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Business Standard

ECONOMY & PUBLIC AFFAIRS P8
MODI TARGETS $5 BILLION OF DEFENCE EXPORTS IN 5 YEARS

COMPANIES P3
TATA POWER MOVING AWAY FROM GENERATION: CEO

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THE MARKETS ON WEDNESDAY

		Chg#
Sensex	41,142.7▲	353.3
Nifty	12,089.2▲	109.5
Nifty Futures*	12,086.3▼	2.9
Dollar	₹71.2	₹71.3**
Euro	₹78.5	₹78.8**
Brent crude ($/bbl)##	54.7##	53.1**
Gold (10 gm)###	₹40,049.0▼	₹394.0

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

RBI TO GET MORE TEETH TO SUPERVISE CO-OPERATIVE BANKS

The Reserve Bank of India (RBI) is set to get more auditory and supervisory powers over urban and multi-state co-operative banks, with the Union Cabinet approving the Banking Regulation Amendment Bill, 2020, on Wednesday. "Like commercial banks, multi-state and urban co-operative banks will be brought under the RBI regulations. These changes will be only for the banking side and administrative rights will continue to remain with the registrars," said Information and Broadcasting Minister Prakash Javadekar. 6▸

THE SMART INVESTOR II, 1

Sebi tweaks rules for IPO documents nod

The Securities and Exchange Board of India on Wednesday set rules under which it could hold back approvals for proposed share sales by firms that are under investigation for possible violations. The markets regulator said for current investigations, "observations" on the draft offer may be kept in abeyance for 30 days from filing of the draft offer.

Bharti Airtel pitches for Voda Idea's survival

Bharti Airtel on Wednesday pitched for a healthy telecom sector with three players and said Vodafone Idea's survival will be good from the 'investment and reputation' point of view for India. In the company's post earnings conference call, Badal Bagri, chief financial officer, Bharti Airtel, said the telecom sector was large enough to accommodate three players.

INDIA OUTLOOK STILL CRITICAL: VODAFONE ▸P2

ECONOMY & PUBLIC AFFAIRS P4

15th FC to form panel to draw up road map

The Fifteenth Finance Commission will set up a panel later this month to examine the fiscal and debt situation of the Centre and states and present a road map, on the lines of the erstwhile Fiscal Responsibility and Budget Management panel, the Commission's chairman, N K Singh, said on Wednesday.

RESULTS RECKONER

Quarter ended Dec 31, 2019; common sample of 760 companies (results available of 875)

SALES		
Dec 31, '18	22.1%	₹11.49 trillion
Dec 31, '19	1.9%	₹11.70 trillion
PROFIT BEFORE TAX		
Dec 31, '18	-20.0%	₹99,761 cr
Dec 31, '19	56.7%	₹1.56 trillion
NET PROFIT		
Dec 31, '18	-32.6%	₹62,164 cr
Dec 31, '19	84.0%	₹1.14 trillion

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

Correction

The report — "Companies may change dividend policy after Budget changes" — published on February 3, had suggested that Sunil Mittal would be impacted by the abolition of dividend distribution tax. Bharti Airtel has clarified that no individual promoter holds shares or receives dividend from the company, and hence, the change in dividend policy is not relevant. The error is regretted.

Maruti's EV plans take a back seat

Carmakers like Tata Motors and M&M bet big on e-mobility

SHALLY SETH MOHILE & ARINDAM MAJUMDER
Greater Noida, 5 February

The country's largest carmaker, Maruti Suzuki India, will not be launching an electric vehicle (EV) anytime in the foreseeable future, as issues like range anxiety and the high cost of acquisition will put off buyers, Kenichi Ayukawa, its managing director and chief executive, told *Business Standard*.

Maruti has decided to put its EV plans on the back burner even as most other passenger vehicle makers such as Tata Motors, Mahindra & Mahindra, Renault India, MG Motors, and Kia Motors are going full throttle with their plans, nudged by the government's policy push.

Maruti will instead focus on other alternative technologies, including compressed natural gas (CNG) and hybrid, to reduce the overall carbon footprint to meet advance emission norms.

"This is not a good time to bring an electric vehicle to the Indian market. Looking at market conditions and customer expectations, we will decide," said Ayukawa. Considering the fact that the government doesn't support subsidy for personal EVs, Maruti will have to "examine ways to provide an affordable electric product in the personal space", he added.

"There is no parking space or charging space. Infrastructure hasn't developed at all. Under these conditions, it is very difficult to make a business case. Only limited people are interested," said Ayukawa. Turn to Page 17 ▸

PHOTO: SANJAY K SHARMA

THE MARKET AND INFRASTRUCTURE CONDITIONS ARE NOT RIGHT TO LAUNCH AN ELECTRIC VEHICLE IN INDIA
KENICHI AYUKAWA, MD & CEO, MARUTI SUZUKI

WHAT MAKES MARUTI WARY OF EVs?

- High acquisition cost
- Range concerns
- Lack of infrastructure
- Emission due to charging of EVs from coal-based power defeats purpose of clean mobility

Q&A 'WILL DECIDE ON DIESEL CARS AFTER SIX MONTHS' | SLOWDOWN PLAYS SPOILSPORT AT EXPO | VIRUS SCARE MAY HIT CHINA CARMAKERS' INDIA INVESTMENTS

AUTO EXPO 2020 PAGE 18

JIO DEMERGER CASE

I-T dept now finds merit in NCLAT order

Seeks law min opinion on course of action

SHRIMI CHOUDHARY
New Delhi, 5 February

Within eight months of challenging the National Company Law Tribunal's (NCLT's) order giving a green signal to Reliance Jio Infocomm's proposed demerger, the income-tax (I-T) department is learnt to have found merit in the appellate tribunal's December ruling, which dismissed the I-T petition.

The tax department shared its opinion and the rationale in a communique to the law ministry 10 days ago, where it sought the ministry's legal opinion on the matter to decide further course of action, said an official privy to the development.

The National Company Law Appellate Tribunal (NCLAT) had dismissed the I-T department's petition objecting to the proposed demerger of Jio's tower and fibre optic network assets into two infrastructure trusts.

According to sources, the department is of the view that the NCLAT order, which had cited multiple verdicts by the Supreme Court, including the Vodafone-Essar tax avoidance case, needs to be taken into consideration. "Some of the instances quoted in the appellate order apply to the Jio case as well. So an appeal against the existing verdict may not stand legal scrutiny in the apex court," said a tax official. Turn to Page 17 ▸

EVALUATING LEGAL STANDPOINT

- Tax dept is to decide on whether to challenge NCLAT order in SC or not
- Decision likely by Feb-end, based on law ministry opinion
- NCLAT upheld tribunal order clearing Jio's proposed demerger plans
- I-T contested NCLT order, saying it would reduce Jio Infocomm's profits

High-powered jury to select *BS* award winners today

BS REPORTER
Mumbai, 5 February

A power-packed jury comprising leading decision-makers of India Inc will meet in Mumbai on Thursday to select the winners of *Business Standard*'s annual awards for corporate excellence for 2019.

Aditya Birla Group Chairman Kumar Mangalam Birla is the chairman of the eight-member jury. The other jury members are JSW Group Chairman Sajjan Jindal, KKR India CEO Sanjay Nayar, EY India Chairman Rajiv Memani, Omidyar Network India MD Roopa Kudva, McKinsey & Company Senior Partner Noshir Kaka, Cyril Amarchand Mangaldas Managing Partner Cyril Shroff, and Bain Capital Private Equity MD Amit Chandra.

The jury will select the best in Corporate India, from a long list of names and data compiled by *Business Standard* Research Bureau, to name the "CEO of the Year" as well as achievers in other categories — public sector undertakings, multinational firms, and small and medium enterprises.

The jury will also choose the "Company of the Year" and "Start-up of the Year", as well as announce the "Lifetime Achievement" awards. Turn to Page 17 ▸

Services PMI at 7-year high as orders pick up

SUBHAYAN CHAKRABORTY
New Delhi, 5 February

The services sector began the year with a bang as new orders in January rose at the fastest pace in seven years, dwarfing December's five-month high growth, according to a survey released on Wednesday.

The widely tracked Nikkei India Services Purchasing Managers Index (PMI) stood at 55.5 in January, up from 53.3 in December. In PMI parlance, the 50-mark threshold separates expansion from contraction.

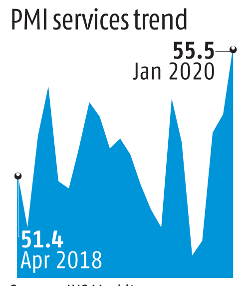
New international business also pushed the sector's output to a similar seven-year high during the month. This would allow firms to recuperate from the high volatility in 2019, when the sector saw the PMI contract during three months, industry insiders said.

Services growth had peaked to a 43-month high of 54.7 in August, followed by two straight months of contraction. However, this has been followed by steady growth since November. This has been in line with manufacturing activity, which mirrored a steep upward move of the growth curve in January when the PMI reached 55.3, the highest in nearly eight years, according to a survey released earlier this week.

For services, total sales expanded for the fourth consecutive month in January. Consumer services growth was the most marked, after transport and storage firms had seen the biggest boost in the previous month. The zooming rate of growth in January was largely due to favourable market conditions and better underlying demand, said survey participants. Turn to Page 17 ▸

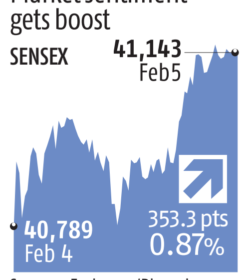
SIGNS OF GREEN SHOOTS

PMI services trend



Source: IHS Markit

Market sentiment gets boost



Sources: Exchange/Bloomberg

'Father believed three engines can never run a company successfully'

Just months after his industrialist father K K Modi's death, Lalit Modi is embroiled in a bitter battle with his family, which includes his mother Bina, brother Samir, and sister Charu, on what course the ₹10,000-crore group should take. In an e-mail interview, **LALIT MODI** explains to **Surajeet Das Gupta** why he is pushing for an outright sale of assets. Edited excerpts:

Q&A

"THE REASON WHY I PUT MY WEIGHT BEHIND (ASSET) SALE IS BECAUSE I DON'T BELIEVE THAT ANY MEMBER OF THE TRUST HAS THE ABILITY, VISION OR AMBITION TO CONTINUE"

The question many are asking is why are you pushing for an outright sale of all assets (Godfrey Phillips India, Indofil Industries, and Modicare) when the trust deed provides the option of sale of some assets, and the running of some companies as well as all the companies together?

Any sale short of all trust assets will be unfair to other shareholders and will be in contravention of the provisions of the restated trust deed. Therefore, I have no option but to reject this. The choice, however, is not mine to make; it is clearly set out in the trust deed. In case there is no unanimity amongst the four family members, a fact which was triggered in the November 30 meeting, it automatically leads to sale of the entire trust funds and family-controlled business. The process dictates that all assets will be put for sale by an investment banker. While external bids will come in, family members have the right to match the bid.

You have said family members can match the bid and keep the company. Will you do so and match it?

My father was clear that shareholder value is primary. He was clear that three engines can never run a company successfully. He was also of the view if family members want to acquire, then they can acquire the entire stake. Turn to Page 8 ▸

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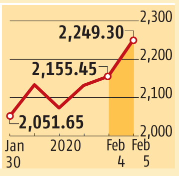
STOCKS IN THE NEWS

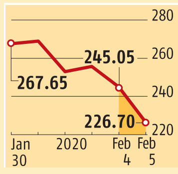
Avenue Supermarts



With ₹1.41-trillion market capitalisation, enters top 20 most-valued club

2,249.30 CLOSE
▲ 4.35% UP*

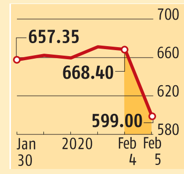
Zee Entertainment Enterprises



Ministry of Corporate Affairs orders inspections of the company's books

₹226.70 CLOSE
▼ 7.49% DOWN*

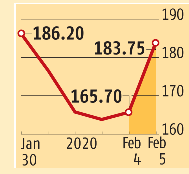
Avanti Feeds



Q3 PBT down 36 per cent at ₹73 crore; YoY

₹599.00 CLOSE
▼ 10.38% DOWN*

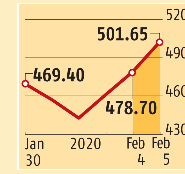
Tata Motors



Unveiled a series of cars and commercial vehicles at the Auto Expo 2020

₹183.75 CLOSE
▲ 10.89% UP*

BPCL



Russia's largest oil producer Rosneft keen to bid: Report

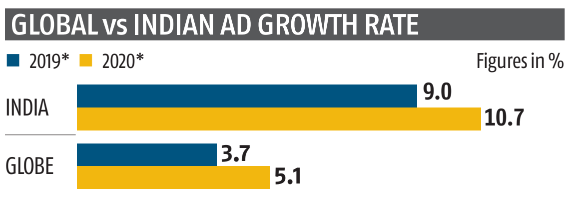
₹501.65 CLOSE
▲ 4.79% UP*

* OVER PREVIOUS CLOSE

INDIA EIGHTH LARGEST AD MARKET IN 2020: GROUPM

The country's top media agency GroupM on Wednesday said India would move two places up the pecking order of global advertising market in 2020, standing at eighth position this year versus 10th last year. The overall size of India's ad market will be $13.2 billion or ₹94,000 crore, growing at 10.7 per cent from last year, when the overall size was $11.9 billion or ₹84,917 crore. COMPILED BY VIVEAT SUSAN PINTO

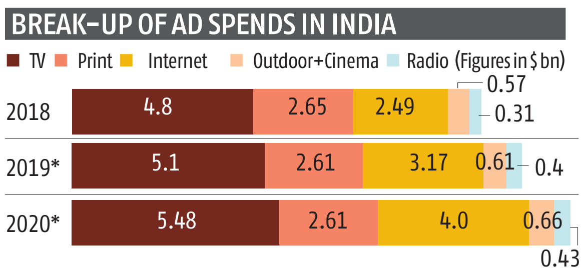
GLOBAL vs INDIAN AD GROWTH RATE



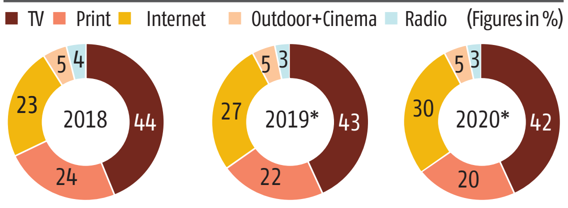
TOP-10 GLOBAL AD MARKETS

Rank	Country	($ billion) 2019*	($ billion) 2020*	% YoY growth
1	US	227.0	246.0	8
2	China	89.0	90.0	1
3	Japan	41.0	41.0	2
4	UK	29.0	31.0	7
5	Germany	21.0	21.0	1
6	France	15.0	15.0	4
7	Brazil	14.0	15.0	5
8	India	11.9	13.2	11
9	Canada	12.0	12.0	4
10	Australia	11.0	12.0	2

BREAK-UP OF AD SPENDS IN INDIA



CONTRIBUTION TO TOTAL AD SPEND



(*figures are estimates)

Source: GroupM

Bharti Airtel pitches for Vodafone Idea's survival

Says three players will be healthy for the sector

MEGHA MANCHANDA
New Delhi, 5 February

Bharti Airtel on Wednesday pitched for a healthy telecom sector with three players, and said Vodafone Idea's survival will be good from the 'investment and reputation' point of view for India.

In the company's post-earnings conference call, Bharti Airtel's Chief Financial Officer (CFO) Badal Bagri said the telecom sector was large enough to accommodate three players. "On Vodafone, I think my view is that they will remain and I wish that they thrive. India needs a three-player market and it's a large-enough market place to absorb three players. I think it will be good from all perspectives — investment, jobs and reputation that Vodafone survives and thrives and I have no doubt that they will do so," he said.

Airtel also said it would not buy the 5G spectrum in the upcoming auctions as the price is "too high."

According to the price recommended by the Telecom Regulatory Authority of India (Trai), the cost of 100 megahertz of 5G spectrum would be close to ₹50,000 crore. "We believe the price is too high. So, we will not pick it up at those prices," Bharti Airtel's Chief Executive Officer (CEO) Gopal Vittal said in a post-earnings call with investors on Wednesday.

Airtel's CEO Gopal Vittal says the cost of 100 MHz of 5G spectrum will be close to ₹50K cr. "We believe the price is too high. So, we will not pick it up at those prices."

In December 2019, the Digital Communications Commission (DCC), the apex decision-making body in telecom, gave its nod to spectrum auction plans, entailing 8,300 MHz of airwaves pan-Indian at a reserve price that adds up to ₹5,22,850 crore. Meanwhile, Airtel said it would shut down its 3G network in 11 circles across the country. "We have completed 3G shutdowns in 11 circles and reformed spectrum to 4G," said Vittal. The company said capex would be utilised towards re-farming the 3G spectrum for 4G services as the consumption of the latter has increased.

Bharti Airtel on Tuesday posted a net loss of ₹1,035 crore for the quarter ended December 31, 2019 (Q3), as it provisioned for the interest accrued on account of adjusted gross revenue (AGR) payment. This is the company's third consecutive quarterly loss; it had recorded a profit of ₹86 crore in the year-ago quarter. On the operational front, the company posted an improvement in average revenue per user (ARPU) from ₹128 to ₹135, sequentially.

Mobile revenues have witnessed year-on-year (YoY) growth of 9.6 per cent on the back of focus on quality customers, uptrading and the recent tariff actions in some parts. Liabilities and provisions as of September 30, 2019, aggregated to ₹34,260 crore (comprising principal of ₹8,747 crore, interest of ₹15,446 crore, penalty of ₹3,760 crore, and interest on penalty of ₹6,307 crore).

On October 24, 2019, the Supreme Court delivered a judgment upholding the view of the Department of Telecom (DoT) in respect to the definition of AGR. The apex court has allowed three months to the affected parties to pay the amount due to the DoT.

A review petition in this regard, too, was rejected in January. Thereafter, the telecom operators have filed an application for modification of the supplementary order before the Supreme Court, which is pending disposal. As on December 31, Airtel had 419 million customers, an increase of 3.7 per cent from 403.7 million in the corresponding quarter in the last financial year.

India outlook still critical: Vodafone

AGENCIES
New Delhi, 5 February

The Vodafone Group on Wednesday said the outlook for Vodafone Idea remains critical as the firm seeks relief from the Indian government in the wake of an "adverse judgement" by the Supreme Court on the issue of adjusted gross revenue (AGR).

"In October, the Supreme Court gave an adverse judgement in [AGR] case against the industry. The outlook for Vodafone Idea remains critical," read a statement issued by the company, which revealed its earnings in the December 2019 quarter. "Vodafone Idea is actively seeking various forms of relief from the Indian government to ensure that the rate and level of payments it makes... is sustainable and it can meet its other commitments as they fall due," it added.

The British telecom giant said the Department of Telecommunications had in November granted a two-year spectrum moratorium. "In January, the Supreme Court rejected the review petition filed by VIL and other industry participants in relation to the AGR judgement. Both VIL and Bharti Airtel have subsequently filed modification petitions, which are expected to be heard imminently, to request the Court to order the DoT to determine a payment schedule in relation to AGR dues and other reliefs," it said.

Vodafone revealed Wednesday that it would cost about €200 million ($221 million) over five years to remove Chinese group Huawei's equipment from core 5G European activities. "We have now decided, as a result of the EU (recommendations) and the UK government's decision, to take out Huawei equipment from the core," Vodafone CEO Nick Read said in a third quarter conference call to reporters.

"It will take around five years to implement at a cost of approximately €200 million," he added, stressing that the cost would mostly apply to its European activities outside of Britain. The UK government decided last month to exclude Huawei from core parts of the 5G network and also to cap its share of the market at 35 per cent, insisting that "high risk vendors" would be excluded from "sensitive" activities.

For Tata Power, generation may take a backseat

"Right now, the share is 30% each, which will move to 40%, 40% and 20% (T&D, renewable and generation). This would be in terms of profitability"
PRAVEER SINHA
CEO & MD, Tata Power

AMRITHA PILLAY
Mumbai, 5 February

Tata Power, which is into generation for more than a century, is making a conscious effort to move away from it.

The company plans to make just 20 per cent of its profit through generation over a period of time with the remaining planned from transmission & distribution (T&D) and renewable energy.

"Right now, the share is roughly 30 per cent each, which will move (over a period of time) to 40 per cent, 40 per cent and 20 per cent (T&D, renewable and generation). This would be in terms of profitability," said Praveer Sinha, chief executive officer (CEO) and managing director (MD) of Tata Power.

More than a year ago, Tata Power clubbed its businesses into separate clusters – its thermal assets are under the generation cluster. The other two main clusters are T&D and renewable, which also includes solar manufacturing.

Sinha said that in the absence of any major capital expenditure in generation, investment made and planned in the T&D business and renewable will start showing returns.

For the T&D business alone, the company expects profits to double over the next few years. The company's generation cluster does not include Coastal Gujarat Power (CGPL), the subsidiary which houses the Mundra power plant.

Sinha expects losses from the Mundra power plant to be one of its lowest in the current financial year. Mundra's annual loss in FY20, he said, is expected to be ₹900 crore.

In FY19, this loss was ₹1,700 crore. "The nine month loss for Mundra was at ₹650-700 crore. Better fuel management, blending of coal and coal prices falling have helped. This will be one of the lowest annual losses for Mundra," Sinha said.

The company is also in the process of renewing its mining licence in Indonesia. Sinha said the renewal application will be filed next month; the licence for the PT Kaltim Prima Coal expires in 2021.

The company does not expect any significant change in the terms and conditions of the licence. The Mundra plant is also awaiting clearance from multiple states for a revised tariff, which will help the plant half its losses. "We continue to pursue CGPL tariff revision with the state government," Sinha said.

Tata Power is also in the process of monetising non-core assets. Sinha said that in the next one year, Tata Power plans to divest $1 billion worth of assets. These include Indonesian coal mine PT Baramulti Sukses Sarana Tbk (BSSR).

As part of its divestment plan, Tata Power is exploring various financial instruments, including the infrastructure investment trust (InvIT) model. "We definitely look at various financial models, which will help us grow and at the same time does not over-leverage us. These are new models. With changes in the Budget, one needs to understand what the impact is. These are things which are still under discussion. We will look at it," Sinha said.

IN BRIEF

It's too early to take a call on Air India: Tata Sons chairman

Tata Sons Chairman N Chandrasekaran said on Wednesday it is 'too early' to take a call on Air India, in which the government has decided to sell its entire 100 per cent stake. "It is too early..." Chandrasekaran said when asked if Tata Group would be putting bid for the Air India stake purchase at the Auto Expo. The comments came in the wake of reports in a section of media saying that Tatas appear to be moving closer to a decision to bid for Air India in partnership with Singapore Airlines. PTI

KKR clarifies on ED property attachment

Shah Rukh Khan-owned Kolkata Knight Riders (KKR) has clarified Rose Valley had paid KKR of ₹ 11.87 crores as sponsorship fees. Rose Valley Hotels was one of KK's IPL jersey sponsors for 2012 and 2013 seasons. "KKR had no other dealings with Rose Valley Group, including Rose Valley's micro-finance business," the company said. BS REPORTER

Instamojo buys GetMeAShop from Times Internet

Fin-tech start-up Instamojo on Wednesday said it had acquired GetMeAShop, a Gurugram-based start-up owned by Times Internet, in a deal that will see Times Internet further invest in the combined entity. The value of the deal is $5 mn, Instamojo CEO Sampad Swain said, without breaking down the value of the acquisition. BS REPORTER

Adani Gas to close Total deal by March

AMRITHA PILLAY
Mumbai, 5 February

Adani Gas expects to close its deal with French oil major Total by the end of the current financial year, company officials said on Wednesday. The company reported a profit before tax (PBT) of ₹143.62 crore, witnessing a more than double-digit growth.

On the Total deal, Adani Gas said, "The primary part of the deal is closed and one of the nominee of Total is a member on Adani Gas board. The secondary part of the deal is now going on, hopefully, which should be over in the next couple of weeks." The executive said the company was hopeful to close the deal by the end of the current financial year. Adani Gas in a January 14 statement said the Board of Directors has appointed Alexis Thelemaque as an additional director. In October last year, Total signed a definitive agreement to acquire 37.4 per cent stake in Gautam Adani-led Adani Gas for about ₹5,700 crore. Part of the process, Total was to purchase shares in Adani Gas through a tender offer to public shareholders to acquire up to 25.2 per cent shares and purchase the residual shares from the Adani promoter family.

