steep 620-basis-point jump in employee costs. Higher staff costs wiped off all gains on account of a better product mix and other expenditure.

Despite the sharp fall in the share price, it is trading at 41x its FY21 earnings estimates. Over 80 per cent of analysts covering have a "sell" rating on the stock. Given the uncertainty on Vemgal as well as inconsistency in growth, investors may avoid the stock for the time being.



Compiled by BS Research Bureau

Coronavirus adds to Vedanta's woes

Outbreak has led to a fall in base metal prices; production ramp-up in oil & gas and zinc biz crucial, say analysts

UJJVAL JAUHARI
New Delhi, 4 February

The Vedanta stock has declined close to 16 per cent since its mid-January highs. While volatility and pressure on commodity prices have hurt investor sentiment, the coronavirus outbreak has aggravated concerns. The impact on demand for base metals from China may put further pressure on realisations, impacting players such as Vedanta.

The price of Brent crude oil, too, has corrected from about $70 a barrel to nearly $55 a barrel now. This, again, is not good news for the oil & gas segment of Vedanta, as it contributed slightly less than a fifth to the firm's overall revenues during the December quarter (Q3).

It also contributed almost half the segmental profits, given the larger zinc, aluminium, and copper segments reported a decline in profit contributions. Given these developments, the Street is cautious on the base metals and oil major.

Analysts at Emkay Global said they remain cautious on the near-term demand situation in China because of the epidemic, which could lead to further correction in commodity prices.

The pressure is evident as the per-tonne aluminium price on the London Metal Exchange (LME) has slipped to the $1,690-level (lowest in a year) over a fortnight, from $1,800. Aluminium contributed about a third to the overall revenues of Vedanta in the December quarter. The segment, though, benefitted from the firm's efforts to cut the cost of production. More bauxite production, helped by lower coal prices, meant the per-tonne cost of production declined to $1,695 (down 9 per cent sequentially and 17.4 per cent year-on-year).

Though the company plans to reduce costs further to $1,500, analysts remain watchful on coal linkages as supplies may get impacted because of seasonal issues.

Meanwhile, the segment just contributed 7.8 per cent to the overall Ebit (earnings before interest and tax) during Q3 with declining aluminium realisations that averaged at $1,752 a tonne on the LME. Given the demand environment, the Street's concerns about a further fall in realisations remain valid.

The zinc India business, represented by listed firm Hindustan Zinc, remained the second largest contributor — at about 22 per cent of the overall revenue in Q3. The segment, however, also saw its profits decline 29 per cent year-on-year because of less production of the mined metal, as well as realisations. The zinc price on the LME during the quarter at $2,388 a tonne was down 9 per cent year-on-year.

Its international zinc business also witnessed lower production at its Scorpio mines, while lower realisations remain a damper. The ramp-up at its Gamesberg mines is delayed, and the cost of production remains elevated at around $1,600 a tonne. Analysts, who remain watchful of ramp-up at Zinc International, say that it can provide impetus to growth.

Meanwhile, the management is confident of achieving its guided production ramp-up in the oil & gas and zinc businesses. The company is targeting the oil & gas business to exit FY20 with a production run-rate of 225,000 boepd (barrels of oil equivalent per day) compared to the exit rate of 189,000 boepd for FY19.

Analysts at Motilal Oswal Financial Services say that the next leg of growth is now dependent on the success of production ramp-up as guided for the oil & gas and zinc businesses. They, too, remain cautious about maintaining a 'neutral' rating on the stock and add that the recent sharp correction in commodity prices because of demand worries on account of the coronavirus outbreak does not bode well for the near-term earnings outlook.

This cautious stance is not surprising, as the higher output may not be enough to fully compensate for the fall in prices.