Adani Enterprises Q3 PBT up by 318%

VINAY UMARJI
Ahmedabad, 5 February

Adani Enterprises' (AEL's) consolidated profit before tax (PBT) for the quarter ended December 31 grew 317.8 per cent to stand at ₹440.16 crore. The company's consolidated PBT in Q3 of the previous financial year 2018-19 was ₹105.35 crore.

The consolidated total revenue for AEL in Q3 of FY20 grew marginally by 4.99 per cent to ₹1,1075.32 crore, with contributions from its integrated coal management (ICM), mining services and solar manufacturing businesses, among others. The company's consolidated total revenue in the third quarter of previous financial year was ₹1,0548.14 crore.

In Q3, AEL's ICM volume grew by 24 per cent in Q3 of FY20 to stand at 20.42 million metric tonnes (mmt) as against 16.41 mmt in Q3 of FY19 while its mining services production rose by 28 per cent to 4.77 mmt, up from 3.74 mmt in Q3 of FY19. Its solar manufacturing volume, on the other hand, doubled from 140 Mw in Q3 of FY19 to 283 Mw in Q3 of FY20. Group Chairman Gautam Adani has said the firm continues to focus on incubating assets in transportation and utilities space.

Auto slump drags Bosch December profit, revenue

DEBASIS MOHAPATRA
Bengaluru, 5 February

The downturn in the automotive industry continued to adversely impact auto components major Bosch's performance as the firm posted a decline both in its net profit and revenues in the third quarter ended December 2019 (Q3FY20).

The Bengaluru-headquartered firm posted 27.5 per cent decline year-on-year (YoY) basis in its profit before tax (PBT) at ₹347.5 crore for Q3. Net profit declined 43 per cent at ₹190.33 crore, during this period.

As the automotive industry goes through major disruption, Bosch also witnessed 15.7 per cent fall in its revenues from operations at ₹2,537 crore, compared to ₹3,007.8 crore a year ago. "The entire automobile industry is in the grip of a slowdown with a major technology shift from Bharat Stage (BS)-IV to BS-VI on the horizon.

Together with OEMs (original equipment manufacturers), Bosch has been working relentlessly to meet the April 1, 2020 deadline for the implementation of BS-VI technologies," said Soumitra Bhattacharya, MD, Bosch. "At the same time, we are continuing to invest in electrification and other mobility solutions," he added.

According to the company, there was no let-off in the downturn, caused by cyclical and structural factors, mainly in the commercial vehicle and tractor segments. In Q3, firm's revenues from mobility solutions decreased by 26 per cent as Powertrain Solutions division were affected by the slowdown.

Similarly, Bosch's business beyond mobility solutions sector posted a decline of 13.9 per cent on account of decline in solar energy division.

In Q3, the firm made an additional provisioning of ₹207 crore towards various restructuring and transformational projects initiatives.

THE RESULT
Q3 of FY20

PBT
₹347.5 cr
YoY growth
-27.5%

PAT
₹190.3 cr
YoY growth
-43%

Revenue
₹2,537 cr
YoY growth
-15.7%

Average salary increases by 8% as XLRI wraps up placements

43% of candidates recruited via pre-placement offers

VINAY UMARJI
Ahmedabad, 5 February

Average salary offered by recruiters rose by eight per cent to ₹24.30 lakh per annum while the highest international offer stood at ₹58.5 lakh per annum in the recently concluded recruitment process at XLRI — Xavier School of Management.

XLRI-Xavier School of Management said on Wednesday that it achieved 100 per cent placements for all 359 candidates of the outgoing 2018-20 batch of postgraduate diplomas in the streams of human resource management and business management.

The final recruitment process at the B-school saw participation of 108 recruiters with 362 domestic and international offers, including 24 new recruiters. Median salary, on the other hand, increased by 9.5 per cent to ₹23 lakh per annum this year, compared to ₹21 lakh per annum in 2019.

New recruiters included firms such as Arga Investment Company, Tolaram Group, M H Alshaya, Myntra, Delhivery, JCB, Thoucentric, Welspun, Diageo, Varroc, and CK Birla, among others

Consulting firms continued to lead, extending 26 per cent of total offers, followed by sales and marketing at 21 per cent and banking, insurance & financial services (BFSI) with 17 per cent roles offered.

Overall, KPMG and Pricewaterhouse Coopers made the highest number of offers among regular recruiters.

A NEW HIGH

Average salary up by **8%** to **₹24.30 lakh per annum**

Highest international offer at **₹58.5 lakh per annum**

Median salary up by **9.5%** to **₹23 lakh per annum**

Highest share of batch placed via PPOs at **43%**

Consulting picks **26%** of batch, sales and marketing **21%**

According to the institute, the batch also received the highest number of offers through pre-placement offers (PPOs) with 43 per cent being placed via the route.

New recruiters included companies such as Arga Investment Company, Tolaram Group, M H Alshaya, Myntra, Delhivery, JCB, Thoucentric, Welspun, Diageo, Varroc, and CK Birla, amongst others, while PSUs included Power Finance Corporation and GAIL.

Other top recruiters in consulting, FMCG, telecom and pharma included the likes of McKinsey & Co, Bain & Co, The Boston Consulting Group, Accenture Strategy, P&G, Hindustan Unilever, ITC, Colgate Palmolive, Cipla, Dr. Reddy's, Astra Zeneca, and GlaxoSmithKline, among others.

Marquee recruiters from BFSI, ITeS, e-commerce and analytics included Citibank, J.P Morgan Chase, Goldman Sachs, Microsoft, Amazon, Ola, Media.net, Google, Flipkart, Tech Mahindra and TCS, among others.

Meanwhile, J Christie, director of the institute, said interest in XLRI's students was "tremendous" with top companies coming for recruitment. "We attribute the excellent placements this year as an affirmation by the industry of the high standard of management-centric education that we strive to deliver to our students."

TDS on e-com transactions 'unnecessary papercut'

NEHA ALAWADHI
New Delhi, 5 February

The proposed levy of 1 per cent tax deducted at source (TDS) on e-commerce transactions, announced in the Budget this year, could impact the working capital of small businesses, said Amit Agarwal, country head of Amazon India, on Wednesday.

He was speaking at the 14th India Digital Summit of the industry body Internet and Mobile Association of India, where he is also the chairman.

"Just look at the recent Budget. There is an introduction of tax collected at source. These seem like harmless papercuts, but they impact the working capital of small businesses. If you look at how businesses have to register at each and every stage in the country to do business, this is just an unnecessary papercut," said Agarwal.

"THERE IS AN INTRODUCTION OF TAX COLLECTED AT SOURCE. THESE SEEM LIKE HARMLESS PAPERCUTS, BUT THEY IMPACT THE WORKING CAPITAL OF SMALL BUSINESSES. IF YOU LOOK AT HOW BUSINESSES HAVE TO REGISTER AT EACH AND EVERY STAGE IN THE COUNTRY TO DO BUSINESS, THIS IS JUST AN UNNECESSARY PAPERCUT"

AMIT AGARWAL
Country head, Amazon India

He added that a lot more can be done if the country focused on removing friction in business transactions.

Agarwal was talking about the Budget proposal to introduce a new section in the Income Tax Act.

Experts have said that the proposal has the potential to affect working capital of e-commerce companies and reduce cash flows for e-sellers. Some have pointed out that the TDS will lead to cash being stuck with the government in the refund system.

In the Budget, the explanation for the proposed levy said the e-commerce operator, defined as an entity owning, operating or managing the digital platform, will have to deduct 1 per cent TDS on the gross amount of sales or service or both.

This provision will not apply in cases where the seller's gross amount of sales during the previous year through e-commerce operator is less than ₹5 lakh and the seller has furnished his Permanent Account Number or Aadhaar.

Given the wide definition, the proposal will impact not just e-commerce marketplaces but also all kinds of digital businesses such as Oyo, Uber, Ola, Urban Company, MakeMyTrip, Myntra, Zomato, Swiggy and so on.

Both Amazon and Walmart-owned Flipkart have said they would reach out to the government for clarifications on the proposal, given it has a direct impact on the sellers and medium and small enterprises listed on their platforms.

At the event, Agarwal also spoke about the importance of skilling, grassroot entrepreneurship, driving equal opportunity through greater women's participation in the workforce, better use of artificial intelligence-backed solutions, and the need for having stability and predictability in policies.

Dalmia Cement subsidiary and GuarantCo settle claims

Dalmia Cement (Bharat) subsidiary, Calcom, and GuarantCo, a financial creditor, have settled all claims and counter claims amicably, a statement from Dalmia Bharat Group said. The settlement also includes claims/ counter claims that were before the Guwahati Bench of the National Company Law Tribunal (NCLT). Calcom was admitted to the tribunal following an appeal from Mauritius-based GuarantCo. However, according to the settlement, the parties shall not claim any dispute against each other relating to the petition. Sources said, the settlement amount was under ₹100 crore. The parties are taking steps for completion of formalities for withdrawal of the petition before the NCLT, Guwahati.

ISHITA AYAN DUTT

Disney Plus set for India debut on March 29

PRESS TRUST OF INDIA
February 5, 2020

Disney has announced that its subscription-based streaming service Disney Plus, which launched in the US in November last year, will arrive in India on March 29 through its Hotstar app.

The announcement was made by Disney CEO Robert Iger during the company's quarterly earnings call on Tuesday. "We're excited to announce that we will be launching Disney Plus in India through our Hotstar service on March 29th at the beginning of the Indian Premier League cricket season," Iger said.

Though the Disney top boss didn't go into the specifics, he said the company will rebrand the Hotstar app to "Disney Plus Hotstar".

"We see this as a great opportunity to use the proven platform of Hotstar to launch the new Disney Plus service in one of the most populous countries and fastest growing economies in the world," he added.

Disney had acquired Hotstar streaming service in 2017 as part of its acquisition of Fox Studios, which also included the entire Star India group. As of now, most of the premium Disney content is available on Hotstar app.

But the decision to club Disney Plus with Hotstar will enable the Indian subscribers to finally watch some of the newer content from the studio's streaming service, most notably "Star Wars" spin-off series "The Mandalorian" which is currently only available on Disney Plus.

Iger said the company is yet to finalise the pricing aspect of the rebranded streaming service, but it will be offered in two categories.

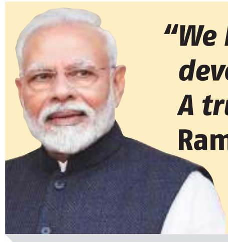
"One will be more premium in nature that will include the entire library, so with the original programming and the other one will be more basic that will have the library and not the original programming," he said. The Disney CEO also revealed that the company hopes to capitalise on the Indian Premiere League as Star India is the official broadcaster of the league. "Priced for the market and launched at a very peak period of time for the IPL, the cricket league.

Infosys, TechM get HC notices

INDIVJAL DHASMANA
New Delhi, 5 February

The Delhi High Court has issued notices to Infosys and Tech Mahindra on a petition regarding technical flaws in the online portal system evolved by the Goods and Services Tax Network (GSTN).

The two firms are IT support contractors for the portal. The court said their presence was needed "to better appreciate the intricacies, and to ensure the grievances raised by the taxpayers and our orders are understood and implemented in true perspective". Harpreet Singh, partner at consultancy KPMG, said the petitioner had raised the issues of non-availability of annual forms under the GST system for 2018-19, among others.



"We have readied a scheme for the development of Ram Temple in Ayodhya. A trust has been formed, it is called Shri Ram Janambhoomi Teertha Kshetra"
NARENDRA MODI
Prime Minister

"A scare is created as if the CAA is a threat to Muslims. CAA is no threat to Muslims, if they face trouble (due to the law), I will be the first person to raise voice for them"
RAJINIKANTH
Actor

"Dear PM, The economy has imploded & you must be racking your brains on how to avoid the blame. Use the useless Budget presented by clueless Nirmala Ji. Sack her and dump the blame on her"
RAHUL GANDHI, Congress leader

Bill to resolve tax disputes tabled in Lok Sabha

DILASHA SETH
New Delhi, 5 February

Finance minister Nirmala Sitharaman on Wednesday introduced a Bill in the Lok Sabha to give effect to the Budget announcement to resolve direct tax disputes involving an aggregate ₹9.32 trillion as on November 30, 2019.

The Direct Tax Vivad se Vishwas Bill, 2020, offers waiver of interest, penalty and prosecution for settlement of these disputes. They will have to be pending before the commissioner (appeals), Income Tax Appellate Tribunals (ITATs), high courts or the Supreme Court as on January 31, 2020.

While a complete waiver of interest and penalty will be given in case of payment made by March 31, an additional 10 per cent of the disputed amount will have to be paid after that. The scheme will apply to cases irrespective of whether demand in such cases is pending or has been paid. The pending appeal may be against disputed tax, interest or penalty in relation to an assessment or reassessment order or against disputed interest or fee. In fact, the appeal may even be against tax determined on defaults in respect to tax deducted or collected at source.

In case of tax arrears pertaining to only disputed interest or penalty, 25 per cent of the disputed penalty or interest will need to be paid while settling appeals up to March 31. It will be 30 per cent if the payment is made after that.

The Budget scaled down the direct tax collection target to ₹11.7 trillion in the revised estimates for FY20 from ₹13.35 trillion given in the Budget estimates. Even this would require a 2.9 per cent growth year-on-year. Introducing the Bill, Sitharaman said the scheme will reduce litigation expenditure for the government and may help in generating some revenue. She added that the Bill emphasises on trust building and provides a formula-based solution without any discrimination.

In her Budget speech on February 1, Sitharaman had announced a scheme to resolve 483,000 direct tax disputes pending in various tribunals.

Sitharaman had similarly announced the scheme – Sabka Vishwas Scheme – in her first Budget last year to reduce litigation in indirect taxes. It resulted in settling over 1,89,000 cases.

Preparing groundwork for the direct tax resolution scheme, the Central Board Of Direct Taxes (CBDT) asked its offices across the country to provide data on pending appeals in high courts by next week. "In order to implement the scheme, the CBDT needs database on such litigations pending at the high court level," the communication to the commissioners read.

It is, therefore, requested that data on pending appeals at high courts, as on January 31, 2020, be obtained with the help of the court registry. The amount of ₹0.32 trillion in tax disputes as on November 30, 2019 (cited above), almost equals direct tax collections of ₹11.37 trillion in 2018-19.

The Bill says that tax disputes consume copious amounts of time, energy and resources both on the part of the government as well as taxpayers and deprives the government of timely collection of revenue. "Therefore, there is an urgent need to provide for resolution of pending tax disputes. This will not only benefit the government by generating timely revenue but also the taxpayers. They will be able to deploy time, energy and resources saved by opting for such dispute resolution towards their business activities."

The scheme will not apply to prosecution cases under the Indian Penal Code (IPC), the Prevention of Money Laundering Act (PMLA) and the Prohibition of Benami Property Transactions Act. Besides, the disputed tax amount should not relate to undisclosed foreign income, assets, assessment or reassessment.

Rakesh Nangia, chairman, Nangia Andersen Consulting, said it can be a beneficial scheme for settlement of cases such as addition of unexplained cash deposited during demonetisation.

He added, "It would be beneficial to such taxpayers, to pay the tax amount and settle the disputes without imposition of interest and penalty." Neeru Ahuja, partner, Deloitte India, said that the timelines seem quite sharp and the workings will need to be done at the earliest to meet the March 31 deadline.

Amit Maheshwari, managing partner, Ashok Maheshwary & Associates, said the order passed by the designated authority determining the amount payable will be final.

No further recourse in terms of appeals, arbitration, mediation or conciliation will be available to the taxpayer.

THE LOWDOWN

Who will escape scrutiny
- Scheme, open till June 30, offers complete waiver of interest and penalty, if payment made by Mar 31
- Additional 10% of tax amount to be paid if payment made after Mar 31
- For tax arrears pertaining to interest and penalty, 25% of disputed penalty/interest will have to be paid by March 31 and 30% if payment made after that

Won't apply to...
- Tax arrears related to assessments in nature of search and requisition
- Cases where prosecution has been instituted
- Tax amount related to undisclosed foreign income, assets

IN BRIEF

Unemployment rate at 6.1% in 2017-18: Govt

Unemployment rate in the country, according to a new survey, was 6.1 per cent in 2017-18, the government informed the Rajya Sabha on Wednesday. Minister of State for Labour Santosh Gangwar said the government is conducting a new Periodic Labour Force Survey with new parameters and bigger sample size, and its results cannot be compared with previous surveys in this regard. "As per the new Periodic Labour Force Survey being conducted by the government, the labour force participation is 36.9 per cent and the rate of unemployment for 2017-18 is 6.1 per cent," he said. PTI

654 Indian-owned firms employ over 174,000 in UK: Report

Indian diaspora-owned firms in the UK with a combined revenue of £36.84 billion employ over 174,000 people and pay over £1 billion in corporation tax, according to a first-of-its-kind research. PTI

Govt to finalise PSU insurers' merger by March: Finance secy

The government aims to complete merger of three state-owned general insurance firms — National Insurance, United India Insurance, and Oriental Insurance — by the end of March, Finance Secretary Rajiv Kumar said. PTI

Govt: Surplus land of CPSEs to be sold at market rate

The Centre on Wednesday said the disinvestment process of Central Public Sector Enterprises (CPSEs) will be done in a transparent manner and surplus land of such units would be sold at commercial rates to states or any private party. PTI

$118.3 bn received in remittances since 2018-19: Centre

An estimated 13.62 million Indians are staying abroad and $118.3 billion has been received as remittances since April 2018 up to September last year, the government informed Lok Sabha on Wednesday. PTI

50 mn farmers yet to get 3rd payment of PM-Kisan: Data

Over 50 million farmers were yet to get the third instalment of money under the Centre's ambitious PM-Kisan scheme, aimed at providing direct support of ₹6,000 annually to them, according to data. The total amount is to be paid in three equal instalments of ₹2,000 every four months. PTI

Middle class 'trained enough' to pick right option: Rajiv Kumar

NITI Aayog Vice Chairman Rajiv Kumar said the middle class is "trained enough" to decide which personal income tax option is good for them and exuded confidence that their propensity to save will not come down. PTI

Fitch says Budget was light on new structural reforms

The Union Budget for 2020-21 was light on new structural reforms, Fitch Ratings said on Wednesday, adding it has not materially altered its forecasts for India's growth to rise to 5.6 per cent in FY21, from 4.6 per cent in 2019-20. PTI

Hopeful of listing LIC next fiscal year, says DEA secy

The government is hopeful of selling minority stake in LIC in the next fiscal year, Economic Affairs Secretary Atanu Chakraborty said. It would take 8-9 months to prepare accounts and do the required legal tweaking before an IPO could be launched, he said. PTI

Fairfax-backed CSB Bank to open 100 branches a year

Fairfax Holdings-backed CSB Bank will open about 100 branches each financial year in the medium term, C V Rajendran, its MD and CEO, told *Business Standard*. These will be opened in areas with gold loan, agri & MSME, and current and savings account potential. ABHIJIT LELE

Indiabulls Housing pre-tax profit falls 55% in Q3

Indiabulls Housing Finance reported a 55 per cent fall in pre-tax profit at ₹613 crore in Q3, against ₹1,387 crore in the year-ago period as both net interest income and revenue saw a decline. BS REPORTER

FC to set up panel on debt, fiscal situation this month

May include members of former FRBM committee

ARUP ROYCHOUDHURY & INDIVJAL DHASMANA
New Delhi, 5 February

The Fifteenth Finance Commission (15th FC) will set up a panel later this month to examine the fiscal and debt situation of the Centre and states and present a road map, on the lines of the erstwhile Fiscal Responsibility and Budget Management panel, the Commission's Chairman N K Singh said on Wednesday.

The panel may include or seek inputs from former Reserve Bank of India Governor Urjit Patel, former chief economic advisor Arvind Subramanian, Sajjid Chinoy of the Prime Minister's Economic Advisory Council, Rathin Roy of National Institute of Public Finance and Policy, and Prachi Mishra of Goldman Sachs, among others.

"One of the terms of reference of the Commission is to address the issue of general government, the consolidated fiscal deficit and debt and so on. So, after my meeting with the 15th FC's economic advisory council on February 13, I intend to constitute a committee under my chairmanship, since I had the chairmanship of the FRBM Committee," Singh said.

Singh said the panel will include representatives from the Controller General of Accounts, the Indian Civil Accounts Service, state expenditure departments, and other central and state bodies, as well as domain experts.

"The aim will be to come up with a report to address the terms of reference given to the Commission," said Singh.

The terms of reference say: "The Commission shall review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the Union and the states, and recommend a fiscal consolidation roadmap for sound fiscal management, taking into account the responsibility of the central government and state governments to adhere to appropriate levels of general and consolidated government debt and deficit levels, while fostering higher inclusive growth in the country, guided by the principles of equity, efficiency and transparency."

The panel will submit its report to the 15th FC, which may include those recommendations in its second report, expected to be submitted in October, and will make recommendations for the period 2021-22 (FY22) to FY26.

"The panel will see whether we are compliant with terms of reference. One of the overarching issues that the Commission is expected to weigh in on is the path, issues and factors of the debt and fiscal deficit of Centre and states to be compliant with the FRBM Act," Singh said.

The panel, and hence the 15th FC, is also expected to take a look at Article 293(3) of the Constitution, which says a state cannot raise any loan without the Centre's consent if there is an outstanding loan made by the Centre to the state.

"I did not touch upon this in the FRBM Committee because that mostly focused on the Centre's finances," Singh said. When asked if he would invite his former colleagues from the FRBM Committee to be part of the panel, Singh replied in affirmative.

"Roy is here in Delhi, Subramanian is abroad, but has views on fiscal consolidation. I might want to hear Patel, and some experts like Chinoy and Mishra," Singh said.

The FRBM Committee comprised of Singh, former finance secretary Sumit Bose, Patel, Subramanian, and Roy. The committee, which submitted its report to former finance minister Arun Jaitley before the 2017-18 Budget, had recommended a fiscal deficit target of 2.5 per cent of gross domestic product, and revenue deficit of 0.8 per cent for fiscal year 2022-23.

Other recommendations included setting up a fiscal council and giving the government tightly defined escape clauses to enable any deviation from the roadmap. Subramanian had drafted a dissent note, which was part of the panel's report.

Finance Minister Nirmala Sitharaman used the escape clauses to revise the budgeted fiscal deficit target of 2019-20 and the medium-term forecast for 2020-21 by 0.5 percentage points each. The Centre now sees fiscal deficit at 3.8 per cent of GDP for FY20 and 2.5 per cent for FY21.

In its first report – for FY21 – the 15th FC has recommended the creation of an overarching legal fiscal framework to improve and overhaul budgeting at the central and state level, as well as provide greater budgetary transparency.

Mirroring the FRBM Act, this would also define the roles and responsibilities of key stakeholders, as well as the budgeting, accounting, internal control and audit standards to be followed at all levels of government. The first report was tabled in Parliament on February 1, along with the Budget.

N K Singh, chairman of the 15th Finance Commission, will head the panel

THE ROAD AHEAD
- Committee may recommend fiscal road map for Centre and states
- May include or take inputs from Urjit Patel, Arvind Subramanian, and others
- Will have representatives from CGA, ICAS
- Panel will submit its report to the 15th Finance Commission

MFs and traders look for cues on Operation Twist

LEADING GAINERS
Exposure to government securities has impacted scheme returns

Dynamic funds	3-month return (%)	G-secs (% of NAVs)
ICICI Pru All Seasons	3.10	34.97
Axis Dynamic Bond Fund	2.93	22.57
Quantum Dynamic Bond Fund	2.73	25.17
IDFC Dynamic Bond Fund	2.66	98.91
SBI Dynamic Bond Fund	2.45	18.45
DSP Strategic Bond Fund	2.31	78.8
Kotak Dynamic Bond Fund	2.24	33.67

Note: Dynamic funds take exposure across duration
Source: Value Research, factsheets, as of December 31, 2019

JASH KRIPLANI
Mumbai, 5 February

Debt fund managers and traders will closely monitor the Reserve Bank of India (RBI) for cues on Operation Twist as factoring in timing and quantum of these market operations has become key to optimising portfolio returns with long-term yields susceptible to sharp easing from these measures.