BASE METAL PRICES TAKE A HIT

LME spot price in $ per tonne

	Feb 3, 2020	% Change 1 year
Tin	16,350	-21.5
Zinc	2,200	-19.5
Lead	1,879	-10.2
Aluminium	1,695	-9.5
Copper	5,595	-8.2
Nickel	12,750	2.3

Brent crude spot ($ / BBL)
Feb 3, 2020
53.2
% Chg 1 year
-13.6

Source: LME, Bloomberg Compiled by *BS* Research Bureau

Higher share of FDs can affect wealth creation

Though FD insurance cover has risen 5-fold, younger investors should use those to park short-term funds

ATTRACTIVE FD RATES

Interest rates (%)

Bank	6 months - < 1 year	1- <2 years	2- < 3 years
Lakshmi Vilas	7.00-7.35	7.50-7.80	7.50-7.60
YES	6.85-7.15	7.25-7.40	7.25-7.50
DCB	6.85	7.00-7.60	7.40
IDFC First	6.75-7.00	7.25-7.50	7.25

RBL offers 7.45% in 2-<3 year period Source: Bankbazaar.com

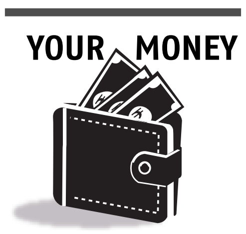
SARBAJEET K SEN

The long-awaited hike in insurance cover for bank fixed deposits (FDs) was finally announced by the finance minister in the Union Budget. From ₹1 lakh earlier, it has now gone up to ₹5 lakh per depositor.

This hike alone should not, however, motivate investors to put more money in FDs, as poor post-tax returns, especially for those in the higher tax brackets, could affect their ability to build wealth over the long term.

The move comes in the aftermath of the Punjab and Maharashtra Co-operative Bank fraud that left over a million depositors in the lurch.

Banks pay an insurance premium to the Deposit Insurance and Credit Guarantee Corporation (DICGC) to provide this cover. In return, in case of a bank failure, the DICGC will, henceforth, pay each depositor up to ₹5 lakh. However, bear in mind that the DICGC makes a payout only in case of bank failure and not in case of a moratorium or other restrictions imposed by the Reserve Bank of India.



Though the insurance hike reduces the risk on bank FDs even further, should it prompt you to bet more money on them? The idea behind investing in a bank FD is to pocket stable returns without taking too much risk. "The risk in bank deposits has always been on the lower side, and the current measure will further enhance the confidence of small and mid-level investors," says Anil Rego, founder and chief executive officer (CEO), Right Horizons. For senior citizens, interest income up to ₹50,000 is tax-free in a year, which makes this product more attractive for this segment.

FDs key disadvantage, however, is that interest rates, especially those offered by quality banks, are quite low. Abundant liquidity and low credit offtake could lead to banks reducing their FD rates further.

For those in the higher tax brackets, post-tax income from FDs becomes quite low. Interest income is added to the investor's income and taxed at the marginal tax rate. "For anyone in the 30 per cent tax slab, for instance, a 7 per cent FD actually offers just 4.9 per cent post tax. Hence, more money you lock in FDs, slower your overall portfolio will grow. You will struggle to beat inflation and meet your financial goals over the long term. It could mean not being able to save for retirement and having to continue working even in the 60s," says Adhil Shetty, co-founder and CEO, BankBazaar.

What then is the most optimal way to invest in FDs? "Pensioners should use FDs to generate assured income. Everyone else should use FDs primarily to keep their emergency funds and other money that may be required at short notice. Older investors may have a higher allocation to fixed-income instruments, including FDs, for the stability they provide. Younger ones should have a larger exposure to market-linked investments so that their money grows at a faster clip," says Shetty.

According to Rego, those in the higher tax brackets, who pay a surcharge on their income tax, should explore more tax efficient options like debt mutual funds, including the likes of banking and PSU funds (which have a lower chance of default).

Finally, the instruments you choose should fit into your asset allocation: 100 minus your age should be your equity allocation, and the balance should go into debt products. FDs should form a part of your debt allocation. Your choice of investments should also be aligned to your goals and time horizon. For instance, if you have to pay your daughter's college fee one year from now, you should keep that money in low-risk bond funds and bank FDs.

'India appears better market amid coronavirus scare'

Attracting foreign capital, investment-led growth, and aggressive disinvestments are the key themes emerging out of the Budget, says **SAION MUKHERJEE**, India equity strategist, Nomura. In an interview with **Samie Modak**, Mukherjee says the Indian markets are once again looking relatively attractive as against some of the Asian peers hit by coronavirus. Edited excerpts:

Q&A

What are the key takeaways from the Budget?