Operation Twist is a market term for special open market operations (OMO) conducted by RBI, where it buys long-term government bonds and sells short-term ones.

RBI has conducted the operation four times so far. However, the central bank bought more bonds than it sold, which is akin to the traditional OMO purchases in which it directly buys dated bonds from the secondary market. The first such special OMO operation was announced on December 19.

"This is the first monetary policy after Operation Twist was announced. So far, RBIs intervention has not been anchored to any stated objective — targeting yield curve or spread compression. This can lead to sharp variations in performances between funds with higher exposure to longer-tenure government securities (G-secs) and those with lower exposure," said Arvind Chari, head-fixed income and alternatives, Quantum Advisors.

Fund managers say the RBI intervention in markets will be easier to monitor if it is pegged to reaching a particular threshold on absolute long-term yields, or alternatively focused on bringing down the spreads to a level such as 100 basis points (bps), from 135 bps at present.

"With RBI's routine OMO, markets have some predictability as these are usually linked with structural liquidity. But, with Operation Twist there is not yet any quantifiable measure to gauge the interventions," said a fund manager.

"Some participants expect operations to continue, some have doubts. RBI's post-policy comments will help take an informed view," said A Prasanna, head of research at ICICI Securities Primary Dealership.

Anup Roy contributed to the story

YES Bank CEO taps 'mentor' to raise $2 bn

BLOOMBERG
5 February

YES Bank has picked Cantor Fitzgerald, IDFC Securities and Ambit to help the lender raise as much as $2 billion for bolstering capital buffers, people with knowledge of the matter said.

The bank, staggering under the weight of soured loans, has been plagued by worries about its asset quality and uncertainty about efforts to raise new capital. It's trying to shore up a core equity capital ratio that's barely above a regulatory minimum of 8 per cent.

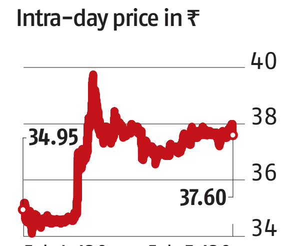
The lender's shares surged the most since November 27 on Wednesday as investors were encouraged by the move to pick bankers, while its 2023 dollar bond gained the most since January 15. YES Bank, led by Chief Executive Officer Ravneet Gill (*pictured*), has lost more than 80 per cent of its market value in the past year on concerns about its ability to raise funds.

"As credibility and sentiment get eroded, time is running out for the bank to raise capital," according to Bloomberg Intelligence analyst Diksha Gera.

"With the bankers for fund raising in place YES Bank needs to move quickly to avoid panic among credit investors, which could cause unwanted liquidity pressure." Cantor Fitzgerald is led by Anshu Jain, the former co-chief executive officer of Deutsche Bank AG until 2015, while Gill headed the German bank's Indian operations before he joined YES Bank last year. *The Economic Times* reported the appointment of the banks earlier.

A spokesman for YES Bank and spokeswoman for Ambit declined to comment about the fund raising plans. A representative for IDFC Securities and spokeswoman for Cantor didn't immediately respond to emails seeking comment.

HOW THE STOCK MOVED ON BSE
Intra-day price in ₹



Ex-director writes to RBI, seeks Gill's removal

PRESS TRUST OF INDIA
New Delhi, 5 February

Former YES Bank independent director Uttam Prakash Agarwal has demanded appropriate action against the lender's CEO and MD Ravneet Gill for allegedly violating various regulatory norms. Agarwal, who was independent director in 2018, resigned from the board of YES Bank last month citing deteriorating standard of corporate governance at the private sector lender.

In a letter to RBI Governor Shaktikanta Das, Agarwal alleged breach of governance, non-compliance, undue influence and control on the majority members of the board by Gill through quid pro quo.

The letter also alleged there has been substantial erosion in the market capitalisation (m-cap) of about ₹40,000 crore since Gill took over as the managing director.

The m-cap of the bank was ₹55,000 crore on March 1, 2019, the date when Gill joined. The m-cap as on January 29, 2020, is ₹11,000 crore, it said.

By use of various unethical means, Gill has been able to effectively control the majority of board members and Key Management Personnel (KMP).

The CEO seems to be knowing the weak points of KMP of the bank, it said.

HPCL reports 144% rise in pre-tax profit

AGENCIES
New Delhi, 5 February

Hindustan Petroleum Corp (HPCL) on Wednesday reported a 144 per cent rise in profit before tax at ₹1,150.84 crore in the quarter ended December 2019 (Q3FY20) over the same period in FY19. It saw its net profit treble in the quarter as inventory gains made up for lower refinery margins.

Net profit in October-December at ₹747 crore was higher than net profit of ₹248 crore in the same period a year back, HPCL Chairman and Managing Director Mukesh K Surana told reporters here.

"In Q3 of the last fiscal we had an inventory loss of ₹3,465 crore. As compared, we made an inventory gain of ₹343 crore," he said, adding the inventory gains were partly offset by lower exchange gains.

Rosneft to supply crude to IOC; India & Russia talk BPCL

JYOTI MUKUL
New Delhi, 5 February


The contract is part of India's strategy to diversify the country's crude oil supplies from non-Opec countries

After getting a foothold in the Indian petroleum market by buying out Essar Oil in 2017, Russia's state-owned Rosneft on Wednesday signed an agreement with Indian Oil Corporation for providing 2 million tonnes of Urals grade crude oil to the latter.

The oil will be shipped to India this year. Rosneft is also expected to bid for the government-owned Bharat Petroleum Corporation (BPCL).

The Russian major already holds 49 per cent in Nayara Energy, the erstwhile Essar Oil. Nayara owns a 20 million tonne refinery in Vadiar, Gujarat, and has a network of 5,600 petroleum retail outlets across India.

The crude purchase agreement with Indian Oil was signed during a meeting between Union Minister of Petroleum and Natural Gas and Steel Dharmendra Pradhan and Rosneft chairman and chief executive officer Igor Sechin.

The long-term contract is a part of India's strategy for diversifying the country's crude oil supplies from non-Opec countries. It is also a part of the five-year roadmap for bilateral cooperation in the hydrocarbons sector. A pact in this regard was signed during Prime Minister Narendra Modi's visit to Vladivostok last September, said a press release from the ministry of petroleum and natural gas.

"The addition of Russia as a new source for crude oil imports by India's largest refiner will go a long way in mitigating the risks arising out of geo-political disruptions. The new arrangement would also usher in price stability and energy security for India, which is witnessing robust growth in demand for petroleum products. It will also open up avenues for other public sector undertaking (PSU) oil refiners to enter into similar term contracts for import of Russian crude oil," said the release.

Both sides agreed to take forward mutually aligned priorities, including preparing a road map for Indian investments in the Eastern Cluster projects of Russia.

It was noted that the four Indian oil and gas PSUs have already submitted the expression of interest to Rosneft to participate in the project.

In order to negotiate the terms of Indian companies entering Vostok Oil in the shortest time possible, it was agreed to create a working group of representatives of Russian and Indian companies.

During Wednesday's meeting, both the countries reviewed the ongoing investments between Indian oil & gas PSUs and Rosneft. They called for enhancing energy cooperation further and strengthening hydrocarbons engagement, both on the investment front as well as sourcing natural gas and crude oil. Pradhan said that hydrocarbon is an important pillar of the bilateral strategic partnership. "Indian oil and gas companies value their association with Rosneft, one of the important companies partnering India's energy security objectives," he added.

Both sides agreed to take forward mutually-aligned priorities discussed during Pradhan's visit to Russia in September last year. This includes preparing a roadmap for Indian investments in the Eastern Cluster projects of Russia, especially in the Arctic.

Pradhan said Indian companies, especially Engineers India, have considerable expertise in providing engineering consultancy as well as executing mega projects across the hydrocarbons value chain.

Sechin indicated his readiness to intensify cooperation to strengthen India's energy security and work jointly with Indian oil and gas companies.

The crude oil, being sourced under the contract, will be loaded in Suezmax vessels at the Novorossiysk port of Russia and come to India, bypassing the Straits of Hormuz.

CABINET DECISIONS

RBI to get more control over co-op banks

SOMESH JHA
New Delhi, 5 February

The Reserve Bank of India (RBI) is set to get more auditory and supervisory powers over urban and multi-state co-operative banks, with the Union Cabinet approving the Banking Regulation Amendment Bill, 2020, on Wednesday.

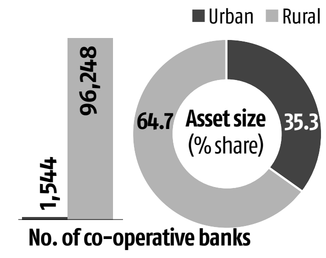
"Like commercial banks, multi-state and urban co-operative banks will be brought under the regulations of the RBI. These changes will be only for the banking side and administrative rights will continue to remain with the registrars," said Information and Broadcasting Minister Prakash Javadekar.

The Union Cabinet was chaired by Prime Minister Narendra Modi.

Javadekar added that the audit of such co-operative banks will be according to RBI regulations and the best management practices laid down by the regulator will also apply to them. Further, the RBI will be allowed to set the minimum level of qualifications for the board members of such lenders which will need the consent of the regulator to appoint a chief executive officer.

MORE TEETH BUT...

Even after the changes in the legislation, the central bank will gain regulatory control over only a small fraction of co-operative banks



Urban co-operative banks		
Figures in ₹ trillion		
4.84	3.03	5.99
Deposits	Advances	Total assets

Source: Trend and Progress of Banking in India, 2018-19 (RBI)

The managements of such banks are elected through co-operative bodies at present and the RBI has limited control over their appointments.

"If the situation gets worse, the RBI will get powers to supersede the board. All these measures will give financial stability to the sector and protect the depositors' interests. The RBI will bring the co-operative banks under its control in a phased manner," the minister said.

The move is the fallout of a fraud unearthed at Punjab and Maharashtra Co-operative Bank whose management had allegedly handed over ₹6,700 crore worth loans to real estate firm HDIL.

There was a dual control of the RBI and respective states and the central governments that restricted timely regulator action against co-operative banks. However, even after the recent proposed changes in legislation, the RBI will be gaining control over a small fraction of co-operative banks.

As of March 2019, 1,544 urban co-operative banks accounted for merely 1.6 per cent out of the 97,792 co-operative banks. In fact, 96,248 rural co-operative banks accounted for around 65 per cent of the assets of co-operatives and were controlled by the respective state government legislation.

Javadekar said co-operative banks had 86 million depositors with total deposits of around ₹5 trillion. While the registrars under the state and central governments have control over incorporation, registration, management, recovery, audit, supersession of board of directors and liquidation, the RBI is "invested with regulatory functions", according to the RBI's Trends and Progress Report 2018-19.

The RBI is also responsible for the supervision of urban co-operative banks, empowered to give suggestions on prudential norms for capital adequacy, income recognition, asset classification and provisioning, liquidity requirements and single or group exposure norms.

Maharashtra to have India's 13th major port

MEGHA MANCHANDA
New Delhi, 5 February

WHAT'S IN STORE

- Boost for port-led development and reduction in logistics cost
- New port to give tribal area development a boost
- Higher cargo movement from south Gujarat, Indore (Madhya Pradesh), Maharashtra, Telangana, north Karnataka and land-locked states of North India

The Union Cabinet on Wednesday approved the setting up of the country's 13th major port at Vadhavan in Maharashtra at a total cost of ₹65,544.54 crore.

The Vadhavan port will be developed on "landlord model" (where infrastructure is leased to private firms or industries and chemical plants). A special purpose vehicle (SPV) will be formed, with the government planning to hold 51 per cent stake in the project.

The SPV will develop the port infrastructure including reclamation, construction of breakwater, besides establishing connectivity to the hinterland. All the business activities would be undertaken under the private-public partnership mode.

Currently, India has 12 major ports — Deendayal, Mumbai, Jawaharlal Nehru Port Trust (JNPT), Mormugao, New Mangalore, Cochin, Chennai, Kamarajar, V O Chidambaranar, Visakhapatnam, Paradip and Kolkata (including Haldia).

"Setting up a major port is a big task and takes time but I am hopeful that we should be able to start work on the project soon," shipping minister Mansukh Mandaviya said.

The reason behind setting up another major port on the west coast is because of the exhaustion of container cargo capacity of the JNPT, which is 10 million TEUs (twenty foot equivalent unit). On the west coast, this capacity is 18 million TEUs while the total requirement will increase to 25 million TEUs in 2030.

With development of the Vadhavan port, India will break into the countries with top 10 container ports in the world, Mandaviya said.

The central government felt the need for a deep draft port to accommodate the largest container ships in the world. The new port will also cater to the spillover traffic from JNPT once its planned capacity of 10 million TEUs is fully utilised.

The Vadhavan port has a natural draft of about 20 metres close to the shore, making it possible for it to handle bigger vessels. Development of this port will enable cargo container vessels of 16,000-25,000 TEUs capacity, giving advantage of economies of scale and reducing logistics cost.

The demand for container traffic will further accelerate after the plans for improving logistic infrastructure fructify and the 'Make in India' push drives greater exports, an official statement said.

CORONAVIRUS OUTBREAK

UK claims breakthrough, WHO snubs it as death toll nears 500

Outbreak won't impact China-India trade ties, says Chinese ambassador

World Health Organization officials have damped down expectations of imminent breakthroughs in the development of vaccines or treatments for the outbreak. "There are no proven, effective therapeutics" for the novel coronavirus, Mike Ryan, executive director of the WHO's Health Emergencies Program, said on Wednesday at a press conference in Geneva.

The UN agency plans a systematic review of all therapeutics, Ryan said. The organization will share clinical trial protocols around the world, he said.

An antiviral drug from Gilead Sciences is expected to start testing in China in the coming days. A Chinese TV report said researchers at Zhejiang University had found an effective drug for the virus, while Britain's *Sky News* said researchers had made a "significant breakthrough" in developing a vaccine. Oil prices jumped on the reports.

Trade relations with India

In an interview to *PTI*, Chinese Ambassador Sun Weidong said China's foreign ministry and local governments are working hard to ensure the safety of Indians and people working in Indian diplomatic missions in China.

Admitting that there could be a short-term impact of the epidemic on China's economy, he said the country's internal resilience is growing and it has ample resources and policy tools to cope with economic volatility. "I am confident that it should not and will not be hindered by short-term difficulties. We should not suspend but expand the economic and trade cooperation between the two countries," he said.

No sign of a slowdown

The death toll from the monthlong coronavirus outbreak has continued to climb in China, rising to 490. New cases have surged by double-digit percentages in the past 11 days. More people have now died in this epidemic than in the SARS outbreak of 2002-3 in mainland China. During that outbreak, 349 people died in the mainland.

The new figures from China's Health Commission on Wednesday showed that 65 people died on Tuesday and that 3,887 more people had been infected. So far, 24,324 people are known to have been infected. Health experts say the death toll is likely to rise because of the large number of infections.

More American evacuees arrived in California, and were quarantined

Hundreds of Americans who had been in Wuhan as the outbreak worsened arrived in California on Wednesday on two evacuation flights arranged by the United States government. It was a second wave of American evacuations; an earlier flight arrived last week.

US President Donald Trump has pledged to work with China on the outbreak, while cruise ships get new scrutiny after infections are found on two.

Cruise ships in Japan and Hong Kong being scrutinised after infections

Nine passengers and one crew member on a cruise ship quarantined in Yokohama, Japan, have tested positive for the coronavirus, the cruise line, Princess Cruises, said on Wednesday. The ship, carrying 2,666 passengers and 1,045 crew members, arrived in Yokohama on Tuesday, but the authorities did not allow anyone off. In all, 273 passengers were tested for the virus after everyone on board underwent an initial health screening. Twenty-one people were cleared, and officials were awaiting the other results.

Hong Kong imposes 14-day quarantine

Hong Kong said that it will begin requiring people who arrive from mainland China to undergo a mandatory 14-day quarantine, as it tries to reduce the potential for imported cases of the coronavirus.

With inputs from agencies

Officers spray Indonesians with antiseptic at Hang Nadim Airport in Batam (Indonesia) as they arrive from Wuhan, before transferring them to the Natuna Islands military base to be quarantined PHOTO: REUTERS

490 DEATHS AND 24,324 CONFIRMED CASES

- Baby tests positive for China virus just 30 hours after birth
- WHO issues appeal for $675 million to fight novel coronavirus
- Bill & Melinda Gates Foundation pledge to commit up to $100 million for the global response to the epidemic
- Coronavirus vaccine hopes guide British stocks higher — FTSE 100 up 0.6%, FTSE 250 up 0.4%
- Central Hubei province reported 3,156 new infections, its biggest single-day jump during the outbreak
- Cathay Pacific asks staff to take unpaid leave, Airbus shuts plant
- Three foreign nationals among 2,528 under observation in Kerala
- 46 under watch in Gujarat
- Delhi govt sets up 24x7 control room for any query related to virus
- Tamil Nadu procures 5,000 additional personal protection equipment for healthworkers, says state health secretary Beela Rajesh
- 104 kept at Indo-Tibetan Border Police facility test negative

Cipla sees opportunity for its anti-HIV drug

SOHINI DAS
Mumbai, 5 February

With anti-HIV drugs being considered a possible line of treatment for the novel coronavirus that is spreading across the globe, companies like Cipla that make a particular anti-HIV drug combination see an opportunity.

Kedar Upadhye, global chief financial officer of Cipla, said: "Within the next few weeks or so, if scientific data shows that the two antiretroviral medications — lopinavir and ritonavir — can be used effectively to tackle coronavirus, we do see an opportunity there."

Later in the day, the Drug Controller General of India approved the "restricted use" of the drug combination. According to government sources, apex health research body Indian Council of Medical Research had sought an emergency approval from the DCGI for the medications.

Upadhye said the drug combination (which Cipla sells under the brand Lopimune) has protease inhibitors that are designed to block HIV viral replication. It is being considered a line of treatment for the novel coronavirus, which has caused the deaths of about 500 people globally.

However, this is yet to be established scientifically. Doctors are scrambling for a potent treatment for the virus, which is spreading fast and has no vaccines available yet. Traditional flu medication, and even Tamiflu, is not likely to contain the spread.

About a few weeks back, Chinese doctors said they saw positive response in patients (in Beijing) who were administered a drug cocktail comprising the anti-HIV combination and an anti-flu medication (oseltamivir).

Cipla can supply the drug globally if needed as it already has approvals in many countries. The company also hopes that in case of a global health emergency, approvals would not take much time. Cipla has already received queries from China for supply of the drug.

It has sufficient raw material to make about 10-12 million tablets of Lopimune. It makes these drugs at multiple sites in India, and sells it at a price of ₹2,000 for 60 tablets.

A woman with her child outside the special isolation ward set up for coronavirus patients, at Kochi medical college PHOTO: PTI

Surat diamond industry stares at ₹8,000-cr loss

The Surat diamond industry is likely to face a loss of around ₹8,000 crore in next two months as Hong Kong, which is a major export destination, has declared a state of emergency due to the coronavirus outbreak in China, say experts.

Hong Kong is a major business hub for the Surat diamond industry, but schools and colleges have been closed there till the first week of March and even the businesses are seeing a dip in view of the outbreak of the novel coronavirus.

According to Gems and Jewellery Export Promotion Council (GJEPC) regional chairman Dinesh Navadiya, polished diamonds worth around ₹50,000 crore are exported from Surat to Hong Kong every year.

"That's around 37 per cent of the total exports from here. Now, due to coronavirus scare, Hong Kong has declared a month-long vacation. Gujarati traders having offices there are coming back to India," he said.

If the situation does not improve, it will have a huge impact on the Surat diamond industry, which polishes 99 per cent of all rough diamonds imported in the country, he said. "The Surat diamond industry is staring at a loss of around ₹8,000 crore for February and March," he added. **PTI**

FROM PAGE 1

'Father believed three engines can never run a company successfully'

The reason why I put my weight behind sale is because I don't believe that any of the members of the trust has the ability, vision or ambition to continue.

Why did your father say three engines when the trust has four members?

He did not consider his wife as an option, maybe. Maybe only 'he' (Lalit) was expected to be the engine.

Don't you think the trust deed has not taken care of the interests of minority shareholders, as it was not disclosed to them?

I have been pushing the trust, and it's indeed the duty of the company to disclose this as it is appropriate. Remember, I am not on the board. My son Ruchir who is on the GPI board has also told the company to disclose this. He even apprised me of this and his apprehensions about non-disclosure.

Considering the ban on FDI in tobacco and the government policy to discourage a new player in this space, do you see potential of any player to buy GPI? Also, Phillip Morris (having 25.1 per cent shares) can always block a special resolution for sale of the company. Do you have an NOC from Phillip Morris?

The global company has diluted its stake in the company after attempts to take a majority stake did not work out. Sometimes there is a tendency to look at our companies, as if there was just one – only a tobacco company. We are also a gigantic distribution systems company with multiple touch points and multiple consumers across the country. The logistics and marketing capability is also valuable and unlocking its value for shareholders is important. Our value is not based on just products, but also our market reach in the hinterland of India, which we have serviced for three decades.

On the question of Phillip Morris — on the compliances as well as the statutory regulations — we and our legal team will work within the framework of what is appropriate and comply with the laws which are applicable. We believe that Phillip Morris, as shareholders and partners, will also like to see fair valuation, as it would also stand to benefit if a suitable big investor, global or local, was to step in.

Q&A

What about Indofil Industries?

Indofil has a strong domestic base and a well-recognised international presence. It will fetch a high price as we are top global player in the business. Many investors have shown interest in it.

Will the asset sale include IPM India Wholesale Trading Pvt Ltd, a JV between Phillip Morris, GPI and K K Modi investment company which is involved in wholesale trading of Marlboro cigarettes?

Yes, it will.

DEFEXPO 2020

Modi targets $5 bn of defence exports in 5 yrs

AJAI SHUKLA
New Delhi, 5 February

Inaugurating the 11th Defence Exposition (DefExpo 2020) in Lucknow on Wednesday, Prime Minister (PM) Narendra Modi called on international defence manufacturers to "Make in India, for India and for the world". In his 35-minute inaugural speech, Modi listed out a string of defence production sector reforms his government had put in place since 2014, which he said had set the stage for making India a major global "defence manufacturing hub".

"How long can the world's second-largest population, second-largest military, and largest democracy remain reliant on importing all its weaponry?" he wondered aloud.

"Terming the opportunity to participate in the Indian defence manufacturing ecosystem "an unparalleled opportunity for the world", Modi stated: "When the world talks about the 21st century, attention naturally turns to India." The PM claimed the defence economy had already picked up due to measures taken by his government. "In 2014, defence exports were ₹2,000 crore. Now we have exported ₹17,000 crore worth of defence equipment. In the next five years, we must ensure defence exports cross ₹5 billion, or ₹35,000 crore," said Modi.

Pointing out that his government had liberalised foreign direct investment (FDI) into defence, Modi stated: "In the last five years, ₹1,700 crore in FDI has flowed into defence manufacture." He pointed to the investment in Korwa, near Amethi, where Kalashnikov had set up a joint venture with the Ordnance Factory Board, India-Russia Rifles, to manufacture AK-203 rifles in India.

However, most foreign defence firms regard a 49 per cent FDI cap unattractive for investment, since that does not provide control over the technologies they bring into India. On Tuesday, US envoy to India, Kenneth Juster stated in Lucknow: "If you're trying to attract investment into your country, I think having FDI caps limits that degree of flexibility."

Modi also claimed the procedure for issuing defence production licences to private firms had been eased greatly, stating that the overall number of licences issued had doubled in the last five years to 405.

The PM said: "Appointing a Chief of Defence Staff and setting up a Department of Military Affairs has eased the purchase and manufacturing processes." Modi also dwelt on one of his pet themes: Innovation. Citing advanced technologies such as Internet of Things, and Big Data analysis, the PM pointed to the Innovations for Defence Excellence (iDEX) scheme, floated by his government.

"To flesh out and scale up the iDEX scheme, we have set an aim of creating 200 new defence start-ups. It is our endeavour that this would lead to the creation of 50 new technologies and products," he said.

Setting a new target that all this innovation would fuel, Modi said: "We aim to have 15,000 micro, small and medium enterprises in the defence sector within the next five years."

Modi suggested that industry bodies like Confederation of Indian Industry and Federation of Indian Chambers of Commerce and Industry, which currently have their own defence sub-committees, should work in coordination.