The broader theme is that the government is selling its assets to run its house. There is a significant step up in disinvestment. If your revenue collections are less, there are limited resources for development expenditure. So you have to resort to non-tax revenues. The government is sitting on a lot of valuable assets, which can be monetised. Setting a disinvestment target of ₹2.1 trillion is a big move, but execution will be the key. This government has the political mandate to push ahead with it. Another takeaway is that the government is focused on investment-led growth and is making efforts to attract foreign capital. Domestic savings have weakened as the economy has slowed down. So you need foreign capital to support growth.

The market's first reaction to the Budget was negative? Have you changed your stance on the Indian markets?

We haven't revised our price targets. There were a lot of expectations from the Budget. That's why we saw the selloff (on Saturday). Also, the scare around coronavirus played its part. Once again the markets have rebounded and shares of several companies are doing well. We are back to basics. The focus will again be on growth and earnings. Hopefully, the global environment will continue to be supportive.

What are the investment themes that have emerged from the Budget?

As such, there is no new theme. The only thing was insurance, which we corrected by removing it from our model portfolio. Today, you can invest in insurance and get a tax benefit. But the direction in which we are going, the benefit may not be there. So it is negative from the flow perspective. The other aspect is DDT (dividend distribution tax); after it goes away, the effective tax rate moves up for insurance companies. We believe the insurance story has long-term potential, but it will go through a phase of consolidation. Currently, we are focusing on an investment-led growth -- whether it is construction or cement or select financials.

How will the removal of DDT impact corporate financials?

Now the question is, whether companies increase the dividend or retain the tax saved. If a company needs capital, it will have the lever to keep that extra capital. Companies which don't need the capital can increase payouts. From a promoter point of view, a better option could be buyback. So I would expect a lot of companies to announce buybacks. From a foreign investor point of view, you have made the assets relatively attractive from the tax purpose.

How do you see earnings growth shaping up?

There are still some tailwinds. Every year, we are cutting earnings by 15 per cent. Even this fiscal year, if you adjust for the corporate tax cut, they are 15 per cent below consensus estimates. The earnings cut had been more intensive towards the second half of the last calendar year amid a slowdown in the economy. Now you have things like improvement in rates at telecoms; major NPA issues, too, are behind us. All of these are helping. We now have to see how things pan out globally. There could a potential impact on sectors like metals if commodity prices come off. At this point, we think there will be a 5 per cent cut in consensus earnings estimates, both for FY21 and FY22.

Nomura recently downgraded India from 'overweight' to 'neutral'. Are other regional peers looking attractive?

We went overweight on India in October as the government stepped up reforms. At that the time, we had a positive view on India versus other Asian markets, which were affected by the (US-China) trade tensions. However, with the trade tensions receding and valuations looking cheaper, our strategist took a call of going overweight on some other markets. Now, this issue of coronavirus has emerged, which again makes India relatively better than some other markets exposed to stuff like tourism. In the near term, India has the potential to look safer.

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PRICE CARD

As on Feb 4	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,694.5	-5.2	2,020.5	6.7
Copper	5,595.0	-4.3	6,300.0	3.0
Zinc	2,200.0	-14.9	2,483.5	-9.4
Gold ($/ounce)	1,568.4*	3.9	1,765.0	3.9
Silver ($/ounce)	17.7*	-1.9	20.1	-2.2
ENERGY				
Crude Oil ($/bbl)	53.9*	-13.6	58.0	-5.6
Natural Gas ($/mmBtu)	1.8*	-35.1	1.8	-35.0
AGRI COMMODITIES ($/tonne)				
Wheat	194.6	8.9	291.1	-4.1
Maize	186.4*	8.1	268.6	-4.5
Sugar	418.1*	21.5	490.0	-0.7
Palm oil	687.5	17.5	1,129.5	18.4
Cotton	1,496.1	6.6	1,587.2	-2.0

* As on Feb 04, 20 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.3 & 1 Ounce = 31.1032316 grams.