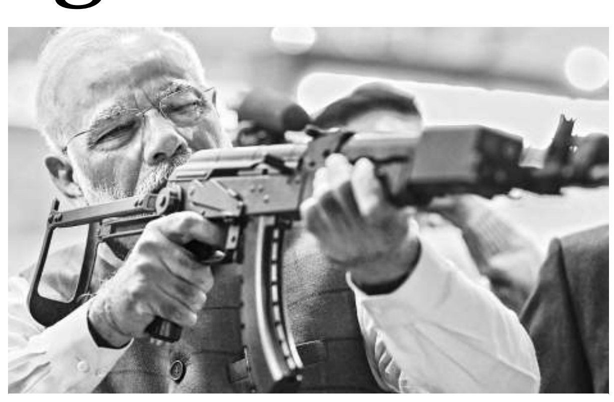
Modi's ambitious target setting at DefExpo 2020 mirrored his speech at Aero India 2015 in Bengaluru in February 2015.

There he had noted that a 20-25 per cent reduction in defence imports could create additional 100,000-120,000 highly skilled jobs in India. He noted that raising domestic procurement over the next five years from 40 per cent to 70 per cent of overall procurement would double India's defence industry output. However, that target has not come close to being realised.

In 2015, Modi had also enunciated a clear aim for offsets: "To acquire state-of-the-art technology and skills in core areas of priority". That did not happen, and offsets are flagging today.

In 2015, the PM had also raised hopes by calling for a special financing system for the defence industry, where "capital investments are large and the risks are high". However, high finance costs continue to hobble private defence industry.

Uttar Pradesh (UP) Chief Minister Yogi Adityanath, who also attended the inauguration, spelt out a target of ₹50,000 crore investment in UP.



Prime Minister Narendra Modi during the inauguration of the 11th edition of DefExpo 2020 in Lucknow PHOTO: PTI

> "HOW LONG CAN THE WORLD'S SECOND-LARGEST POPULATION, SECOND-LARGEST MILITARY, AND LARGEST DEMOCRACY REMAIN RELIANT ON IMPORTING ALL ITS WEAPONRY?"
> NARENDRA MODI
> Prime Minister

MoD procurement chief talks up cooperation with Israel

AJAI SHUKLA
Lucknow, 5 February

In an unusual endorsement that illustrates Israel's value as India's third-largest defence supplier after Russia and the US, the Ministry of Defence's (MoD's) weapons procurement chief, Apurva Chandra, publicly stated that Israel is the key contributor to India's readiness to face military challenges.

Chandra, who holds the post of director general (acquisitions) in the MoD, also acknowledged that Israel has been always forthcoming in sharing high-end military technologies with India.

He was speaking at a seminar on India-Israel defence cooperation at DefExpo 2020 in Lucknow on Wednesday.

Chandra hoped that India's defence partnership with Israel would continue to grow, stating that all the contracts the MoD has entered into with Israel were concluded on time. The overall experience with Israel has been 'highly satisfying', he stated.

Chandra listed out unmanned aerial vehicles (UAVs), border management, after-sales support, and maintenance and repair of equipment as the new focus areas of India-Israel defence cooperation.

Since Israel does not build and sell major defence platforms such as aircraft or ships, its high-tech defence companies — many of them privately owned — focus on the lucrative Indian market for upgrading India's predominantly Russian platforms. Israel retrofitted its cutting-edge avionics into the Russian Sukhoi-30 fighter, enhancing its capabilities and configuring it into the purpose-designed Sukhoi Su-30MKI.

Over the years, Israel has upgraded India's MiG-21 fighters; ship-borne missiles and T-72 tanks. Having accumulated this experience at India's cost, Israeli firms can theoretically upgrade some 30,000 T-72 tanks in service worldwide.

Similarly, Israeli industry worked with Russian equipment to build India's Phalcon airborne warning and control system — an airborne radar mounted on a Russian IL-76 aircraft. India paid about $1.1 billion to Israel Aerospace Industries and Elta for this.

In recent years, Israeli defence firms have entered into co-development projects with India's Defence Research and Development Organisation to build advanced systems such as the eponymous long range surface-to-air missile that protects Indian warships.

And Israeli firms are increasingly entering into joint ventures with Indian defence companies to provide an indigenous screen for what remains heavily Israeli equipment.

Underlining the continuing belief on India-Israel cooperation, Hindustan Aeronautics (HAL) and Israeli firm, Elbit Systems, signed a memorandum of understanding (MoU) on Wednesday for joint development of a UAV.

HAL and Elbit are assessing the possibility to jointly developing, manufacturing, and maintaining a vertical take-off and landing (VTOL) helicopter-style UAV that can operate on land and at sea. They intend to address the entire global market with this 2,000-kilo class rotary wing UAV.

"The proposed VTOL UAVs have a tremendous potential in carrying out maritime military missions with higher efficiency compared to a manned helicopter. Deploying a VTOL UAV will bring down the huge costs associated with inducting operating and maintaining manned helicopters on the (ship's) deck," HAL stated after the signing.

Deploying VTOL UAVs for routine surveillance missions in unsafe areas would also benefit the armed forces by avoiding casualties and increasing endurance. In the absence of a VTOL UAV, manned helicopters would be needed for such missions, both during day and night.

HAL and Elbit signed a second MoU on Wednesday to cooperate in promoting and marketing digital head-up displays to global customers.

Army personnel during the Defence Expo 2020 in Lucknow PHOTO: PTI

Top-down Budget

A whole host of Budget announcements has a distinct imprint of the Prime Minister

NOT FOR PROFIT

NIVEDITA MOOKERJI

This might be first time that the Union Budget speech mentioned quantum computing and also proposed an outlay of ₹8,000 crore spread over five years for a national tech centre focused on the area. It appears that ahead of the Budget, Prime Minister Narendra Modi had, in a meeting with the council of ministers and secretaries, discussed the relevance of quantum computing, artificial intelligence, internet of things, drones and data parks in relation to technological innovation. That idea from the top found its way into the Budget.

That's not the only proposal in Finance Minister Nirmala Sitharaman's Budget that had an imprint of the prime minister, according to people who've attended some of the meetings in December-January. In fact, three Ts — technology, trade and tourism — have been the focus of deliberations in many of these meetings.

Among others, the proposal on a National Technical Textiles Mission at an outlay of ₹1,480 crore might also have been a brainchild of the prime minister, who batted for textile manufacturing parks and textile machinery manufacturing parks in one of the meetings close to the Budget.

In the speech, Sitharaman said, "India imports a significant quantity of technical textiles worth $16 billion every year." To reverse the trend and put India on the global map in technical textiles, the finance minister announced the textiles mission.

Promoting exports has been a core subject in the prime minister's interactions with ministers and bureaucrats. He has been pressing for regular meetings with top state representatives to identify a list of products from across the country with export potential and to execute the plan so that quality issues, often raised by other countries, can also be addressed. That too was reflected in the Budget presented last week. Referring to the prime minister's call for quality, the FM said she had asked for mandatory technical standards and their effective enforcement. "All ministries, during the course of this year, would be issuing quality standard orders."

Staying with the export theme, the Budget announced a new scheme — NIRVIK — to provide for higher insurance cover, reduction in premium for small exporters and simplified procedure for claim settlements. Sitharaman's speech, which acknowledges the PM's vision and goals several times, speaks of it in relation to exports as well.

Referring to the prime minister's call for quality, the FM said she had asked for mandatory technical standards and their effective enforcement

"It is the vision of the PM that each district should develop as an export hub. Efforts of the Centre and state governments are being synergised for that," she said.

While tourism has always been close to the PM's heart, he once again sought ideas from bureaucrats in the past couple of months to make it a vibrant sector. The latest Budget speech that ran close to three hours, however, has only six paragraphs on culture and tourism. An official pointed out that the PM perhaps didn't want a tourism overkill in the Budget at a time when economic slowdown has already hit the sector hard. In her speech, the FM asked the state governments to develop a road map for certain destinations and also formulate financial plans after which grants would be given.

Almost the entire Part A of the Budget speech dealing with macro themes, and which took up more than half the time, is sprinkled with PM's ideas and vision, those reading the fine print point out.

Whether it's about the new economy or agriculture, aspirational districts or electronic manufacturing, in essence it's the PM's Budget, even as the general narrative has been that it was possibly drafted by the Prime Minister's Office.

Now that the Budget is done, the government is believed to be preparing for the next big show. No, not the next Budget in February 2021, but big-ticket announcements on key economic issues over the next couple of months. The thinking is that the Budget is not the only economic event for the country. It's better to have a series of announcements throughout the year. Several big announcements were made before the Budget as well to tackle the overall demand slowdown and financial stress in some difficult sectors.

The buzz is that the next round of big bang announcements will be about employment creation and skill development, while the country aims to reach the 25th rank in World Bank's Ease of Doing Business by 2025, from 63rd now.

CHINESE WHISPERS

Double talk or honest mistake?

Take a look at the Congress manifesto. It says if voted to power in Delhi in the upcoming polls, it would spend 25 per cent of the city government's Budget (each year) on fighting pollution and improving transport. Its campaign advertisement puts the figure at 20 per cent. Not just that. There are a host of other points in which the two differ. The manifesto says the party will ensure each family, including tenants and owners in JJ clusters, get a flat of 350 sq feet at the same place. In the hoardings and other advertising collateral, the party promises 269 sq feet flats. The manifesto promises 15,000 electric buses, but in the ads the figure reads 10,000. On clearing loans of those plying three-wheelers and e-rickshaws, the party's ad says it would write off such loans if voted to power; the manifesto talks about a one-time subsidy to the owners of such vehicles. The manifesto talks about filling language teachers' vacancies in government schools within 100 days; the advertisement does promise to clear the backlog of 11,000 teachers, including language teachers, but doesn't give a time frame. Is the party serious in its bid for the state?

Akhilesh clutches at straws

Samajwadi Party (SP) president Akhilesh Yadav would never let go of an opportunity to take a swipe at the ruling Bharatiya Janata Party (BJP). Now with campaigning in Delhi hitting a crescendo, the former Uttar Pradesh chief minister has attacked BJP leaders over their alleged inflammatory and inappropriate statements during interactions. Yadav, who is known for his strident criticism of Uttar Pradesh Chief Minister Yogi Adityanath, said the BJP leaders were giving such statements "in desperation" because the party was fast losing its support base in Delhi. While the SP has no stake in the upcoming Delhi polls, any electoral reverses for the BJP in the national capital, which has a sizeable working class population from UP, would be a morale booster for the party that has suffered serious erosion of its appeal in its home state in recent years.

The long and short of it

When Finance Minister Nirmala Sitharaman began her address at FICCI's post-Budget industry interaction, she said she was not keen on giving a long speech. She had already delivered the longest Budget speech and would be more interested in taking the industry's feedback, she added. Having said that, she took about 15 minutes to go through her opening address. At the end of it, Sitharaman said, "Though I had said in the beginning that I am not going to do a long one, it's always a temptation to speak as I have been trained as a spokesperson as well." The guests burst into peals of laughter.

Early warning signals on tax revenue

Or why the government's target for 2019-20 may have to be revised downwards a second time

A K BHATTACHARYA

LONG JUMP

Why tax revenue estimates can go awry

	Gross tax revenue (full year)	Gross tax revenue in April-Dec	Net tax revenue (full year)	Net tax revenue in April-Dec	*Nominal GDP growth in %*
2014-15	12.45	7.96 *(64)*	9.04	5.46 *(60)*	11.0
2015-16	14.56	9.63 *(66)*	9.44	6.22 *(66)*	10.5
2016-17	17.16	11.39 *(66)*	11.01	7.52 *(68)*	11.8
2017-18	19.19	13.37 *(70)*	12.42	9.00 *(72)*	11.1
2018-19	20.8	14.24 *(68)*	13.17	9.36 *(71)*	11.0
2019-20	21.63	13.83 *(64)*	15.04	9.05 *(60)*	7.75

All figures in ₹trillion, except those in brackets, which are per cent of total revenue collected in full year; Nominal GDP growth in per cent; 2019-20 full-year figures are Revised Estimates; 2019-20 April-Dec figures are Provisional Actuals; for all other years, full-year figures are Actuals and April-Dec figures are Provisional Actuals

Source: Budget documents, Controller General of Accounts and CSO

The Union Budget for 2020-21 has been criticised for presenting tax revenue numbers that are not realistic. How justified are these charges? Are there any early warning signals from the government's official figures to suggest that the government may not achieve those revenue targets?

Let us begin with the Centre's net tax revenue numbers, which account for more than half of the government's overall receipts and impinge on its ability to keep the fiscal deficit at the revised target of 3.8 per cent of gross domestic product or GDP. For the current year (2019-20), the Budget has already slashed the net tax revenue figures by ₹1.45 trillion in its Revised Estimate to ₹15.04 trillion, down from ₹16.49 trillion given in July 2019 in the Budget Estimate.

This nine per cent reduction has already raised questions about the government's ability to project revenue numbers realistically, keeping in mind the state of the economy and the tax department's efficiency in collecting the taxes that it had promised at the start of the year. But the more worrying question is: Do these already reduced numbers have to undergo another downward revision?

TAKE TWO

ANALYSIS BEHIND THE HEADLINES

The provisional unaudited numbers for net tax revenues collected from April 2019 to the end of December 2019, or about nine months of 2019-20, show that the Centre's net tax revenues are only ₹9.05 trillion. This is about 60 per cent of the total net tax revenues that will have to be collected, according to the Revised Estimate put out in the Budget on February 1.

In other words, another 40 per cent, or about ₹6 trillion, has to be collected in the remaining three months of the fiscal year. This is about double the average monthly rate of collections achieved in the first nine months of the year.

Government officials have stated that these numbers are achievable and the last three months of the financial year have in the past seen a smart rise in collections to justify such optimism. Are these assumptions correct?

Consider what happened in 2018-19. The government collected ₹9.36 trillion in April-December 2018, or about 71 per cent of the full year's actual net tax revenue collections. This meant that just 29 per cent of the full year's actual net tax revenues were collected in the last quarter of the year.

Raising that target rate to 40 per cent this year would be quite a task. The nominal growth in the GDP in 2018-19 was 11 per cent, boosting buoyancy in tax collections. But in 2019-20 the nominal growth rate is just 7.75 per cent. So, what will the tax department do to achieve this goal?

Indeed, only once in the last five years have the Centre's net tax collections in the last quarter of the year been as high as 40 per cent of the full-year collections. That was in 2014-15. That was the year when the government benefitted from higher duties on petroleum products, following a drop in international crude oil prices. In addition, the nominal economic growth rate was about 11 per cent.

In 2017-18, only about 28 per cent of the full-year actual net tax collections were achieved in the last quarter. In the previous two years, that performance was somewhat better at 32 per cent in 2016-17 and 34 per cent in 2015-16, but nowhere close to 40 per cent as required in the current year (*see table*).

Assume, for instance, that the net tax collections in the last quarter of the current year do as well as they did in the same period of 2018-19 or 2017-18. Net tax collections for the Centre in January-March 2020 would range between ₹4.2 trillion and ₹4.4 trillion. Thus, the full-year net tax collections during 2019-20 will come to about ₹13.3 trillion or ₹13.4 trillion.

This will mean a further tax revenue shortfall ranging between ₹1.6 trillion and ₹1.8 trillion. The only way the tax department can avoid any further shortfall is to repeat the performance of 2014-15. But that performance was achieved only once in the last five years.

Any further shortfall in tax revenue collections will have an adverse impact on the revenue targets for 2020-21, when the net tax collections are expected to grow to ₹16.36 trillion. As shown earlier, if in the last quarter of the current year, net tax collections maintain the same pace as Q4 of 2017-18 or 2018-19, total collections in 2019-20 would be only ₹13.26-13.41 trillion.

As a consequence, the net tax revenue collections growth target for 2020-21 would go up to 22-23 per cent, compared to the nine per cent growth assumed now. Imagine the plight of the tax department, if that were to happen! Taken together with the 223 per cent rise in disinvestment revenues projected for next year, the Budget assumptions for 2020-21 will become even more challenging.

This problem with the government's tax revenue estimates is not new. But it got worse when the interim Budget was presented in February 2019. At that time, the target set in the revised estimate was significantly higher than what the tax department could reasonably hope to meet. The actual net tax collection figures for 2018-19, released a year later, show that instead of the promised ₹14.84 trillion, they were actually 11 per cent lower at ₹13.17 trillion.

To be sure, the revised estimate on net tax collections presented for 2019-20 was relatively closer to the reality. The government had scaled down the Budget estimate for net tax collections of ₹16.49 trillion by nine per cent to ₹5.04 trillion in the Revised Estimate for the current year. The embarrassing issue that the government faces now is whether a further downward revision in the same number will be needed by next year.

INSIGHT

The great expectations challenge

Instead of grand visions and big announcements, the Budget should have focused on managing expectations around the current economic cycle

DHIRAJ NAYYAR

There is a lot that needs to be fixed in Indian economy. Nirmala Sitharaman's second Budget speech was never going to provide a solution to all problems. In fact, some of the most pressing structural reforms relate to the factor markets — amending land acquisition laws, changing labour codes and rebooting the banking system. The first two are clearly off Budget. The third has been addressed through recapitalisation but the key to reform is more structural, requiring either divestment or genuine autonomy, neither of which can be dealt with in the Budget.

The 16-point plan for agriculture which took considerable time and space also belongs off Budget as the key to it is structural market reform. There are other matters the Budget must deal with, most obviously those that relate to government expenditure and revenue. As these have implications beyond just balancing the books, the Budget cannot also be seen merely as an accounting exercise.

The Budget for 2020-21 was presented in a scenario of stalling economic growth, the lowest in a decade. There are many reasons for this slowdown, some external, some internal, some cyclical, some structural, some legacy. Whatever the reasons, expectations were heightened because stakeholders expected the government to respond radically. And on that metric, the Budget fell short.

Realistically, the only radical response that the government could have chosen was to loosen the purse strings in a strong counter-cyclical fiscal policy. The fact that it deviated from its fiscal deficit target of 3.3 per cent of GDP (for 2019-20) by 0.5 per cent is not an indicator of a fiscal stimulus but a stretch. Shortfalls in revenues, taxes and non-tax receipts, like disinvestment, in the midst of slow growth meant that the government had no choice but to let the deficit grow by a quantum permitted by the FRBM Act. If off-Budget borrowings are taken into account, the deficit is even higher. So, a real fiscal stimulus would have required the government to let the on-Budget fiscal deficit grow to around 5 per cent of GDP.

There are good reasons for the government not to have chosen that path. Additional government spending and therefore more borrowing would only put upward pressure on interest rates and crowd out the private sector from accessing resources. The direct contribution of government spending to India's GDP is only around 12 per cent whereas private investment is 30 per cent (but ought to be more than 35 per cent). It is also well known that private investment is more efficient than government spending. So the government's commitment to maintain a semblance of fiscal restraint may be good for revival in the medium term.

The FM should have tied in this logic with her exhortation of wealth creators and wealth creation. She could have articulated a clear vision for private sector-led growth where government would only play a supporting role in creating a conducive environment through structural reforms which will continue to happen off Budget.

That may not have squared well with the government's political intent to focus on welfare. It could have. The FM alluded to former PM Rajiv Gandhi's famous admission of leakages in government spending. The Modi government has seriously reformed delivery systems so an emphasis could have been laid on getting more bang for the buck. The FM could have also been forthcoming on the inability of certain government departments and agencies to spend their Budget allocations. When fiscal space is tight, the allocations to such departments could have been cut while rewarding those which spend efficiently. In other words, the overall expenditure, even if only nominally increased could have been deconstructed.

On the revenue side, the FM could have made out a case for no changes given the fiscal situation. A complicated opt-in system through which an individual could potentially get a small tax concession did not seem worth the effort. Instead, she could have laid down a pathway over the next five years in which personal income tax rates would be rationalised as growth recovers.

In the end, a do-little Budget was perhaps the best option for the FM. If only her Budget speech was structured to explicitly note the economic context and detail the government's strategy. Fortunately, the economic cycle is not coinciding with the political cycle. The government has over four years left.

The author is chief economist, Vedanta

LETTERS

Ease of paying tax

The changes proposed in Budget to the personal income tax system — simplified for incomes up to Rs 15 lakh per annum, the taxpayer's charter, the reduced interface with tax bureaucracy — indicate a welcome move towards easier compliance that could widen the tax net. Taxpayers with an annual income of Rs 5 lakh to Rs 15 lakh will now have an option of paying taxes at a lower rate provided they forgo assorted exemptions. The government's intention could be to move taxpayers to a low-tax regime with few exemptions, which explains the nudge — doing away with 70 of the 120 exemption categories that income tax payers can currently use to lower their tax liability. I think that the ease of paying taxes is an important consideration in determining ease of living and doing business. The measures mark an effort in this direction. Nobel prize-winning economist Richard Thaler would approve — if you want people to do something, make it easy, he said.

Tarique Anwar Bengaluru

Lottery strategy

This refers to the report "Govt likely to introduce lottery system to boost GST compliance soon" (February 5). One ingenious way of ensuring tax compliance is to follow the example of countries that have thought outside the box. They have turned sales receipts issued by retailers into lottery tickets and seen a phenomenal jump in tax collection. Consumers will insist on receipts as there is a chance to win. But the government will have to ensure protection from counterfeiting of sales receipts. In the last 10 years, countries like China, the Czech Republic, Lithuania, Portugal, Romania and Slovakia have done this. This will ensure retail businesses cannot circumvent taxes.

Being a large country implementing this on a national scale will involve logistical problems, but with today's technology that can be resolved. Many retailers do not issue receipts and it is the government that suffers in terms of loss of revenue. The finance minister and the finance panel should look into implementing such schemes for credit-debit card users as well as to usher in the long-term goal of transitioning into a cashless economy.

H N Ramakrishna Bengaluru

Abuse of child rights

Police interrogation of children as young as nine in a school in Karnataka's Bidar district in connection with a play enacted to denounce the Citizenship (Amendment) Act constitutes a flagrant abuse of child rights. It is an act of inhumanity a civilised society cannot countenance in any circumstance. Interrogating children intimidates them and may cause them irreversible psychological damage. The police tried to justify that on the ground that they need to collect evidence against parents and teachers.

The BJP government is so intolerant to criticism that it does not even spare children. The Bidar incident shows that the government would go to any length to stifle dissent. It is particularly worrying that the Karnataka High Court and the Supreme Court have turned a blind eye to the gross violation of child rights. If the courts do not intervene and protect children from police high-handedness, who else will? It is some consolation that the State Child Rights Commission has sought an explanation from the police.

The courts have ruled time and again that a speech or action intended to influence the government to change a policy or law does not amount to sedition. A country that cherishes democracy cannot let the ruling dispensation scare children and slap sedition charges on adults on flimsy grounds.

G David Milton Tamil Nadu

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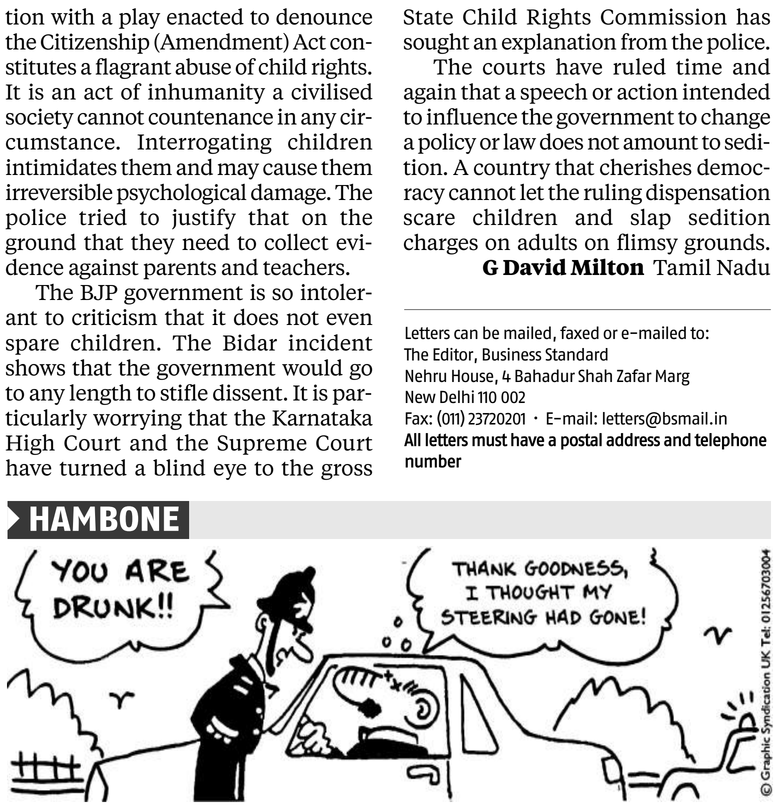
HAMBONE



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Stay the course

FC's final report should mirror the interim award

On Saturday, Finance Minister Nirmala Sitharaman tabled the first report of the Fifteenth Finance Commission in Parliament for the financial year 2020-21 alongside her presentation of the Union Budget. The Finance Commission's terms of reference had become something of a controversy, given that they departed in several important criteria from previous iterations. Among the states' concerns were that the Commission was told to stop using population weights from the 1971 Census, and instead use more recent relative population numbers — which significantly disadvantages those states in the south that have done better on family planning. It was also suggested that funds for defence and internal security be put into a separate fund from the divisible pool of taxes, and that "populist" policies be disincentivised for the states.