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

Source: Bloomberg Compiled by BS Research Bureau

Stringent 'rules of origin': Copper, paper imports fall

Govt seeks to check dumping of such products from non-producing nations

DILIP KUMAR JHA
Mumbai, 4 February

India's imports of copper, RBD (refined, bleached and deodorised) palmolein, paper, and paperboard are likely to decline in coming quarters due to stringent norms being put in place on "rules of origin" to check the dumping of these commodities under Free Trade Agreements (FTAs) from non-producing countries.

Faced with a sharp increase in imports of copper, RBD palmolein, paper, and paperboards either at "nil" or "preferential", lower customs duties, thereby hurting local producers, Indian manufacturers have repeatedly urged the government to curb imports of these commodities from non-producing countries at lower duty.

Like developed nations, India too encourages trade with countries including Nepal, Bangladesh, and Sri Lanka in Asia at either "nil" or "lower than normal" customs duties. But in the Union Budget 2020, Finance Minister Nirmala Sitharaman emphasised the need to strengthen "rules of origin" under FTAs to curb import with malicious intent from non-producing (trading) countries.

"It has been observed that imports under FTAs are on the rise. Undue claims of FTA benefits have posed threat to domestic industry. Such imports require stringent checks. In this context, suitable provisions are being incorporated in the Customs Act. In the coming months we shall review 'Rules of Origin' requirements, particularly for certain sensitive items, so as ensure that FTAs are aligned to the conscious direction of our policy," the minister said in her speech. India imported around 190,000 tonnes of RBD palmolein in recent months from Nepal.

Since there is no palm kernel-processing facility in Nepal, the imported RBD palmolein is feared to have originated in Malaysia. While direct imports of palmolein attract 44.5 per cent, import through Nepal could be possible at "nil" duty under the South Asian Free Trade Area (SAFTA).

"Exports of RBD palmolein from Nepal to India flout rules of origin and value addition with impunity and therefore should not be allowed under any circumstances. Such imports will hit revenue collections of the government, in addition to affecting the domestic oilseeds processing industry and farmers," said B V Mehta, executive director, Solvent Extractors' Association (SEA).

Under the FTA, 35 per cent value addition to the free on board (FOB) value of goods in the exporting country is a must. Today, exporters add shipping and other miscellaneous costs including handling, loading and unloading, etc. to achieve the mandatory norms of 35 per cent.

"In the case of copper, a value addition of 35 per cent is impossible. There used to be huge imports of refined copper bars from Sri Lanka and Vietnam until recently, but they were curbed after the government removed copper bars from the commodities list under FTAs. Similarly, imports of copper from other FTA countries can be restricted for the benefit of local producers," said Rohit Shah, managing director, Perfect Valves, a city-based refined copper importer.

The import of paper and paperboards from non-producing countries is a matter of great concern for Indian manufacturers.

Source: Nepal custom service

DARK HORSE

Import of refined oil from Nepal (tonnes)

2019	Soya oil	Palm
Apr	4,193	12,628
May	2,730	16,265
Jun	2,547	15,587
Jul	3,598	17,293
Aug	3,776	18,413
Sept	4,476	20,958
Oct	4,334	25,316
Nov	8,290	29,731

Exchanges to monitor commodity derivatives contracts performance

DILIP KUMAR JHA
Mumbai, 4 February

The Securities and Exchange Board of India (Sebi) has directed commodity exchanges to conduct a yearly performance review of all commodity derivatives contracts and send a report by June 30 every year. This has to also be disclosed to the public, said the circular, issued on Tuesday.

The order takes effect from April 1 and covers the current financial year. Each such exchange is to furnish a balance sheet (B/S) of all commodities, including volumes, open interest, etc, with trading details, besides naming 10 major producing and consuming countries.

Each such bourse to furnish the B/S of all commodities, including volumes, open interest, etc, with trading details, besides naming 10 major producing and consuming countries

Apart from a global B/S, the markets regulator has asked exchanges for details of each commodity from a domestic perspective — output and consumption, life-cycle details and the varieties/grades found in India, besides major changes in policy governing trade in the spot market of the commodity.

In addition, detail of geopolitical issues in the commodity and its impact on the Indian scenario.

Publishing global and domestic data of all commodities is expected to help hedgers and other participants to understand the market sentiment and take positions accordingly. This would also help participants to avoid a default in high volatility.