Given these constraints, the Finance Commission's interim report charts a middle path between the demands of the states and the Union government. Although it no longer uses the 1971 Census numbers, it has tweaked the formula by which taxes are divided among states in a manner designed to partially compensate for this change. For example, the population weight has been decreased to 15 per cent from 17.5 per cent, and the weighting given to demographic performance has been hiked from 10 per cent to 12.5 per cent. The weighting given to relative income has also been decreased by five percentage points. However, the southern states of Tamil Nadu, Telangana, Karnataka and Kerala will still see their relative share in the states' tax haul decrease. Though the Finance Commission has recommended a special grant to some states to overcome this sharp decrease, the Union government has frowned upon this grant. The Kerala finance minister tweeted that the Union Budget slashed the revenue deficit grant recommended by the Commission from ₹74,000 crore to ₹30,000 crore. This will no doubt become a serious issue going forward, and there is little justification for this move on the part of the Union. The Union finance ministry should seek to implement the Commission's recommendations in the right spirit, especially since transfers to states in the ongoing fiscal year have been lower by more than ₹1.5 trillion and there is an ongoing dispute about the status of the goods and services tax compensation.

The most important aspect of the Commission's award, however, is the states' total share of taxes, which was fixed at 42 per cent by the Fourteenth Finance Commission and has only been reduced by 1 percentage point by the Fifteenth Finance Commission on account of the reorganisation of Jammu and Kashmir. This should not be tinkered with further in the final report of the Commission.

It is correct that the Union government is in a difficult fiscal situation, but shifting the burden to states will not solve the problem. There is a need for bringing in more efficiency in fiscal management. The Finance Commission is a constitutional body which must consider the long-term importance of Indian federalism, not the short-term fiscal concerns of the government of the day. Its final report should reflect that high duty as much as the interim report.

Long on ideas

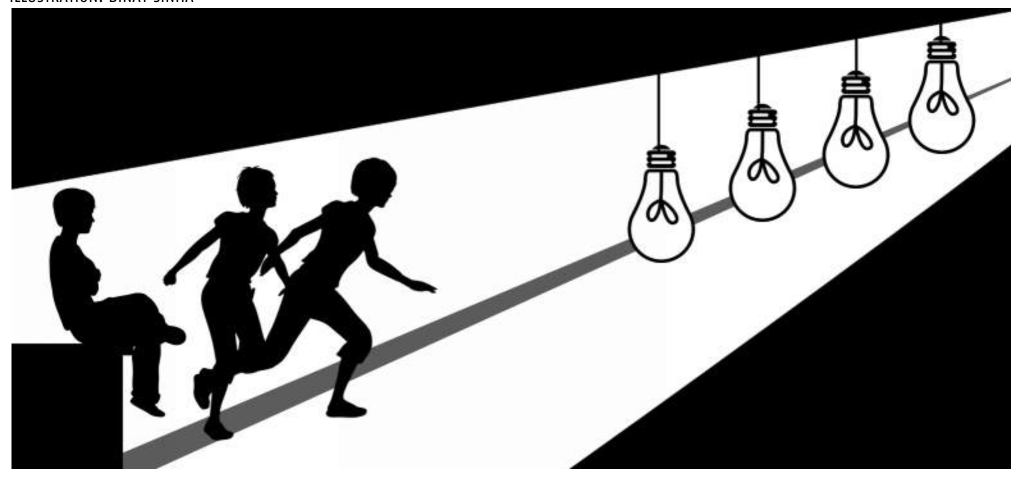
Budget falls short on farm reforms execution

The 16-pronged action plan mooted in the Union Budget 2020-21 to spur growth in agriculture and allied fields and bolster farmers' income is a pack of small, but fairly significant, measures aimed at meeting the needs of stakeholders in this sector. But the way these proposals are sought to be implemented — through state governments or with public-private participation (PPP) — makes their outcome dicey. The states' track record in carrying out Central sector schemes is quite uninspiring. The PPP is also a, by and large, failed model of development. The funding arrangement for the envisaged activities, too, seems problematic. The allocated funds are not only inadequate but also vaguely targeted. These are clubbed under the two broad heads of agriculture and allied activities (₹1.60 trillion); and rural development (₹1.23 trillion).

Finance Minister Nirmala Sitharaman has rightly pointed out in her Budget speech that the farmers' prosperity warrants competitive and liberalised farm markets, greater investment in logistics and agri-services, and substantial support for agriculture's allied activities such as animal husbandry, beekeeping and fisheries. But the Budget has failed to conceive sound strategies to meet these imperatives. Amendment of state laws governing agriculture marketing, contract farming and land leasing — the three areas specifically mentioned in the Budget for legal reforms — can be the case in point. This issue has been kept on the top of the agricultural agenda, but it is sought to be carried out only through persuading the states — something that has already been tried out without much success. The states are reluctant to give up control over farm markets because of the political clout and the revenue they generate for them. Kerala, in any case, has been quick to announce that it would not allow contract or corporate farming. The prospects of legalisation of land leasing are also quite dim as there are not many takers for the Model Land Leasing Act circulated by the Centre in 2016. Land leasing is a means of making the country's small-farm agriculture viable by facilitating adjustments in the operational control of land without affecting its ownership. It allows the tillers of uneconomical landholdings to either expand them by hiring-in more land or quit farming by renting out their land to others. The absence of legal sanctity to land leasing deprives the large number of tenant farmers of several facilities, services and other doles available to landowner cultivators. The only way the Centre can nudge the states to come on board for such reforms is by linking Central grants with result-oriented action on these fronts.

The Budget has another welcome proposal to expand the much-needed warehousing and cold storage capacity by offering viability gap funding. Still, the ultimate goal of having proper warehouses at the block level may not be fully achieved because the land for these godowns has to be provided by the states and the projects are stipulated to be implemented in the PPP mode. Similar may be the fate of another well-advised proposition of starting refrigerated rail and air services — Kisan Rail and Krishi Udaan — for speedy transportation of perishable farm produce, including milk, meat and fish. Their operations, too, have been subjected to the availability of PPP arrangements. These snags need to be addressed to make the Budget's agricultural agenda truly beneficial for the farmers.

ILLUSTRATION: BINAY SINHA



Why India functions the way it does

Ever wondered who gains from the way we work?

SHYAM PONAPPA

It's not obvious why we function the way we do in India, and who gains from it — considering that we are able to go just about anywhere in the world and thrive, but unable to manage too well on our own shores. Could it be because of the operating conditions here apart from the facilities, the prevailing systems and procedures in our environs, and the organisation, structure, and processes? When we go elsewhere, those places have their own systems and procedures, and it appears we are able to adapt and function well. In India, our constraints of systems and procedures in our environs include the full range of our population, just as elsewhere. The sheer number of people with varied levels of education, competencies, process orientation, and expectations is something that those who go away to other environments are not constrained by.

There are other easily recognisable elements of constraints. There are the post-colonial institutions, structures and methods that have been retained in government without modification for a self-governing, democratic society. Another set consists of the underpinnings of a feudal structure that manifests strongly in political processes. The predominant motivation of both is, to put it crudely, exploitation for the governing entity's gain. Historically, the gain has been for imperial/colonial/exploitative ends, and after the first, largely well-intentioned post-Independence phase, appears to be focused on perpetuating the power of incumbents, or the position of those controlling government (barring exceptions). The fact of governing entities being locally elected does not appear to make any difference. The essential attribute is of otherness, of "us" (those in power) versus "them" (those governed).

The laws and the justice system

Latterly, our preoccupation with economic, social, and political pressures has left the serious institutional constraints of our legal system somewhat unattended. There are several dimensions of reforms needed in the legal system. One of these pertains to aspects of law and changes to them, another to the judicial system and its dilatory responses. There is also a third aspect, of approach and motivation, i.e., of a systemic perspective and philosophy, which can be minimalist or the opposite, or something in between.

Too many laws

A major encumbrance is the plethora of laws. In December 1993, the Ministry of Finance undertook a project with the United Nations Development Programme on economic and commercial legislation, to make it more market friendly. Called Project LARGE (Legal Adjustments and Reforms for Globalizing the Economy), the first phase from December 1993 until December 1997 dealt with central government legislation comprising about 450 of around 3,000 central acts. The second phase was on state legislation concentrating on government orders, rules and regulations relating to land and labour, and other matters such as dispute resolution and competition policy.

While the material is in the public domain, in practice, it is a bear to find it. For those who want to track it, the reports were published in September 1998 as the "*Report of the Commission on Review of Administrative Laws*", Volumes I and II.[1] Three articles by the Director of Project Large Bibek Debroy sum up the process, including the later work of the Ramanujam Committee and successive Law Commissions. They are epitomised by his quotation of Tacitus: The more the corruption, the more the laws. The articles are:"Why We Need Law Reform", "Justice For All: Need Better, Fewer Laws", and "Old But Not Gold" (links below).[2] Another by Vagda Galhotra rounds out the set: "Why We Need To Repeal More Criminal Laws".[3]

Too much government litigation

Government litigation expenditure increased three-fold from 2016 to 2018, with government being a party to around 46 per cent of lawsuits in July 2018, despite its stated intent of reducing litigation. Quite apart from this, government litigation and some of the disruptive rulings have created chaotic conditions in the economy, such as in coal mines and spectrum after the 2G licence cancellations. This has had a chilling effect on policies facilitating resource use, whether it is coal for electricity, or spectrum for connectivity at a time when there is global advancement in high-speed wireless shared use. The most recent shock to India's economy was the Supreme Court's reversal of previous rulings on telecom companies' adjusted gross revenues. Other disruptive claims, without going into the merits, have been the retroactive tax case against Vodafone, the Tamil Nadu government's tax claim against Nissan, and the earlier dunning of Nokia.

In 1998, there were an estimated 25 million cases pending in various courts, each taking up to 20 years for resolution, and this increased between 2006 and April 2018 by over 8 per cent. Much of government litigation apparently comprises appeals against lower court judgments, with decisions to appeal taken at the lowest levels of government, whereas decisions to not appeal have to be at the top.

There are many areas we have to work on to move from our present level to being able to grow at a sustainable high rate for any length of time. Beginning from early school, with systems thinking for every child, process discipline and standards, and collaboration and teamwork in lesson plans and play, continuing into work life and polity. Equally, there is a real need for establishing sound institutions. Included in these is a functioning, efficient set of laws and justice system. The discipline and efficient enforcement of contracts, payment terms, and delivery standards to ensure smooth cash flows is critical for markets to function well. This is why reforms on systematic rationalisation of the laws and justice delivery are essential, although such activities do not lend themselves to hoopla and staging events with popular appeal. The talent and experience available can contribute significantly to systems and organisation in the public interest. The constitution of the 22nd Law Commission is long overdue, with the 21st Law Commission having ended in August 2018.

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1:https://darpg.gov.in/sites/default/files/Review_Administrative_laws_Vol_1.pdf
https://darpg.gov.in/sites/default/files/Review_Administrative_laws_Vol_2.pdf
2: https://www.india-seminar.com/2001/497/497%20bibek%20debroy.htm
https://indianexpress.com/article/opinion/columns/old-but-not-gold/
https://www.businesstoday.in/magazine/cover-story/justice-for-all-need-better-fewer-laws/story/227497.html
3: https://thewire.in/law/why-we-need-to-repeal-more-criminal-laws

Speaking volumes

SWOT

KANIKA DATTA

In the space of three days, two significant speeches were delivered, one in the world's largest democracy and the other in the world's most powerful one. Both took place against the backdrop of heightened political challenges for the incumbent government. Both will be remembered for reasons other than the content of the speeches. And both point to a depressing decline in the standards of public oratory.

The first by Finance Minister Nirmala Sitharaman presenting the second Budget of Narendra Modi's second term when economic growth has dwindled was a record two hours and 43 minutes long, would have been longer had the deliverer not taken ill, and was notable for one thing: It failed expectations all round.

Three oceans away, the impeached US President Donald Trump took 78 minutes to deliver the final State of the Union (SOTU) of his first term, marginally shorter than his 82-minute 2019 harangue. The duration of SOTU 2020 took in over 100 interruptions for applause (from Republicans only) and some orchestrated reality TV moments (an Afghanistan veteran's "surprise" return to his wife and children). But Mr Trump's calculated theatrics, including the studious non-mention of impeachment, came to nothing. It was a fuming Nancy Pelosi, dressed in her trademark suffragette-white pantsuit, who stole the show by conspicuously tearing up her copy of the speech on the podium behind the president. That's what you get for dissing the House Speaker by ignoring her handshake.

No one dissed Ms Sitharaman, with many opposition MPs swarming around her in concern as she faded out with two pages to read. And she certainly did her best to deliver a stirring message. Wearing a stunning gold-yellow sari, she quoted, within the hour, an excerpt from a Kashmiri poem (adroitly avoiding the poet's Urdu nom-de plume, as my colleague Aditi Phadnis pointed out), one saying from a "wise old Tamil Woman Saint Poet" and a *Kural* or Tamil sacred verse. She even managed to throw in Kalidasa in the business end of the speech, universally known as Part B, which covers the tax proposals. Each literary reference was explained, painstakingly, each proposal and achievement repeated at least twice. But if there was an overarching significance to this hard-working hard-sell it was lost on her exasperated auditors.

The finance minister's school elocution-contest cadences bears a good part of the responsibility for the aching boredom. But TV failed us too. The Congress has chosen to absent itself so the Doordarshan camera people had few options to offer the watching public. They couldn't pan out for long shots because that would have revealed the yawning gaps on the opposition front benches. In Budgets past, it was possible to take a break from ministerial intonations about helping farmers, poor, women, lower castes and other worthy tokenism with some minor distractions. Sonia Gandhi's unerring taste in saris, for example. Her son's struggles to look intelligent. The thickness of the late Sushma Swaraj's hair despite the Formula 1 track of *sindoor*. The *sadhus* and *sadhvis*. Turbans and hats. Yawning backbenchers. The constant procession of transcribers and translators under the Speaker's platform. This time, apart from Ms Sitharaman's emphatic and interminable repetitions, we were treated, mostly, to close-ups of the prime minister's expressionless face.

About an hour in and the going got tough for those of us at the coalface of the Budget speech. Economic journalist Puja Mehra tweeted that the Budget was certainly stimulating coffee consumption. An hour later, even multiple caffeine fixes failed. By the time Part B came round, the flagging pens and empty notebooks were marshalled wearily, but the minor excitement over the income tax reconfiguration soon descended into confusion (which continues today). The finance minister said she was offering chartered accountant-*mukt* tax proposals. If her tax proposals have stimulated demand at all, it's for CAs.

Successive finance ministers have chosen to make an annual report on the state of the Union's finances into the equivalent of a SOTU because, like the latter, it enjoys a captive audience. But SOTU is recognised as a political progress report that the country's chief executive delivers to Congress (interestingly, House rules stipulate that each address must contain a Budget message).

This year, the US fact-checkers' toothcomb discovered more misleading statements in Mr Trump's SOTU rather than the outright whoppers of earlier speeches (though he didn't disappoint on that front either). Ms Sitharaman's problem is that the many documents that accompany every Budget will offer grist for the sceptics' mill for much longer. Manmohan Singh said the Budget was so long he could not absorb anything (it is unclear if the taciturn former finance minister and prime minister was making a joke). But rest assured, despite nearly three hours of rhetoric, it is the numbers that will, ultimately, speak for themselves.

A draughtsman of independent India

BOOK REVIEW

SARAH FAROOQUI

The scope of *V P Menon: The Unsung Architect of Modern India* is vast. The author, historian Narayani Basu, introduces the reader, first, to a young boy "Kuttan", and demonstrates how his defining character traits are evident from early on. Through short descriptions, a picture of Vappala Pangunni Menon or VP, as he is called through the book, starts to develop. We are told about his eidetic memory, his Machiavellian tactics that would harden over the years, and love for studying. We see how an incident from his boyhood days in Kolar, shaped his dislike of delegating work to others, and "preferring to do everything himself". We learn "hard headed perhaps and illogical most certainly, VP was nothing if nor persistent."

A small act of kindness by a stranger at the Old Delhi Railway Station changes the course of his life. Employed as a temporary clerk, VP between 1914 and 1915 shuttles within the Home Department, usually as a typist, and sometimes a stenographer. VP becomes close friends with Kottieth P Anantan who is also an early mentor, and his wife Pankajam, who would later become VP's partner. He gets married and his personal life descends into a scandal. Circumstances play "the role of kindly fairy godmother to VP" when Edwin Montagu is appointed Secretary of State of India, and VP is recruited to the Emergency Branch of the Home Department to assist Montague — the first time he enters the world of Indian political and Constitutional reform, a world he does not leave until his retirement.

Within the course of a night, VP Menon presents Mountbatten with the Menon Plan, the first official draft of the terms of India's independence, which becomes the catalyst for India's transformation into an independent democratic republic. As the Reforms Commissioner to the last three viceroys of India, and as Secretary, States Ministry, Menon played a pivotal role in manoeuvring the integration of 565 states into the Indian Union — including Junagarh, Hyderabad, and Kashmir — each of which came with its own set of difficult characters and unique situations. Finally, we witness VP's career change course after Sardar Patel's death, and his eventual retirement into obscurity.

V P MENON: THE UNSUNG ARCHITECT OF MODERN INDIA
Author: Narayani Basu
Publisher: Simon & Schuster
Price: ₹799
Pages: 448

The book, written by Menon's great granddaughter, follows those events of Indian history to which Menon contributed directly and significantly. It also explores the interpersonal relationships between the protagonists who shaped independent India. Menon is considered Sardar Patel's right hand man, but the author emphasises that VP would never be anyone's "man" but his own, and that he was loyal to the governments for he which he worked. It was this along with his other qualities that made Sardar Patel rely on him. VP's relationship with Nehru remained fraught throughout his career, especially after Mountbatten instructed VP to not tell Nehru about Plan Balkan, the original Mountbatten plan that proposed that India would be vivisected into dozens of countries. This laid the foundations for Nehru's profound mistrust of VP.

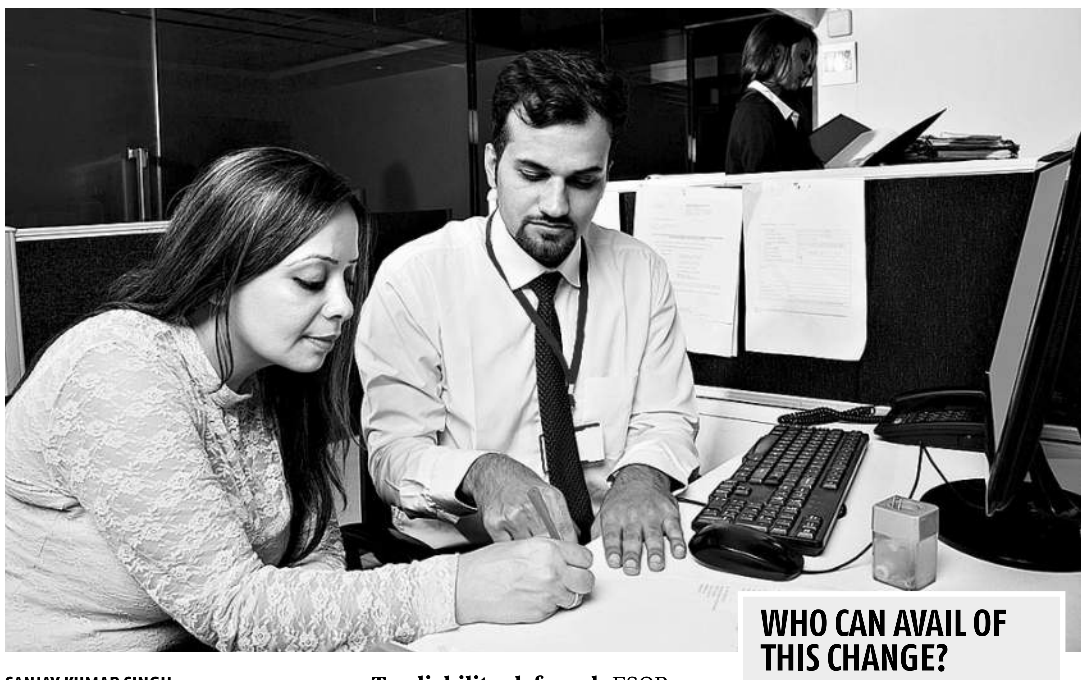
These days, we find Nehru and Patel blindly pitted one against the other, and the cracks within their relationship manipulated to augment partisan politics. But just as no two people remain the same through the course of their lives, no relationship between two strong personalities can be static, especially if the national interests of an independent India are at stake. Narayani Basu's narrative attempts to explore the nuance as well as the evolution of the very complex relationship between the two men. The dynamics of this relationship also plays an important role in VP's career.

The book claims that Nehru's first official list of the people he wanted in independent India's first Cabinet excluded Patel. It was Mountbatten, who at VP's insistence, met Gandhi and had Patel's name included. Another instance she mentions is the serious rift that developed between Sardar Patel and Nehru over Kashmir, with Nehru's insistence on making Kashmir a part of India, whereas Sardar would have preferred to hand Kashmir off to Pakistan or see to its partition. In the course of the discussions, Patel sent Nehru his resignation and, in response, Nehru offered to resign. This situation was resolved after Mahatma Gandhi's intervention.

According to Campbell Johnson, press attache to Mountbatten, "... each had what the other had not. Nehru had the sweep and range of imagination and world policy. Patel was a highly practical man, who would say, "All right we are going to do this"." Through the course of the biography, Sardar Patel is omnipresent as VP's mentor and as the pragmatic in India, while Nehru is viewed, often critically, through VP or Patel's perspectives — revealing how private perspectives and interpersonal dynamics shaped Independent India.

FM encourages start-ups with cash flow relief for employees

Now, they can take the risk of joining without having to pay taxes on Esops immediately



SANJAY KUMAR SINGH

For quite some time, employees of start-ups have complained about a provision in the income-tax law that caused them hardship. Stock options are taxed in their hands as perquisite at the time of exercising (allotment), creating a liquidity problem for them. In Budget 2020, finance minister Nirmala Sitharaman has announced that the time when start-up employees will have to pay tax on their allotted stocks can be deferred. While their liquidity problems have been taken care of, youngsters joining start-ups need to pay heed to the risks they run when they participate in an employee stock option plan.

Tax liability deferred: ESOPs are currently taxed first at the time of exercise of shares. The difference between their fair market value (FMV) on the date of exercise and the exercise price is taxed as perquisite. The employer deducts tax at source. Esops are also taxed at the time of sale of shares. The employee's capital gain gets taxed, the amount being the difference between the sale price and the FMV (on date of exercise).

Now, for employees of specified start-ups, the payment can be deferred. The tax can now be paid not at the time of allotment, but whenever one of three events occurs first: One, the date the employee leaves the company; two, when the share is sold; or three, after five years from the financial year in which it was exercised. The tax rate that applies will be of the year in which the option was exercised.

At the time of allotment, the employee only gets shares, not hard cash. "Start-up employees faced hardship because while a tax liability arose at the time of allotment of shares, there was no monetary gain for them to pay the tax. The proposed change will help them deal with their cash flow issues," says Shalini Jain, tax partner, people advisory services, EY India. Employees will also benefit if they have moved into a higher tax bracket. "You will pay tax at the rate that applied to you when the shares were allotted," says Homi Mistry, partner, Deloitte India.