"The rational of having the derivatives market in agricultural commodities is hedging and, hence, understanding this market is very important. The details of commodities and participants will give more comfort to traders. This will boost their confidence and strengthen the entire commodity eco-system," said Kapil Dev, agri-business head at the National Commodity & Derivatives Exchange, the country's largest in futures trading for this segment.

In addition, for each exchange to give details of participant types — farmers, hedgers, farmer producer organisations and so on.

Sebi has said: "It is imperative to have a framework to evaluate the performance of these contracts based not merely on statistics regarding delivery and trade volumes but also on the strength of a comprehensive empirical assessment, after considering all relevant information pertaining to the performance of a derivative contract during the relevant period of time." The bourses have been asked to discuss with their product advisory committees and then disclose prominently on their websites.

"Commodity exchanges will have to share their data with Sebi. This was very much required and would bring in more transparency," said Narinder Wadhwa, president, Commodity Participants Association of India.

"The whole idea is to align the spot market with the futures market," said Naveen Mathur, director (commodities and currencies) at Anand Rathi Shares and Stockbrokers.

Globally on exchanges, says Dev, open interest ranges from 20-30 per cent of production.

Brands track the men on the FM trail

The growing band of male radio listeners is drawing in auto, insurance brands; changing the nature of the medium and traditional advertising patterns

VANITA KOHLI-KHANDEKAR
New Delhi, 4 February

What does the fact that more men are listening to radio mean? Or that more people are listening to it in the car? It means a drop in FMCG (fast moving consumer goods) advertising and a rise in advertising by brands that target male consumers, such as cars, banking and financial services. "The audience is becoming more male and 35 plus years. Women have given way to men, that is a big change in the last 5-7 years," says Prashant Panday, managing director and CEO of the ₹635 crore Entertainment Network India. It operates Radio Mirchi the largest operator in the ₹3,100 crore Indian radio industry.

According to the Indian Readership Survey or IRS data for the third quarter of 2019, radio listenership grew, somewhat slowly to 105 million, from 104 million in 2017. The largest chunk of listenership comes from mobile phones, followed by people listening at home on a music system or transistor. But it is the third, car listenership, which has grown from about 22 million in 2017 to 34 million in the last study that is causing the shift, say radio operators.

It has meant "No big FMCG brand is on radio. The biggest (by advertising volumes) is DP Group (Baba Elaichi), Shuddh Plus, Pan Parag and others. Now look at the big daddies on TV. There is Ghadi detergent, HUL etc. Radio has been reduced from 700,000-800,000 lakh seconds (advertising from FMCGs) to nothing. Because advertisers are seeing it more as a male product," says Panday. On the other hand all the big auto firms from Hyundai, Maruti, Honda, Tata, M&M, Hero Motorcycles are on radio. So are LIC and Karur Vysya Bank among others.

In FY2019 male-oriented advertising categories accounted for 54 per cent of ad volumes across radio stations against 47.6 per cent in FY2014. In the same period female-oriented categories fell to 30.6 per cent from 34.6 per cent according to AirCheck, a radio spot monitoring agency. "The composition of advertisers has changed because now they are looking at radio for interaction. The usage is more tactical than brand building," thinks Nisha Narayanan, COO and director, Red FM and Magic FM.

Rahul Gautam, vice president marketing, Ford India disagrees. "We are active on radio. It works as a good surround medium for a 'buy me now' kind of message. It gives our channel partners confidence that marketing is behind us and supplements print and TV. But we don't take radio just as a tactical medium," he says. For example, in 2019, Ford launched the 'Discover the more in you' campaign with Radio Mirchi. It was a call for people to look within and take actions that helped them be more compassionate, calm and responsible. It was a mix of radio, on ground and videos with RJ Naved dressing up as a traffic cop and censuring people for honking. During Diwali Ford ran another campaign, on Big FM and Radio City, which included getting their RJs to Ford offices and at its dealers.

"Today we are not radio stations but content creators. Radio combines live, local interaction and on the ground," says Narayanan. It is perhaps this use of radio that has helped the medium battle its big challenges, of relevance and the lack of measurement.