This benefit will only be provided only to start-ups that meet certain criteria (*see box*). "Ideally, it should have been provided to a wider range of start-ups," says Jain.

Next, let us turn to some of risks employees opting for Esops run.

Valuation risk: This is the biggest one. "Employees give up on something tangible — the cash component in their salary — based on the belief in their ability to contribute to the company's growth story. But while opting for Esops, it is impossible to tell which side valuations will tilt," says Winnie Shekhar, partner, IndusLaw.

If the valuation declines between the time of exercise and that of sale, the employee could end up overpaying tax. "Defer exercising your options until you are close to the sale of shares," says Rupali Singhania, Partner, Areete Consultants LLP.

Opt for Esops based on your age and risk-taking ability. "Somebody in his 20s can take greater risk than someone in 40s or 50s. Older people also have more obligations. They should opt for a bigger cash component in their salary," says Mistry.

Liquidity risk: Start-ups are unlisted, so there is no ready market for their shares. Employees can only exit at the time of IPO, if the company is acquired by a new investor, or if it does a buyback.

Check the Esop agreement closely: When an acquisition take place, will employees will be treated at par with promoters? "Sometimes, promoters are able to encash their shares while employees are not given the same opportunity," says Singhania. Study the Esop plan for exit options. Some companies set up trusts to buy back shares, which provides comfort that employees will be able to sell shares in an emergency.

Know the vesting schedule: Employees could lose their shares if they do not spend their entire vesting period (the time after which they acquire a right over the shares) with the company. Suppose that the vesting period is four years and 10 per cent of Esops vest in the first year, 20 per cent in the second, 30 per cent in the third, and 40 per cent in the fourth. The bigger tranches vest later on. If an employee quits early, he would forfeit those shares.

Employees are given time to exercise vested shares. "The exercise period is shortened to 60-90 days from the date of leaving the company, if employees quit. Be aware of such conditions or else you could lose out," says Singhania.

"Start-up employees faced hardship because while a tax liability arose at the time of allotment of shares, there was no monetary gain for them to pay the tax. The proposed change will help them deal with their cash flow issues"

SHALINI JAIN
Tax Partner, People Advisory Services, EY India

WHO CAN AVAIL OF THIS CHANGE?

- Should be an eligible start-up according to Section 80-IAC
- Should have been incorporated after April 1, 2016 but before April 1, 2021
- Turnover should not exceed ₹100 crore
- Should hold a certificate from the Inter-Ministerial Board of Certification

Hiring expatriates to turn costlier

TAXING MATTERS

KULDIP KUMAR

The Finance Minister's Union Budget 2020 contains proposals that will benefit expatriates working in India. The most notable one is the change in tax residency provisions. Expatriates will now be able to stay longer in India before taxation of their global income gets triggered.

Prior to this proposed change, they were able to stay in India only for two-three years before global taxation was triggered, but now they can stay up to four-five years. The new optional concessional tax regime will also favour expatriates as most of them generally do not claim deductions or exemptions. The only deductions they take are under Section 80C towards Provident Fund contribution and/or tuition fees of their children.

Another proposal is to tax the employer's contribution towards Provident fund, National Pension Scheme and Superannuation Funds, exceeding ₹7,50,000. Even the interest on such excess contribution will be taxable in a manner to be prescribed. The stated objective is to tax highly-paid employees, who by structuring their compensation package, park their funds in these retirement schemes and save taxes.

Expatriates, particularly the highly-paid ones, will be hit by this. Rather, the burden will fall on the Indian companies that hire them. Generally, such employees are tax equalised and employers bear their tax liability in India.

For expatriate employees who qualify as international workers, employers are required to mandatorily contribute to the Indian Provident Fund at the rate of 12 per cent of their salary under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952(PF regulations). The salary here is high as expatriate employees do not have structured packages. Almost the entire salary (except performance bonus and benefits) comes under the ambit of PF. Even the salary cap of ₹15,000 per month is not applicable to them. On the one hand, there is the legal obligation to contribute to PF under the PF regulations and on the other, they will be required to pay tax on contributions beyond ₹7,50,000 under the Income-tax Act, 1961 by virtue of this proposed change.

Even where employers want to reduce their contribution to bring it down below ₹7,50,000, they cannot do so as it would be a violation of PF regulation. The government should reconsider this tax proposal, especially for expatriate employees. They are not putting in more money out of choice but to comply with PF regulations.

Expatriates invest a high amount to comply with PF regulations. The government should consider exempting them from the ₹7.5 lakh limit

This proposal will hinder Indian industry from hiring the requisite talent and special skill sets that may be important, particularly for the manufacturing sector. It won't affect companies that have expatriates on secondment from countries with which India has a totalisation agreement (SSA countries). They generally continue to contribute to their home country's social security instead of Indian provident Fund. But corporates hiring expatriates directly on their payroll or expatriates from non-SSA countries will get impacted adversely. One hopes the government will reconsider this proposal to protect the interests of industry.

The writer is Partner and Leader Personal Tax, PwC India. Views are personal

BUDGET: ₹50 LAKH -₹1 CRORE

REALTY CHECK

Business Standard **brings you a snapshot of average current rates and unit sizes in localities that offer property in the price range of ₹50 lakh and ₹1 crore. If you are looking at buying real estate, an idea about prevailing rates would come in handy**

	Avg price (₹/sq ft)	Avg unit size (sq ft)
BHOPAL		
Hoshangabad Road	3,510	1,823
Kolar road	2,640	2,412
Salaiya	3,571	1,804
Ayodhya Bypass	2,948	1,872
Bawadiya Kalan	3,891	1,852
Misrod	3,000	1,984
Airport Road	3,583	1,615
Shahpura	2,930	1,900
COIMBATORE		
Trichy Road	5,025	1,483
Vadvalli	4,587	1,403
Saravanampatty	4,052	1,626
Peelamedu	5,009	1,308
Ramanathapuram	5,170	1,469
Ganapathy	4,704	1,448
GN Mills	3,600	1,527
Selvapuram (South)	4,100	1,351
INDORE		
Nipania	3,471	1,989
Bicholi Mardana	3,216	2,035
Snehlataganj	3,178	1,845
Piplyahan	3,988	2,047
Ring Road	3,586	2,017
Sanwer Road	3,290	1,898
Vijay Nagar	3,084	1,788
Bicholi Hapsi	3,300	1,955
LUCKNOW		
Vrindavan Yojna	3,792	1,669
Gomti Nagar Extension	4,108	1,597
Gomti Nagar	7,391	1,005
Faizabad Road	3,514	1,697
Sushant Golf City	4,231	1,621
Bijnor Road	3,052	1,888
Sitapur Road	4,151	1,568
Arjunganj	4,000	1,410
SURAT		
Vesu	4,376	1,622
Palanpur	3,642	1,788
Mota Varachha	3,732	1,696
Pal Gam	3,340	2,414
Sarthana	3,265	1,932
Althan	3,800	1,906
Uttran	3,637	2,058
Adajan	4,819	1,547
VADODARA		
Vasna Bhayli	3,135	2,236
Sama-Savli Road	2,857	2,043
Bhayali Road	2,513	2,230

Note
-The ticket price range considered for the above data points is between ₹50 lakh and ₹1 crore
-All the data points discussed in the above table refer to primary market only
-Above residential data set comprises of residential apartments only
-Above residential data is representative of organised real estate developers only
-The top performing micromarkets based on sales during last year (December-2018 to November-2019) is represented on the above table
-Data points are updated till November 2019

Source: PropEquity

RBI Bonds: Good option for risk-averse investors

Go for half-yearly payouts if you seek regular income

SARBAJEET K SEN

With interest rates coming down on most debt instruments, only a few are giving good returns. The Reserve Bank of India's (RBI's) Savings Bond is one of them. A fall in retail domestic term deposit rates is discernible across all tenors above one year and till 10 years. Currently, the SBI fixed deposit rate is 6.10 per cent for tenors in the range of 5 to 10 years while it is 6.60 per cent for senior citizens.

In comparison, RBI Savings Bonds carry a coupon rate of 7.75 per cent compounded/payable half-yearly. "RBI bonds score over bank FDs on return. Their appeal becomes even more pronounced when the yield curve is downward sloping," says Rajiv Bajaj, chairman and MD, Bajaj Capital.

YOUR MONEY

The stipulated lock-in is seven years while for senior citizens it is lower. The minimum investment is ₹1,000 and there is no maximum limit on investment.

"At present, the interest rate is low on most savings instruments like fixed deposit, National Savings Certificate, Postal Deposits, etc. Interest rates will likely move southward for some time. In such a situation, RBI bonds is attractive for investors. The interest payable on a half-yearly basis takes the yield to 7.9 per cent," says S Sridharan, head, financial Planning, Wealth Ladder Investment Advisors.

However, these bonds are taxable in the investor's hands. He has to pay tax on the marginal rate of tax. Also, a 10 per cent tax is deductible at source if the interest income from these saving bonds exceeds ₹10,000 in a year. "In case of the non-cumulative option, the TDS is levied at the time of making payment to investors. In case of the cumulative option, TDS is levied on the interest portion at the time of payment of maturity proceeds. No TDS will, however, be levied on exempted investors. They are exempt from wealth tax too," says Bajaj.

Though these bonds score on returns and safety, a drawback of RBI bonds is that they lack liquidity. "The RBI bonds have a lock-in of seven years, and there is no way an investor can exit. They are also not transferable. If someone needs liquidity within seven years, he should skip this product," says Sridharan.

Premature encashment is allowed for investors of 60 years and above, subject to the minimum lock-in period. For investors in the age group of 60-70 years, the minimum lock-in is six years, for 70-80 years it is five years, while it is four years for investors of age 80 years and above.

While RBI bonds are a good investment option for the risk-averse, they are ideally suited for senior citizens. "RBI Bonds are a good investment option for a conservative investor seeking stable returns along with safety of capital. This is particularly true of senior citizens who tend to be risk-averse. They normally prefer assets that are immune to market gyrations. For investors who want a regular income, non- cumulative option is a prudent choice. If someone prefers the cumulative option and does not need a regular income, he can opt for these bonds after exhausting his Section 80C limit," says Bajaj.

FOCUS ON POST-TAX RETURNS

	Investment alternatives			
	Fixed deposit	RBI bonds	Debt MF (floater fund)	Hybrid equity
Risk	Low	Very low	Moderate	High
Min investment (₹)	10,000	1,000	5,000	5,000
Returns	6.10%	7.75%	7.99%	10.02%
Who can invest	RI	RI	RI/NRI	RI/NRI
Demat required	No	Yes	No	No
Can they avail loan	Yes	No	No	No
Liquidity	Immediate	7 years	Immediate	Immediate
Taxation	Taxable	Taxable	Indexation benefit	LTCG
Investment (₹)	1,00,000	1,00,000	1,00,000	1,00,000
Tenor	7	7	7	7
Capital gain (₹)	51,359	70,275	67,314	95,120
Indexation cost (₹)	–	–	1,27,273	1,00,000
Gains after index (₹)	51,359	70,275	40,041	–
Indvidual tax rate	30%	30%	30%	30%
Tax on return	30%	30%	20%	10%
Tax payable (₹)	15,408	21,082	8,008	0
Net gain (₹)	35,951	49,192	59,306	95,120
Final value (₹)	1,35,951	1,49,192	1,59,306	1,95,120
Net return	4%	6%	7%	10%

RI is resident Indian. Source: Wealth Ladder Investment Advisors

TIPPING POINT

Is portfolio turnover important?

The portfolio turnover ratio indicates how much buying and selling a fund manager does. A turnover of 100 per cent means the fund manager has changed his entire portfolio once in a year. A turnover of 50 per cent means he has changed half his portfolio in a year, and so on.

Many investors think a high turnover ratio means the fund manager is very proactive in managing it. This is a mistaken belief. Too much churn raises costs. If one is looking for a stable fund, go with one where the turnover ratio is below the median level (*see table*). A lower turnover ratio means a buy-and-hold kind of fund manager who is sure of his picks and has the patience to wait till value is realised.

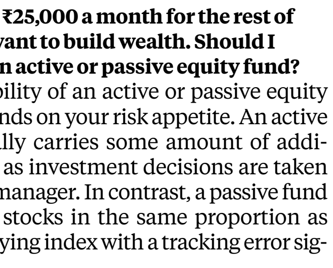
HIGH CHURN CAN HARM

Large-cap funds	Turnover ratio (%)
Maximum	217.0
Median	71.5
Minimum	10.0

Source: mutualfundindia.com

READER'S CORNER

MUTUAL FUNDS



ASHWANI BHATIA

I am 42 and have two debt fund schemes. I can invest ₹25,000 a month for the rest of my life. I want to build wealth. Should I invest in an active or passive equity fund?

The suitability of an active or passive equity fund depends on your risk appetite. An active fund usually carries some amount of additional risk as investment decisions are taken by a fund manager. In contrast, a passive fund invests in stocks in the same proportion as the underlying index with a tracking error signifying the difference in returns. To get the best of both the strategies, splitting your monthly investments between passive and active funds.

Keep in mind your age and asset allocation mix as you grow older. At 42, you are capable of taking higher equity exposure. However, as you grow older, consider switching to less risky investments, such as hybrid funds that allocate between equity and debt, and even gold (in some hybrid schemes). Closer to retirement or post-retirement, invest in safer debt-oriented mutual funds.

I am 40. I want to save ₹20 lakh in the next five years. I also want to save income tax. Can I use multi-caps for both these goals?

Since you have an investment horizon of five years for a goal of ₹20 lakh, multi-caps could be a good choice as they invest across market caps. They aim to create a balance between large-cap stocks, which are relatively more stable, and mid- and small-cap stocks, which tend to generate higher returns over the long term. Being equity funds, returns from multi-cap funds are tax efficient.

However, to save taxes, consider investing in an equity-linked saving scheme. They invest in equities and also enjoy tax deduction under Section 80C up to ₹1.5 lakh. They can help build wealth over a long period. ELSS has a lock-in period of three years.

I am 32, and I want to have international exposure in my portfolio. How can I do that?

It is advisable to invest in the international market once you have enough investments in the domestic market to capture its growth potential. Assuming you have enough investments in domestic funds, you can take international exposure either by investing in a fund that invests directly in international equities, or a feeder fund that invests in funds in other countries or markets. Some feeder funds or fund-of-funds could invest in one or more geographies.

The advantage of investing in the international market is that it gives a broader exposure to the investor in regions they might otherwise not have any exposure to. However, investors need to be aware that these funds run currency risk. They invest in an international currency even though investors invest in them in their local currency.

I want to go to the US to study. I can save ₹50,000 a month. Which scheme should I invest in?

Assuming your plan to study in the US is a near-term goal (that is within three years or less), you could consider investing in debt schemes. Near-term or short-term goals should be ideally met by investing in debt funds, as these funds aim to protect capital. Equity funds tend to be comparatively risky in the short-term and are, therefore, not recommended for goals that have to be realised in the short run. However, you must note that withdrawals from debt schemes in the short-term (three years or less) attract short-term capital gains tax. This tax is calculated based on your income-tax slab. In case you can invest for more than three years, go for hybrid funds or large-cap funds.

The writer is MD & CEO, SBI Mutual Fund. The views expressed are the expert's own. Send your queries to yourmoney@bsmail.in

A leap into digital life

Tamil Nadu is pioneering the use of AI and blockchain to help the state provide better service to citizens, writes **T E Narasimhan**

A school in Triplicane, Chennai, where the moment pupils arrive, an AI-enabled facial recognition system marks their arrival and the time

Students turning up late is a common problem in government schools in Chennai. With students meandering in at various times of the day, teachers waste a lot of time checking attendance during different periods. Now, in a pilot project at a school in Triplicane, in Chennai, the moment pupils arrive, an AI-enabled facial recognition system marks their arrival and the time. The school has seen an 85 per cent fall in stragglers.

A brainchild of the Tamil Nadu e-Governance Agency or TNeGA, the pilot, tested in several schools, will now be implemented in 3,000 government schools across Tamil Nadu.

Tamil Nadu has also started rolling out an AI-based crop pest detection and mitigation solution to help farmers address crop disease.

It is also exploring the use of a Predictive Services Delivery using blockchain technology to provide services to citizens when they need them, such as a reminder of a baby's first vaccination — rather than waiting till citizens seek out these services themselves.

These are just a few examples of the innovative solutions that TNeGA is pursuing for a digital future and backing the efforts is Chief Minister K Palaniswami's decision to increase the budget for e-governance initiatives from ₹25 crore last year to around ₹400 crore.

"Low cost, indigenous, scalable solutions for improved governance is our motto," said Santhosh K Misra, CEO, TNeGA and commissioner of e-governance. An IAS officer and an IIT Kanpur alumnus, Misra is leading a team of a dozen professionals at the new Centre of Excellence in Emerging Technologies which is developing these new systems.

Their mandate is simple: Use every new age technology ranging from AI, machine learning, blockchain and the Internet of Things to help the government perform better. Part of this involves steering the government towards evolving policies that are based more on data and analytics than on unproven assumptions and guesswork.

While TNeGA is working on many ideas, some have already been implemented, such as the facial recognition system for student attendance. This indigenously developed solution costs only ₹3,000, including the hardware. So far, it has shown 99.5 per cent accuracy.

"It is saving nearly an hour every day that used to be wasted by teachers doing periodic attendance checks and freeing up that extra time for the core educational activities in schools," said Misra.

Identifying pests in 24 hours

The Pest Identification System developed by TNeGA aims to mitigate agricultural losses by offering farmers faster pest diagnosis and solutions. The interface of the system is an app called Uzhavan. A farmer can photograph a pest-infected crop on his mobile phone and upload it through the app.

The system at the backend processes the picture using an AI-enabled image processing algorithm to identify the pest or disease. A message is sent to the farmer suggesting what he can do to get rid of it in less than 24 hours.

Every day about 500 farmers post requests on Uzhavan for help. The app is currently being used by over 500,000 farmers. Its usefulness is huge given than nearly 70 per cent of Tamil Nadu's population depends on agriculture.

As to the rest of the country, its possible usefulness can be gauged from the fact that India's per hectare cereal productivity is almost half that of China and the UK (around 3,000 kg/ha vs 6,000 kg/ha) owing to crop diseases causing a significant loss of productivity.

Part of the state's digital initiative involves steering the government towards evolving policies that are based more on data and analytics than on unproven assumptions and guesswork

Chat Bot Anil

One of the first things that TNeGA did was to try and understand why citizens did not access government services digitally. It roped in IIM Tiruchirappalli for this purpose and the findings showed that most citizens are simply not familiar with keyboards.

TNeGA collaborated with Anna University to launch "Anil", an automated virtual assistant which can talk to people in Tamil. The smart assistant guides people step-by-step on how to apply electronically for birth, income, or community certificates. In the future, TNeGA hopes to make the process voice-based.

Getting futuristic with blockchain

One of the state government's most futuristic projects is the Blockchain Backbone infrastructure to improve the efficiency of e-governance services. TNeGA has earmarked ₹40 crore to build this blockchain platform which will be offered to all government departments. Known as Nambikkai Inaiyam (which roughly translates to Trust Link), the platform is a state-wide infrastructure that can be leveraged by all government departments for intra-department exchanges and for providing services to citizens.

Alongside this, TNeGA is also creating a Zero Knowledge Proof-Based Predictive Services Delivery platform for all government services. The idea is to provide these services in advance of when citizens are likely to need them, obviating the necessity of applying for them.

"For example, when a child's birth certificate is issued, the system at our end will send the vaccination information through an SMS when she becomes six months old. Likewise, when she turns five, her parents will be alerted through mobile message to create her Aadhaar card," said Misra.

The application software used for issuing certificates will be suitably modified so that the document issued will electronically hit the *makkal* number (citizen number) already created by TNeGA for 70 million people in the state and electronically reach a 'Citizen Vault' — a kind of storage folder— to be created for each resident.

People can view their certificates or documents in their "vault" using their mobile number and user ID. From birth to death and all the other documents a person needs in between these two events — proof of education, caste, income etc — a system on blockchain will, without human intervention, prompt the software of each department to issue the relevant document as and when appropriate.

"The state's mission is very clear. As a government, we have to offer citizens convenient procedures and services that ease their life and not make them run from pillar to post seeking essential certificates or documents," said Misra.

The state has allocated a budget of ₹90 crore for the Predictive Services Delivery project which is presently in the blueprint stage but is likely to take concrete shape over the next year.

Vittal Raj, founder and senior partner at Kumar & Raj and an expert on cyber security and business technology, praised TNeGA's work. "A good governance model, technology architecture and human capital are amongst the critical success factors for successful e-governance, not to forget the need for political and administrative will," he said.

Raj added that TNeGA's plans for Nambikkai Inaiyam which will digitise all services on a blockchain backbone-based trust platform, was a classic example of how emerging technology can be applied to lay a "robust foundation to achieving visionary goals for good governance".

Still more ideas are being formulated such as using technology to detect internal bleeding from CT scans, a blockchain-based solution for tamper-proof preservation of registration documents, and an Internet of Things-based monitoring of the drinking water supply in rural areas.

Budgeting for the future of tech

KRANTI NATION

PRANJAL SHARMA

The decade ahead for the government will have more technology-based services than ever before.

The Budget announcements made by Finance Minister Nirmala Sitharaman indicate that the government is ready to embrace the benefits of technology in diverse roles and sectors. The focus on technology includes agriculture, textiles, urban renewal, ports and healthcare.

Phrases like Internet of Things and machine learning, which were alien to the government, are now part of official lexicon.

This is an important shift for governments since it must counter the perception that higher use of technology is at the cost of employment and job creation.

"The new economy is based on innovations that disrupt established business models. Artificial intelligence, Internet-of-Things, 3D printing, drones, DNA data storage, quantum computing, etc., are re-writing the world economic order. India has already embraced new paradigms such as the sharing economy with aggregator platforms displacing conventional businesses. Government has harnessed new technologies to enable direct benefit transfers and financial inclusion on a scale never imagined before," the Budget says.

The Budget has also announced investment in the future. It has promised to set up data centre parks and a National Mission on Quantum Technologies and Applications with a fund of ₹8,000 crore for a five-year project. "Quantum technology is opening up new frontiers in computing, communications, cyber security with wide-spread applications. It is expected that lots of commercial applications would emerge from theoretical constructs which are developing in this area," the Finance Minister announced.

The government has also provided a much needed ₹6,000 crore boost to provide rural regions with Bharat Net fibre-to-home connectivity.

Realising the importance of artificial intelligence in managing data, the government is now ready to deploy analytics for official statistics. A new policy on official statistics would use AI for data collection, integration, assessment and dissemination. Hopefully the archaic, flawed and poor data collections systems would be replaced rapidly with new AI-led processes.

Short courses that are linked to market needs and breakthrough technologies will be far more useful than degrees that are outdated from day one

India is a laggard in investing in new technologies. Government bodies and private enterprises have not invested enough in developing and enhancing emerging technologies. Small and smart start-ups are doing a better job of developing and deploying such technologies. But it is better late than never in this field where there is a breakthrough almost every six months.

Focus on local development is important. Hindustan Aeronautics, for instance, is moving to manufacture unmanned combat aerial vehicles with an Israel Aerospace Industries.

Linked to the use of emerging technologies is the oft-repeated need for revamping education. Instead of obsolete four-year degrees, the government must consider a life-long learning approach for students and professional. Short courses that are linked to market needs and breakthrough technologies will be far more useful than degrees that are outdated from day one. Perhaps the better encouragement of technology is its usage. Even as the government allocates billions for development, it must also change its rules so that it can utilise the services of young tech companies.

Government rules still focus on legacy, size and precedence for granting work to private companies. As the delivery of government services depends increasingly on technology, the government will have to consider ways of involving small and smart companies. Such changes should be done before the rollout of high-speed connectivity promised by 5G mobile services. China's investment in technology has outshone even the US. India has a responsibility to protect its interests by investing, encouraging and deploying emerging technologies.

The Budget announcements are a good start and will bear fruit for the country once related efforts are made simultaneously.