One reason listenership is slowing is not because people don't want radio, but because many firms don't offer an FM tuner with a smartphone. "Women would consume it largely on older phones. Now almost half the newer phones come without FM so where would they consume it? Also ten years back afternoon programming wasn't there on television," says Panday. He reckons that the whole Jio phenomenon could give a new lease of life to radio, because it hopes to sell 500 million of their ₹1,500 phones, all of them FM enabled.

Even if listenership were to rise "Measurement is a challenge. Spending on radio is more of a judgement call and is based on campaign to campaign," says Gautam. But unlike in TV, there doesn't seem to be any effort to get a robust metric in place. It is perhaps the first thing the industry needs to fix if it wants FMCGs and other advertisers to come back.

"Radio has been reduced from 700,000-800,000 seconds (advertising from FMCGs) to nothing. Because advertisers are seeing it more as a male product"

PRASHANT PANDAY
MD & CEO, Entertainment Network India (Radio Mirchi)

FROM PAGE 1

Markets roar back after Budget shock

The nation accounts for 14 per cent of global crude demand. Economists are forecasting a sharp deceleration in Chinese economy over the next few quarters due to the virus outbreak.

China's central bank is making efforts to calm investor concerns after a record $700 billion wipeout in market capitalisation on Monday.

According to reports, the People's Bank of China (PBOC) injected 1.2 trillion yuan ($173.81 billion) into money markets through reverse bond repurchase agreements. It also unexpectedly cut the interest rate on those short-term funding facilities by 10 basis points.

"Indian markets are very correlated to global markets, and today's rally was a reaction to China's efforts to pump liquidity into the system. Going forward, the pace of economic recovery in India and how strong it will be an important determinant of the market," said Jyotivardhan Jaipuria, founder, Valentis Advisors.

Positive manufacturing sector data also helped investor sentiment. The manufacturing Purchasing Managers' Index (PMI) for India shot up to an eight-year high at 55.3 in January from 52.7 in December, the data released on Monday showed.

Some experts said the latest rebound in the market could be on account of short-covering and investors needed to be cautious.

"It will be a highly polarized market; the Indian economy is now skewed in favour of companies which have high cash flows. The banking and NBFC system no longer in a position to finance the growth of our companies which have strong cash positions will be able to take advantage to grow further and faster. And the bulk of the stock market flows being attracted by these large companies," Saurabh Mulkherjea, founder, Marcellus Investment Managers.

Consumer durables and metal stocks rose the most, with their sectoral indices gaining 3.5 per cent and 3.3 per cent, respectively. Among the Sensex components, Titan gained the most at 7.5 per cent, on account of the strong recovery for a jewellery business in the third quarter and strong outlook for the quarter ended March. ITC and HDFC were the best-performing Sensex stocks, gaining 3.9 per cent and 3.8 per cent, respectively.

BS SUDOKU # 2965

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SOLUTION TO #2964

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3	8	4	5	2	6	9	7	1
4	5	2	6	7	9	3	1	8
8	3	9	2	1	5	4	6	7
1	7	6	3	4	8	5	2	9
9	4	8	7	6	2	1	3	5
7	1	3	8	5	4	6	9	2
2	6	5	9	3	1	7	8	4

Very 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

Ball in your court now...

FM Nirmala Sitharaman flanked by CII President Vikram Kirloskar *(right)* and CII President-Designate Uday Kotak, in New Delhi PHOTO: DALIP KUMAR

"If you are saving dollars, I am quite okay with that, because beyond a point, that savings has to find a productive use," she added.

The FM said it was the choice of the corporate where to use the money which it got after the government's decisions. "Each one of us has to become engine of growth. Enterprise spirit is yours, we are facilitators," she added.

She added the intention of her proposal to give options of lower tax rates without exemptions to personal income taxpayers was to eventually have low tax rates with a simple regime. "This would be reflected in other taxes as well, including DDT," she said in response to a question. Sitharaman, along with all the secretaries of her ministry, will be travelling to Mumbai, Chennai, and Kolkata, beginning Friday, to discuss the Budget decisions. Interactions with industry and trade bodies, economists, and farmers groups are scheduled, the finance minister said.

The special window for stressed housing projects has begun as a lot of funds of the construction sector are stuck. As many as 13 projects have been sanctioned so far, Economic Affairs Secretary Atanu Chakraborty said.