ALGO RHYTHM

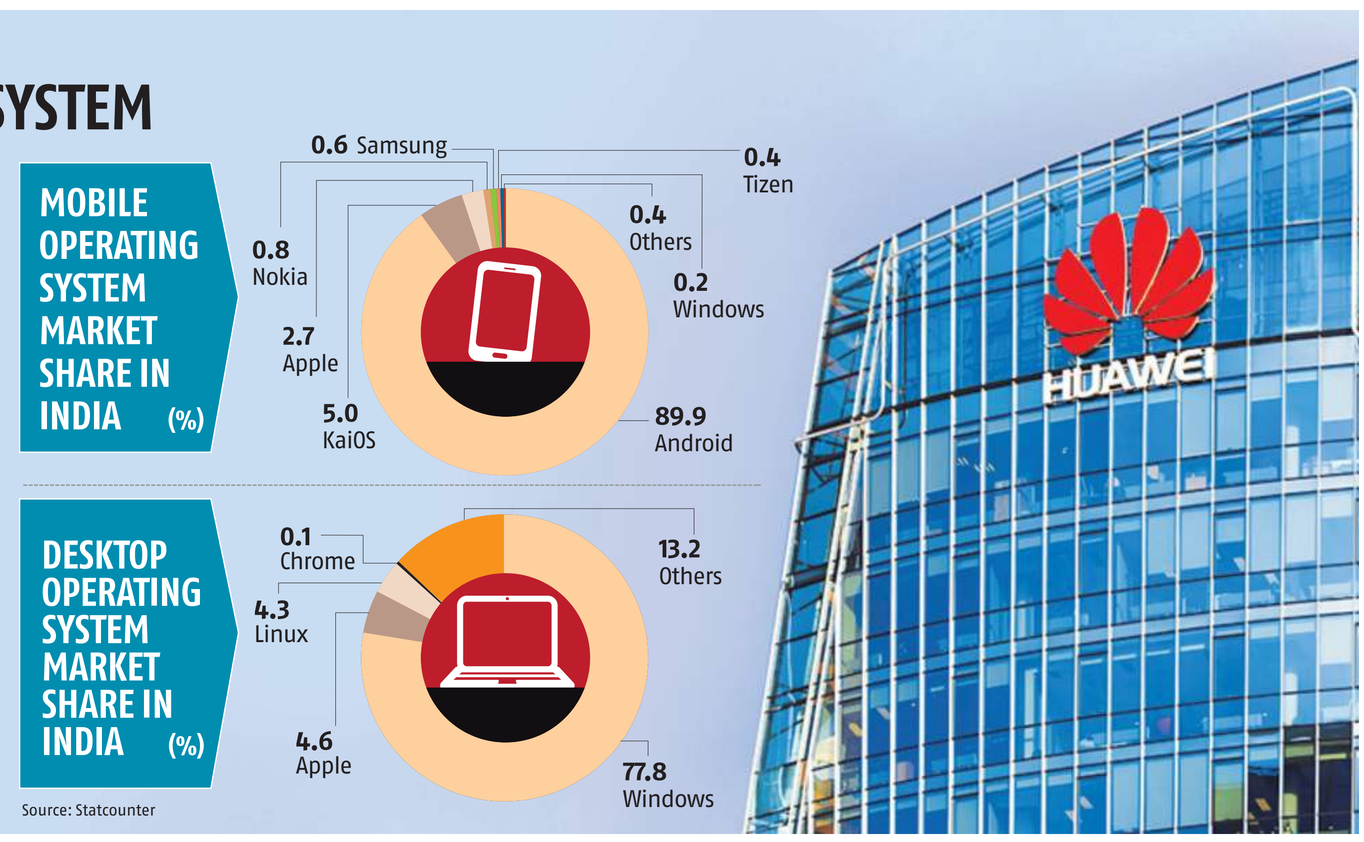
EYE ON THE OPERATING SYSTEM

Recently, as US-China tensions escalated, a tech company got caught up in the storm. Chinese firm Huawei, the world's biggest telecom equipment maker and a leading smartphone maker, was barred from using Google services. The result: It had to forgo Google Android operating system and develop its own.

Pulling the plug on Android is a big blow to Huawei, as Android (with 90 per cent market share in India and similar share across the globe) is the dominant mobile operating system and a funnel for all other mobile services (through app store). Though Apple, which locks its users in its own operating system iOS, is the only other dominant force in OS, a few Indian upstarts are working to end this duopoly. Indus OS, a start-up from Bangalore, has an Indianised operating system for mobiles, used by phone makers like Karbonn and Micromax, among others. Another player on the block is Total, which is developed by social media company Hike.

Not just with new launches, OS itself is changing the way it is served. Recently, InMobi, a mobile advertising network, struck a deal with smartphone companies to show its content on users' lock-screens. In time, this lock-screen will become a place to feature entertainment content, news as well as ads.

COMPILED BY: YUVRAJ MALIK



Source: Statcounter

Sebi embraces new age tools to prevent market manipulation

The regulator will use data analytics to scrutinise what it finds in its 'data lakes' and monitor information on social media, writes **Samie Modak**

Heard of Black Edge? In her famous book on the hedge fund industry which has the same title, Sheelah Kolhatkar describes Black Edge as the "most valuable information of all" in that it is proprietary, non-public, and certain to move markets.

No doubt, securities regulators around the world are putting in huge efforts to prevent the flow of such information, as well as to punish those making illicit gains using these insights. But it is not as easy as it may sound in an era when WhatsApp, Instagram, LinkedIn, Facebook and Telegram have almost become primary mediums of communication.

Given this, Indian market regulator Sebi (the Securities and Exchange Board of India) is going all out to embrace new age tools and technologies to analyse large-scale data to prevent market manipulation such as insider trading.

Sebi has drawn up a four-year roadmap for beefing up its technological prowess with a ₹500 crore budget. It is looking at building a "data lake", a vast repository of both structured and unstructured data, and creating data modelling and analytical capabilities on top of it through the use of AI and Machine Learning. A tender to this effect was launched last November.

Presently, several industries including e-commerce, telecom, banking, and financial services are using data modelling by leveraging new age tools and technologies to gain business insights and make faster and smarter decisions.

Several global regulators across the banking and securities markets have also started using data analytics extensively to stay ahead of the curve when it comes to unscrupulous activities.

"By creating a data lake architecture, Sebi can use analytics to identify a pattern to detect instances of market manipulation. Using a combination of these can make the analysis sharper and bring actionable insights," said Kunal Pande, partner, KPMG India.

Getting access to the data and acquiring the ability to harness it, he added, will boost Sebi's confidence.

At present, Sebi's surveillance architecture is designed to act on what is called "structured data", that is, the data obtained from market intermediaries such as stock exchanges, brokers, depositories and mutual funds.

It also has access to 'semi-structured data' in the form of bank statements and income tax filings which are also relatively easy to process. But where Sebi lags is in the handling of "unstructured data" which could be blogs, videos, and even random chatter posted online.

Monitoring the flow of information on social media is critical to prevent insider trading and ensure transparency

"Structured data analysis is not helping much and manipulators are using all kinds of techniques to evade them," said Sebi chairman Ajay Tyagi. "The analysis of unstructured data and language processing is a must in addition to analysing changes in prices and volumes. We intend to acquire new technology to do this."

Gaining access to information posted on social media is also a key part of this strategy. There have been several orders issued by Sebi which have established links through matrimonial apps and Facebook or through using in-house technology. However, industry players say that in the absence of a data modelling platform or analytics tools, Sebi's capabilities could be limited.

At present, a huge amount of stock market-related information is shared and distributed by individuals as well as companies on social media and discussion forums. Monitoring the flow of this information is critical to prevent insider trading and ensure transparency.

The implementation of data lake capabilities will arm Sebi to scrutinise such data. This ability, combined with Sebi's traditional surveillance tools, can act as potent tools to catch violators.

For example, scores of alerts on stocks that see unusual volumes or price movements are generated by stock exchanges daily. While these alerts draw Sebi's attention, it has to establish if any participant made unlawful gains.

By leveraging the "data lake", Sebi will be able to comb through social media, news websites, discussion forums, videos and podcasts, to find any potential pattern. If, for instance, the results show that a company insider passed key information illegally, Sebi can hold the company accountable.

Also, listed companies are supposed to disseminate sensitive and credible information on the stock exchange platform in order to ensure all investors get uniform access to it. However, some companies tend to give out information on Twitter or television news channels which could be prohibited under the law.

A famous example was Telsa boss Elon Musk's tweet in August 2018 that the company had secured funding to go private. The US market regulator, the Securities and Exchange Commission, later pulled up Musk for giving information without authorisation. The case was settled last year after Musk agreed to follow Twitter usage guidelines in future.

Industry players say such instances are possible in India as the use of Twitter is on the rise. Regulators will need to deploy technology to ensure that information that is passed on is not in violation of disclosure norms.

Virat stays on top, Akshay moves up a notch

Kohli outshines all with 40% jump in brand value, holds the top spot and earns 50% more than Kumar at No. 2: Duff & Phelps

SOHINI DAS
Mumbai, 5 February

TOP FIVE: WHO STANDS WHERE

Celebrity	Rank 2019	Rank 2018	Brand value (2019), $mn
Virat Kohli	1	1	237.5
Akshay Kumar	2	3	104.5
Deepika Padukone	3	2	93.5
Ranveer Singh	3	4	93.5
Shah Rukh Khan	5	5	66.1

Source: Duff & Phelps

Virat Kohli is the shiniest star on the celebrity list as he holds on to the top rank, third year in a row, in the latest brand valuation study by Duff & Phelps. Released on Wednesday, the report shows that Kohli has increased his brand value by 40 per cent to $237.5 million in 2019 and cracked a huge lead with his closest rival, Akshay Kumar. The latter has climbed a rung up the ladder to second spot, displacing Deepika Padukone,

Barring this, the top five list remains largely unchanged. In a year when couple endorsers have been popular, the title for the first such goes to Padukone and Ranveer Singh, who share the third spot. The brand value of the top 20 celebrities in 2019 is estimated at $1.1 billion, an increase of 25 per cent from last year, it said.

Among the veterans Shah Rukh Khan and Salman Khan stayed the course, ranked at 5 and 6 respectively while rising star Alia Bhatt has improved her ranking one notch to take the seventh spot. Surprisingly, M S Dhoni (Rank 9), who many had predicted would drop off the charts as his career wound down has improved his ranking, going up three places from the previous year.

The annual parade of celebrity endorsers largely stuck to the script and the increasing sway of actors and sportspersons on the endorsement circuit is evidence that India continues to remain a star-struck nation. The cumulative number of product brand endorsements by top 20 celebrities increased from 235 in 2016 to 370 in 2019, representing a CAGR of 16.3 per cent over the last 4 years. And established actors and sportspersons continued to rule the roost. But the emergence of new stars such as Ayushmann Khurrana (Rank 10), Tiger Shroff (Rank 17) and cricketer, Rohit Sharma (Rank 20) indicates that the year ahead may well see a few upsets in the league table.

Varun Gupta, managing director and leader, Asia Pacific, valuation advisory services, Duff & Phelps, said, "We witnessed a shift in focus from established celebrities to new faces across the advertising and media industry over the past year. And not just new faces: 2019 also saw the emergence of new brands and new platforms targeting and growing the Indian millennial ecosystem."

The rise of young celebrities goes hand in hand with the rise in digital media. Market size for digital as a percentage of films increased from 47 per cent in FY16 to 95 per cent in FY19. "Given this unprecedented growth rate, digital is expected to soon overtake films to be the third largest segment in the media and entertainment space. Resultantly, celebrity endorsements have witnessed a greater push towards use of digital advertising as a means of focused communication," Vibhor Nayar, CFA, vice-president, valuation services, Duff & Phelps, said.

As brands have leaned heavily into digital media to promote their labels, the nature of advertising and endorsements has transformed rapidly. Even when using familiar faces that have established their mark over the mass market, advertisers are devising new ways to use their star appeal — at times by being a part of their Twitter timelines or securing an endorsement on their Instagram stories.

"In real terms, the definition of a celebrity has changed. Today, anyone with a substantial social media following can be dubbed a celebrity — at least for endorsement purposes. What businesses are looking for are influencers and having a 5-million strong Twitter following surely makes you one," said Sandeep Goyal, chief mentor, Indian Institute of Human Brands.

Celebrity endorsers have also become more conscious of the brands they back, perhaps on account of the threat of greater scrutiny from regulatory authorities or because social media has made them more vulnerable to criticism and censure. This is reflected in the kind of brands celebrities choose to lend their names to; the report found that the health and wellness brands are seeing a steady spread in the pie of categories that use endorsers. At the same time, "With celebrities endorsing and investing in the brands that correlate with their social image, advertising has evolved in terms of platform, content and engagement of the celebrity with the brand," the report said.

FROM PAGE 1

Maruti's EV...

A hybrid can be a stepping stone towards electric mobility till an ecosystem for the latter evolves, he pointed out.

Ayukawa's counterparts think otherwise. "I don't think we can ask for more from the government. The onus is no longer on the government, it's on us," said Pawan Goenka, managing director at Mahindra & Mahindra, referring to the policy measures taken and incentives doled out by the government.

Tata Motors, too, has stepped on the gas. The company plans to have half a dozen EVs in its portfolio over the next two to three years. It has taken up the mission "to be ahead in terms of EV technology", Tata Motors President (electric mobility business) Shailesh Chandra said.

To avail of the benefits and make EVs financially viable, Mahindra has taken a strategic call to focus more on the shared mobility space. At the 15th edition of the Auto Expo, which got underway at Greater Noida on Wednesday, EVs took the centre stage at most of the pavilions. Automobile makers unveiled over a dozen EVs, including ready-to-launch models and concepts. Even new entrants from China, including FAW and Great Wall Motors, plan to have EVs as their centrepiece. At the Auto Expo, the company showcased a concept EV car, electric three-wheelers and a prototype four-wheeler called Atom.

The government is banking on EVs to reduce the dependency on fossil fuel and curb emissions in a country which is home to the world's most polluted cities. Over the last couple of years, it has introduced a raft of policy measures and incentives to promote EVs under the FAME scheme. Last year, it reduced the goods and services tax on EVs to 5 per cent from 15 per cent and also announced income-tax benefits for the buyers. All the sops, however, are directed at the commercial segment.

Elaborating on the reasons for Maruti going against the trend, C V Raman, executive director (design and engineering) at Maruti, said, "Volumes are not motivating enough. Price point where Maruti operates is where the volume is."

The company strongly believes in bringing affordable products and so far, the cost dynamics of EVs is not working. If the price of the internal combustion engine vehicle is ₹5-6 lakh, the EV version becomes almost double of that. The high cost makes it unviable, he added.

Jio case

The final decision on whether to challenge the appellate tribunal order in the Supreme Court would, however, depend on the law ministry's response, which is expected in two weeks, said an official.

An email sent to the Reliance group did not elicit any response.

The NCLAT in its December 20 order dismissed the objection raised by the I-T department over the approval granted to Reliance Jio Infocomm's scheme by the NCLT, Ahmedabad, to reduce debt by transferring the telecom tower and the fibre businesses into two separate entities. The I-T department had raised concerns over avoidance and evasion of taxes.

"Mere fact that a scheme may result in reduction of tax liability does not furnish a basis for challenging the validity of the same... We are not inclined to interfere with the scheme of arrangement as approved by the tribunal. Both the appeals are dismissed," the appellate tribunal had said in the final order. The NCLAT had also questioned the basis of the tax department interference in the scheme of arrangement when approved by the NCLT. "While sanctioning the scheme, it is observed that the said sanction shall not defeat the right of the income-tax department to take appropriate recourse for recovering the existing or previous liability of the transferor company," it had said in the order. The appellate tribunal quoted the Supreme Court order in the Vodafone-Essar case, where it stated, "We are not inclined to entertain the special leave petitions... I-T is entitled to take out appropriate proceedings for recovery of any tax statutorily due from the transferor or the transferee company or any other person who is liable for payment of such due," the NCLAT said.

BS award...

The jury consists of the who's who of India Inc. Besides running the diversified group, which ranges from cement to finance, Birla is known to be an astute industrialist who has taken the group to greater heights following a combination of organic and inorganic growth strategy. Jindal bet on the future of the Indian steel industry and made JSW Steel the number one player with a capacity of 18 million tonnes per annum, for which he was awarded *Business Standard* CEO of the Year in 2017. Noshir Kaka led McKinsey India as its managing director from 2011 to 2016, and founded the firm's global outsourcing and offshoring practice and the business technology office in India. He is now the co-lead of McKinsey's analytics practice globally. Memani joined EY in the mid-1980s and rose to become its India chairman and a member of EY's global executive board and chairman of EY's global emerging markets committee.

As CEO of KKR India since 2009, Nayar has been involved in several marquee private equity deals in the country. Prior to KKR, he headed Citibank India. Kudva, former CEO of Crisil, is on the boards of several marquee Indian companies and IIM Ahmedabad. Shroff, managing partner of Mumbai-based Cyril Amarchand Mangaldas, has a vantage view of Indian companies as a top lawyer. Chandra founded Bain Capital Private Equity's India office in 2008 and was managing director, DSP Merrill Lynch, prior to that.

Services PMI...

New work intakes also expanded to the greatest extent in seven years. Policymakers would be happy to note that most new work orders came from the domestic market, thereby hinting at resurgence in domestic demand after a long period of economic decline over 2018.

As opposed to the latest trend, the PMI survey noted that most growth over 2019 originated in the international markets. But in January, services exports suffered a decline, after rising for 11 months on the trot, the survey showed. A number of panellists mentioned weaker demand from China, Europe, and the US.

High growth in new business also brought equally high input inflation, with average input costs rising at the fastest pace in seven years. Input inflation has solidly increased last year.

Survey respondents mostly attributed higher cost burdens to rising beauty products, food, freight, fuel, and maintenance. "Firms mostly absorbed the added cost burdens themselves instead of fully passing these on to their customers. This may translate into quicker increases in selling prices in the months to come, which may curb sales. Firms could also choose to restrict hiring in order to protect profit margins," said Pollyanna De Lima, principal economist at IHS Markit and author of the report. However, average prices charged for services increased less dramatically. Charge inflation was the strongest since February 2018. December saw the current run of inflation to 36 months. This meant that the gap between rates of input cost and output charge inflation still hasn't closed.

BS SUDOKU # 2966

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SOLUTION TO #2965

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Very easy: ★

Solution tomorrow

HOW TO PLAY

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ON THE SIDELINES

WORLD CAR AWARDS MAKE A PIT STOP AT THE EXPO

Hyundai Sonata, Land Rover Range Rover Evoque and Mercedes-Benz CLA are among the top 10 cars competing this year for the coveted World Car Awards.The World Car Finals countdown officially began on Wednesday at the Auto Expo in Greater Noida with the announcement of the top 10 and top five finalists for five World Car Awards categories. The 2020 World Car of the Year winner will be selected from 10 finalists chosen from an initial list of 29 contenders. Kia Soul EV, Kia Telluride, Mazda3, Mazda CX-30, Mercedes-Benz GLB, Volkswagen Golf and Volkswagen T-Cross are the other finalists for World Car of the Year. "The Indian car market is already the fourth largest in the world, and projected to become third largest by 2022. India is therefore a crucial contributor to our annual process...," Siddharth Vinayak Patankar, juror and director of the World Car Awards programme said. PTI

EV demand may not grow in next 2 fiscals: Goenka

Growth in electric vehicles (EV) demand is unlikely to reach a significant level for major players at least in the next two fiscal years, and in personal electric mobility segment it may take even longer, M&M Managing Director Pawan Goenka said on Wednesday. PTI

Tata Motors plans exclusive outlets for EV portfolio

Tata Motors is actively looking to set up exclusive outlets for its electric vehicle (EV) portfolio but has not yet taken a final call over the issue, a top company official said on Wednesday. The homegrown auto major recently ventured into the personal electric mobility space with the launch of the electric version of its most-selling compact Sedan Nexon recently. Besides, the carmaker also plans to roll out four more electric models in the next two years. PTI

Jio showcases connected vehicle solutions at the auto show

Telecom major Reliance Jio is showcasing its connected vehicle solutions that can help users get insights into vehicle performance and other metrics at the Auto Expo. The solutions include components like hardware, connectivity and platform, which will allow scaling based on user-requirement as well as security of the data involved. The telecom major is said to be in discussions with vehicle manufacturers and fleet management companies for installation of these solutions. Reliance Jio, however, declined to comment. The platform allows users in multiple areas like route management, vehicle telematics and diagnostics. PTI

MG Motor India on Wednesday unveiled its futuristic concept car Marvel X — the world's first mass-production vehicle to achieve Level-3 Intelligent Driving

Tata Motors showcased electric concept of its Sierra SUV. The homegrown automaker also displayed the HBX and the Hexa Safari edition

PHOTOS: SANJAY K SHARMA

Slowdown plays spoilsport at Expo

Number of launches falls; luxury and supercar brands give the largest auto show of the country a miss

THE NEW LAUNCHES

TATA MOTORS Sierra EV, Hexa Safari edition, Harrier SUV

MAHINDRA & MAHINDRA eKUV, Atom EV

MARUTI SUZUKI Electric vehicle concept Future-e

HYUNDAI Tucson SUV

Great Wall Motors Haval brand

MG Motors MarvelX SUV

ARINDAM MAJUDMER & SHALLY SETH MOHILE
Greater Noida, 5 February

At the 15th edition of the AutoExpo that kick-started on Wednesday, the mood was sombre and the decibel levels of new launches muted, compared to the previous editions. They reflected the prolonged slowdown that has gripped India's automobile market for the past one and a half years.

The absence of various manufacturers from the show was compensated by the Chinese automakers, including MG Motor, Great Wall Motors, and FAW Group Corporation — they unveiled their future line-up for the Indian Smarket.

A banner outside the venue at Greater Noida's Global Expo Mart proudly proclaimed India as the largest two-wheeler manufacturer in the world.

However, none of the country's major two-wheeler producers participated in what is Asia's biggest automobile exhibition.

Such contradictions hung heavy on the auto show as the pall of a prolonged slowdown and fear of a viral outbreak loomed large on the world's second-largest auto show.

"Start of the decade has been muted due to high transition cost and low demand. However, I am convinced this decade will take us to new heights," Kenichi Ayukawa, managing director and chief executive officer of India's largest carmaker Maruti Suzuki, summed up the mood. Maruti had the day's first unveiling.

The number of participating automakers has fallen from 50 in 2018 to 30 this year. The count of exhibitors, including technology companies, has come down from 119 to 112. Showstopper luxury and supercar brands, including Toyota, Jeep, Lamborghini, Porsche, and Volvo, were missing.

Commercial vehicle makers also gave the show a miss — a prolonged economic slowdown has dented their fortunes and dimmed chances of any recovery.

Globally, auto shows are losing sheen as high cost of participation deters automakers from big participation; they instead have their own periodic launches. However, Ayukawa of Maruti said that a country like India, where car ownership is still low, such shows help revive the market.

The theme for this year's show was electric mobility as most launches were geared towards that, led by Chinese auto majors.

After the successful debut by China-owned British automaker MG Motor's Hector sport utility vehicle (SUV), China's largest SUV and pick-up maker Great Wall Motors showcased its Haval crossover. Its compatriots First Automobile Works or Haima, Changan, and BYD will also display their line-ups.

Even as the displays by Chinese companies took centre stage, home-grown automakers Tata Motors and Mahindra & Mahindra (M&M) turned up the decibel levels by showcasing a raft of new models, primarily their electric vehicle (EV) portfolio. Tata Motors showcased the Sierra EV Concept, while M&M launched the eKUV100.

"At this Auto Expo, we are showing products which showcase our responsibility and emphasis on sustainability and cleanliness," said Group Chairman N Chandrasekaran, adding four more EVs will be launched in two years.

"The displays by the new players Kia, MG, and Great Wall were quite striking," said Jnaneswar Sen, partner at consulting firm, Maven Partners.

The real test will be after the show opens to the general public. According to Sen, people in India still aspire to own a car, and a show like this adds to the excitement.

Notwithstanding India's sluggishness to push battery-powered transport and dearth of infrastructure like charging stations, the EV rush is still charged up. The government, however, is looking to boost adoption by taxing EVs at a lower rate. It also launched the second phase of a scheme to increase the share of EVs in shared mobility to curb pollution in a nation that has cities with the world's dirtiest air.

CONCEPT OF FUTURE

PHOTOS: SANJAY K SHARMA

PHOTO: PTI

PHOTO: PTI

1. Hyundai Le Fil Rouge (HDC- 1) concept car
2. KIA Motors' concept Sonet. Kia Sonet will be launched in the Indian market in the second half of 2020
3. Mahindra Funster EV concept. With a top speed of 200 kmph, it clocks 0 to 100 kmph in 5 seconds
4. **Personal mobility is the future:** Anshuman Singhania (R), deputy MD of JK Tyre, and Ankur Bhatia, MD of Bird Electric, on hoverboard scooters

Virus scare may hit China carmakers' India investments

ARINDAM MAJUMDER & SHALLY SETH MOHILE
New Delhi/Mumbai, 5 February

As China struggles to contain the Wuhan-centred coronavirus outbreak, the resulting shutdown of factories and logistics hubs in the country is slowly constricting the business of Chinese auto majors, which have recently entered India.

The consequent pressure on supply chain, in which most Chinese companies depend on the Indian market, is likely to lead to delayed deliveries for some and postpone launches for others. "It's an unfortunate development. Since we are dependent on China for supply of major components, we will be impacted for a while. So, deliveries for our MG Hector in February will be delayed. We have relayed that to our customers," Gaurav Gupta, chief commercial officer at MG Motors told *Business Standard*.

The firm — a unit of SAIC Motor Corp — had launched the mid-sized SUV, Hector, in June. Soon, it overtook most competitors with retail sales of more than 3,000 units per month.

The government of China-owned Haima Automobile, which has planned an India launch of its first electric vehicle by 2021, said it is gauging the impact of the viral outbreak on its strategic plan. "Since we will be importing a completely-knocked-down version of the vehicle, we may expect some disruption due to closure of many supply chain points. However, as of now, there is no change of plan," said a senior executive of Bird Electric with which the firm has partnered for its India foray.

Delivery and launches may be delayed as most firms depend on China for sourcing materials

The auto maker, on Wednesday, showcased two of its globally most successful passenger vehicles – 7X and 8S – at the Auto Expo 2020. It is yet to firm up its investment plan for India.

The outbreak of the deadly disease is also likely to hit plans of Great Wall Motors, which had entailed an investment of $ 1 billion for the Indian market, said Kaushik Ganguly, director strategy and planning of the company.

Great Wall plans to enter the Indian market by bringing premium SUVs under the Haval brand in the next calendar year. The company announced its India entry plans with the acquisition of General Motors' Talegaon plant last month. It is presently in talks with various suppliers in China and India to firm up a sourcing strategy.

After years of giving free passes to counterparts from Korea, Japan, US in the Indian auto market, Chinese automakers had planned a major push to grab the fifth largest car market in the world. SAIC Motor Corp, Great Wall and FAW have unveiled cars packed with technologies, including artificial intelligence and Internet of Things.

According to the company's president, Rajeeb Chaba, it has planned an investment of ₹5,000 crore in India till 2021.

GWM unveiled the Haval brand of SUVs and vehicle concept 2025 to mark its presence in the Indian market. The company unveiled four SUVs at the event which includes Haval H9, Haval F7X, Haval F7 and Haval F5.

However, it's not only Chinese firms whose operations have been hit due to outbreak of the disease. Global carmakers with a sourcing network that expands across various continents, too, are worried. "Cornavirus will have an impact on commercial production as everything in China is closed. It's too early to predict the impact it will have on our global supply chain," said Matthias Leuhrs, head region, overseas, at Mercedes Benz. Mercedes sold a record 690,000 cars in China last year, a 5 per cent growth year-on-year, he said.

Hyundai has suspended production in South Korea — its biggest manufacturing base. SS Kim, managing director of Hyundai Motor India told Business Standard that his company has been in talks with suppliers in the global sourcing network to take stock of the situation.

'Will take a call on diesel after six months'

Maruti Suzuki India (MSI), which sells every second car in the market, took a call to exit the diesel segment last year. The carmaker has instead chosen to bet big on compressed natural gas (CNG). Over the past decade, the maker of Brezza and Baleno has sold close to 520,000 CNG models. In an interview, **KENICHI AYUKAWA**, managing director (MD) and chief executive officer (CEO) of MSI, tells **SHALLY SETH MOHILE** and **ARINDAM MAJUMDER** that the company will take a call on diesel vehicles after seeing the response of the recently launched models by rivals. Edited excerpts:

Q&A

KENICHI AYUKAWA-
managing director, Maruti Suzuki India

You have exited the diesel segment, while others are going ahead with their BS-VI diesel model launch plans. Are you re-thinking diesel strategy?

The diesel models are not affordable any more. Other players have launched various models at a competitive price. We have to see the response. We will take a call on whether we develop it further.

Hyundai is projecting itself as the sole manufacturer of diesel cars. Aren't you giving away a big chunk of the market?

We will try to capture the other portion. We will take a call (on bringing diesel models) after six months. It has to be a long-term strategy. May be some regulations change after two years. We have to decide the powertrain options in a phased manner, systematically.

When do we see the concept Futuro-e that you unveiled today (Wednesday) defining your future line-up?

It will take time. It is a concept design that will underpin various models of the future and can be used for hybrid, electric or internal combustion engine (ICE).

When do you see the tide turning for the auto industry?

The months of February and March are going to be very tough due to the transition from BS-IV to BS-VI. The grade VI diesel is still not available. We will have to see how things pan out from April onwards. Typically, demand picks up during the festive season. We hope to see the trend even this year.

PHOTO: SANJAY K SHARMA

"FEBRUARY AND MARCH ARE GOING TO BE VERY TOUGH DUE TO THE TRANSITION FROM BS-IV TO BS-VI"

How do you see the partnership with Toyota panning out?

Now, we are supplying one model — the Baleno. We will add more models. We will start developing models for markets outside India. They have a strong knowledge for hybrids, so we will collaborate and produce more models that can be sold by both the companies.

WAR AND TEAR

A bitter feud between US President Donald Trump and Democrat Nancy Pelosi boiled over at his State of the Union speech, with Trump denying her a handshake and Pelosi ripping apart a copy of his remarks behind his back

PHOTOS: AGENCIES

State of the Union tension

PRESS TRUST OF INDIA
Washington, 5 February

In a dramatic gesture, Nancy Pelosi publicly tore up her copy of Donald Trump's annual State of the Union address, signalling the worsening relationship between the House Speaker and the US President.

Pelosi has been one of Trump's fiercest critics and the top Democrat was the one who first launched a formal impeachment process in the House of Representatives against the president last year. Trump has frequently taunted the 79-year-old lawmaker as "Crazy Nancy".

The mutual snubbing began the moment Trump, seeking re-election, walked into the House chamber on Tuesday night for his third State of the Union address, in which he touted his administration's achievements during the past three years.

It was the first time the two had come face-to-face since she stormed out of a White House meeting four months ago.

On Tuesday night, the sour dynamic was on display to all from the start, *The New York Times* noted.

The tensions over impeachment appeared to surface early on, however, as Pelosi refused to introduce Trump by saying it was her "distinct honour" and "high privilege" to do so, as is tradition. Instead, she simply introduced him as the President of the United States, *Fox News* reported.

When the 73-year-old Republican president stepped up to the rostrum in the House of Representatives and handed her his speech, Pelosi rose and extended her hand to shake his.

Trump turned his back, and Pelosi quickly withdrew her hand.

The interaction between Trump and Pelosi was one of the most anticipated moments of the president's appearance at the Capitol before the Senate is expected to acquit him on Wednesday in his impeachment trial, *The Times* noted.

When the president accused the Democrats of planning to force American taxpayers to provide unlimited free health care to undocumented immigrants, Pelosi was observed twice mouthing: "Not true." Pelosi repeatedly shook her head during Trump's 78-minute speech which also saw Republican lawmakers chanting, "Four more years!" The veteran Democrat, the first woman in US history to hold the post of the Speaker, stuck to it until the very end of Trump's address and then she stood up, picked up her copy of his speech and tore it neatly in half.

"It was a dramatic gesture, caught on camera, that encapsulated a tumultuous year in the relationship between the speaker and the president," The *Washington Post* commented.

India improved its score in the latest edition of the International IP Index, while its position dropped from 36 in 2019 to 40 in 2020. India scored 38.46% in 2020, as against 36.04% in last year's edition. This year's annual IP Index, brought out by the US Chamber of Commerce Global Innovation Policy Center (GIPC), included 53 countries, against 50 in 2019. The report noted that "to continue this upward trajectory, much work remains to be done to introduce transformative changes to India's overall IP framework and take serious steps to consistently implement strong IP standards". Commenting on India's performance, Patrick Kilbride, senior vice-president of GIPC, said: "As the US and India look to conclude a trade deal in the coming weeks, we hope it will pave the way for innovation-focused partnerships."

INDIA RANK

36/50 countries in 2019 (7th edition)

40/53 in 2020 (8th edition)

6.71% India's relative score increased

India's absolute score increased from 36.04% (16.22 out of 45) in the seventh edition of the Index to 38.46% (19.23 out of 50) in the latest edition

WHERE INDIA SCORED

- Strong efforts to combat copyright piracy through issuing of "dynamic" injunction orders
- Setting case law on online trademark infringement and damages
- Generous R&D-based and IP-based incentives
- Targeted administrative incentives for the creation and use of IP assets for SMEs
- Strong awareness-raising efforts on negative impact of piracy and counterfeiting

WHERE INDIA LAGS

- Barriers to licensing and technology transfer, including strict registration requirements
- Limited framework for protection of biopharmaceutical IP rights
- Patentability requirements outside international standards
- No patent term restoration for biopharmaceuticals
- Lengthy pre-grant opposition proceedings
- Previously used compulsory licensing for commercial and non-emergency situations
- Limited participation in international treaties

Sources: International IP Index, Art of the Possible

Compiled by Sudipto Dey

Wipro out of top 20 on m-cap basis

IT major Wipro on Wednesday moved out of the list of top 20 most valued companies by market capitalisation, giving way to Avenue Supermarts, which runs the D-Mart supermarkets chain.

At close of trade, the market capitalisation (m-cap) of Avenue was at ₹1.41 trillion, which was ₹2,777 crore more than that of Wipro's ₹1.38 trillion valuation on the BSE.

Reliance Industries is the country's most valued firm with a m-cap of ₹9.17 trillion, followed by TCS at ₹8.04 trillion. The m-cap figures of firms change daily with stock price movement. **PTI**

RS committee says surrogate mother need not be relative

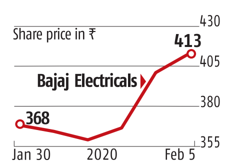
A Parliamentary panel has recommended that not only close relatives but any woman who is "willing" should be allowed to act as a surrogate.

The 15 major changes suggested by the 23-member select committee of Rajya Sabha to the Surrogacy (Regulation) Bill, 2019, also include deleting the definition of 'infertility' as the inability to conceive after five years of unprotected intercourse on the ground that it was too long a period for a couple to wait for a child. The committee has also advocated that 'single Indian woman' like a widow or a divorcee in the age group of 35 to 45 years may also be allowed to avail surrogacy.

Noting that restricting the surrogate mother to be a 'close relative' potentially limits the availability, affecting the genuinely needy persons, the panel has recommended removal of this requirement from the Bill. **PTI**

Business Standard
The Smart Investor
MUMBAI | THURSDAY, 6 FEBRUARY 2020

QUICK TAKE: BETTER OUTLOOK FOR BAJAJ ELECTRICALS



The Bajaj Electricals stock gained 3 per cent on Wednesday. Besides bullish market sentiment, robust show by the consumer products business in Q3 and reduction in debt led to the gains. Its plan to cut debt further should support near-term profitability and cash flows

"Tesla now valued at $160 bn. In a month, Tesla has added market cap that is more than the total market cap of India's auto sector, including 2-wheelers, private and commercial vehicles"

SUNIL SINGHANIA,
Founder, Abbakus Asset Manager

WWW.SMARTINVESTOR.IN FOR INFORMED DECISION MAKING

Sebi tightens DRHP framework

Companies under investigation for possible violations could face delays

ASHLEY COUTINHO
Mumbai, 5 February

UNDER SCANNER

- For firms under investigation, observations on draft offer may be kept in abeyance for 30 days from filing of papers
- Could be extended by further 30 days if regulator is unable to conclude its probe
- Issuance of observations by Sebi is akin to getting green light to conduct IPO
- IPOs of HDFC Asset Management, RBL Bank were kept in abeyance because of past violations
- Experts say new set of guidelines will provide clarity to issuers and investment bankers, and help time their listings accordingly

The Securites and Exchange Board of India (Sebi) on Wednesday set rules under which it could hold back approvals for proposed share sales by companies that are under investigation for possible violations.

The capital markets regulator has said that for current investigations, "observations" on the draft offer may be kept in abeyance for 30 days from filing of the draft offer. If Sebi is unable to conclude its investigation, the document may be kept in abeyance for a further 30 days. If the delay is on account of conduct of the entities under investigation, the document may be kept in abeyance till such time the enquiry is concluded.

Issuance of observations regarding the offer documents by Sebi is akin to getting the green light to conduct the share sale. The rules apply to issuers or promoters, directors, and group companies against whom an investigation, enquiry, adjudication, prosecution, disgorgement, recovery or other regulatory action is pending, the Sebi chairman said in a general order.

For show cause notices pertaining to fraudulent and unfair trading, the period of abeyance could be extended up to 90 days. If the regulator is unable to conclude its proceedings because of reasons beyond its control or due to conduct of the entities, this period could be stretched by another 45 days.

For show cause notices pertaining to fraudulent and unfair trading, the period of abeyance could be extended up to 90 days

If the show cause notice has been issued to the entities in an adjudication proceeding, the regulator may process the draft offer document and issue observations after advising the entities to make necessary disclosures and statements in the offer document. Under the erstwhile regulations, the period was 90 days.

Where the regulator has initiated proceedings for recovery against the entities, or when an order for disgorgement or monetary penalty passed against the entities has not been complied with, observations can be kept in abeyance till the conclusion of such proceedings. In cases where the issuer has been restrained by a court or tribunal from making an issue of securities, the observation will be subject to the orders of such court or tribunal.

The issuance of observations on the draft offer document, when an investigation or enquiry is pending, does not indicate that the party has been exonerated in such proceedings, the regulator clarified.

There have been instances when a share sale has been kept in abeyance owing to past violations. Share sales of HDFC Asset Management and RBL Bank were kept in abeyance because of this reason.

Experts said the new set of guidelines will provide clarity to the issuers and investment bankers, and help time their listings accordingly.

Two barred for insider trading in IVL

The Securities and Exchange Board of India (Sebi) on Wednesday barred Indiabulls Ventures' (IVL) non-executive director Pia Johnson and her husband Mehul Johnson from accessing the capital markets for a period of one year.

Further, the two individuals have also been barred from dealing in shares of IVL for a period of three years.

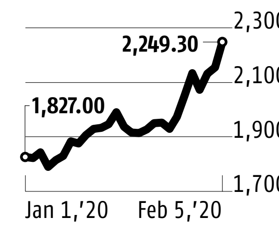
In addition, the markets regulator said that the ₹87 lakh it had impounded, belonging to the two individuals, stands disgorged and would be remitted to the Investor Protection and Education Fund.

The case date backs to 2017, when Pia Johnson and Mehul Johnson had allegedly traded in the shares of Indiabulls Ventures while being privy to inside information. SAMIE MODAK

DMart set to raise ₹4,000 cr via QIP

SAMIE MODAK
Mumbai, 5 February

AVENUE SUPERMARTS
BSE Price in ₹



Avenue Supermarts has launched its qualified institutional placement (QIP) programme to raise at least ₹4,000 crore.

The country's most valuable listed retail chain will issue 20 million fresh shares at a base price of ₹1,999. Avenue Supermarts' board will meet on February 10 to approve the QIP price.

Shares of the company rose 4.35 per cent to close at ₹2,249 on Wednesday. The company is currently valued at ₹1.41 trillion and is among top 20 most valued firms in the country.

The QIP will help promoters of the company, led by Radhakishan Damani, pare their holdings, which currently stands at 79.73 per cent.

Holding in the DMart retail chain operator has to reduce to below 75 per cent by March 20, to meet the minimum public shareholding requirement.

The QIP could lead to dilution in promoters' stakes by 2.8 per cent. The promoters could be required to dilute another 1.9 per cent, which bankers said could be done through the offer for sale (OFS) route.

For the quarter ended December 2019, Avenue Supermarts had reported a 53 per cent year-on-year jump in net profit to ₹394 crore, surpassing Street estimates.

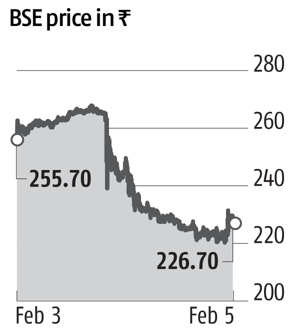
Its net sales for the period had increased 24 per cent to ₹6,752 crore despite weak consumer sentiment.

MCA inspection may spoil the show for Zee

RAM PRASAD SAHU
Mumbai, 5 February

Independent directors Neharika Vohra and Subodh Kumar had quit the Zee board last year, citing multiple issues PHOTO: COMPANY

ZEE ENTERTAINMENT
BSE price in ₹



Source: Exchange

The Zee Entertainment stock has shed close to 15 per cent from its highs over the last two trading sessions.

The sharp correction followed reports that the Ministry of Corporate Affairs (MCA) had ordered an inspection of the firm's books on allegations of corporate governance lapses and also because of the resignations of some of its independent directors.

In a clarification to the exchanges, Zee acknowledged that it had received a letter from the MCA, seeking information and inspection. The company, however, clarified that the same was available in public domain, and also that it was collating the information and would cooperate with the inspection.

Further, it indicated that the link between the enquiry and resignations of independent directors a few months ago was tenuous. Independent directors Subodh Kumar and Neharika Vohra had quit the Zee board last year, citing multiple issues including film advances to the tune of over ₹2,000 crore and receivables from related parties.

After the December quarter results, the firm indicated that receivables were at ₹2,330 crore.

Within this, receivables from related parties DishTV and SitiCable stood at ₹750 crore, of which ₹350 crore was overdue. The two account for 27 per cent of domestic subscription revenues.

Zee Entertainment indicated that it would be able to recover its dues from Siti Cable over the next year, and from DishTV over the next 24 months.

A head of research at a domestic brokerage indicated that the correction over the last couple of trading sessions had factored in the information related to the MCA.

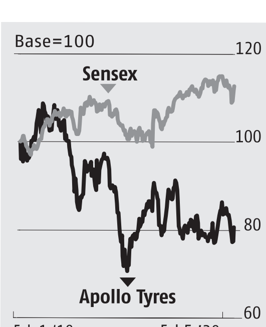
Analysts are advising investors to avoid the stock as there is no clarity on how long the enquiry of the MCA will last, as well as on its findings.

Worries pertaining to a change in management control, high investments in a weak demand environment, monetisation of content, as well as regulatory changes, are factors expected to keep the Zee stock under pressure over the near term.

THE COMPASS

Falling raw material costs drive Apollo Tyres' margins

Weak demand, high competition could weigh on stock in near term



Compiled by BS Research Bureau

RAM PRASAD SAHU

Apollo Tyres recorded a better-than-expected performance in the December quarter (Q3), notwithstanding pressure on the demand front. The gains came in largely on the operational front, with margins being aided by a fall in raw material costs.

The company posted an operating profit margin of 12.1 per cent, which was 80-120 basis points (bps) higher than what the Street had estimated. It indicated that raw material costs fell 3.5 per cent in the quarter — a trend expected to continue this quarter.

While natural rubber prices have been steady, a fall in crude oil prices should help bring down raw material costs of derivatives such as carbon black and synthetic rubber. Rubber accounts for 40 per cent of expenses.

Price decline in the raw material basket in the current quarter is expected to be 1.5-2.0 per cent. With volume growth remaining a challenge, this comes as a shot in the arm.

In Q3, volumes in the domestic business — which account for over 60 per cent of revenues — fell 13 per cent. This led to a decline in consolidated revenues to the tune of 7 per cent.

While volumes in the replacement segment continue to be strong — especially in the passenger vehicles business — it is supplies to auto makers which has been weak. Volumes in the truck and passenger vehicle business segments continue to be weak with a decline of 35-50 per cent. Revenue contribution from supplies to auto makers which is normally around 30 per cent has now dipped to 20 per cent.

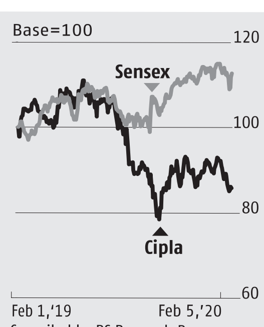
Demand in Europe has also been weak impacting its revenues from that geography. The company however has been able to grow at a higher pace than the market gaining market share. Improving product mix with a higher share of ultra-high performance tyres should aid in revenue and margin growth. Margins in the business should also improve as the Hungary plant scales up over the next couple of years. Near term volume gains could also come from lower imports into European market from China due to Coronavirus.

While the stock gained over 4 per cent in trade post the results, the weakness in demand and higher competition are expected to weigh on stock prices in the near term.

Lack of US drug approvals ails Cipla's Q3 performance

Niche product launches key to boost sales in North America

UJJVAL JAUHARI



Compiled by BS Research Bureau

Cipla's lower-than-expected performance for the December quarter (third quarter, or Q3) disappointed investors. Its stock, which has already lost more than 7 per cent since mid-January, fell another 0.4 per cent on Wednesday, even as the broader markets ended on a bullish note.

While the Indian market, which contributes about 40 per cent to Cipla's overall revenue, is now seeing normalised growth with rebound in trade generics segment following a restructuring of the business, it reported flat numbers on a sequential basis.

On a year-on-year (YoY) basis, however, domestic sales grew 13 per cent, led by 14 per cent growth in prescription business, and trade generics grew by 7 per cent.

North American sales (slightly more than a fifth of revenue), though up 14 per cent YoY, were still down by a per cent sequentially. While the absence of stimulus from sales of thyroid drug Sensipar generics on exclusivity basis has impacted US growth, analysts also point to the limited number of new product launches which are impacting the revenue of North American operations.

Overall, Cipla's revenue at ₹4,234 crore was marginally lower on a sequential basis and up a mere 8.4 per cent YoY. It fell short of the *Bloomberg* consensus estimate of ₹4,366 crore.

The company made some adjustments for overhead charges on finished goods inventory in Q3. However, even adjusted for the same, its margins stood at 18.5 per cent — lower than analysts' expectations. Analysts at Motilal Oswal Securities, for instance, had pegged margins at 19.2 per cent. Net profit at ₹351 crore, too, was short of the estimated ₹431 crore.

Moving forward, while Cipla's India business is expected to see better traction, other important geographies, such as South Africa, are also expected to sustain their good show. The South Africa private business grew by 20 per cent YoY in constant currency terms in Q3.

In the near-term, if Cipla's offering to cure the coronavirus is accepted by the World Health Organization and others, it could also provide fresh triggers. But, for the US business, the launch of significantly larger products is crucial. The company expects the US base business to maintain quarterly revenue run-rate of $120-$130 million.

Hence, niche product launches would be required to boost sales. While Cipla expects limited competition launches to start by the end of 2019-20, the Street will be watchful of its progress. On this front, the progress on the launch of respiratory products like Albuterol and Advair generics, and pain relief drug Tramadol generics, hold key for the company's US business.

Financial sector: Subsidiaries in focus

While lack of clarity on outlook of insurance has weighed on valuations, income needs to be watched

SHREEPAD S AUTE
Mumbai, 5 February

Not long ago, even as the core business of financial conglomerates such as Housing Development Finance Corporation (HDFC), State Bank of India (SBI), and ICICI Bank was doing well, the Street had turned increasingly bullish on their subsidiaries, and pondering how their contribution would boost the overall valuation of their parents.

While some Budget proposals may have cast a shadow of scepticism in terms of the future performance of subsidiaries/other businesses and their ability to contribute to their parent's stock valuation, the jury is out on this. Among key announcements of the Budget is removal of tax exemptions, including on home loans and insurance premiums, under the proposed new income-tax regime.

Given the potential impact for insurance companies, some analysts have started reducing their target prices for listed life insurers. This, in turn, could have implications on stock valuation of finance majors, as roughly 14-16 per cent of their valuation, based on sum of the parts, is contributed by their insurance businesses *(see table)*, according to brokerage estimates.

Having said that, investors need not be alarmed as clarity is required on the quantum of long-term impact on insurers. Besides, these players would also have some time to rework their business strategies.

Nitin Aggarwal, analyst at Motilal Oswal Securities, for instance, estimates a marginal impact on valuations of the insurers' parent companies due to the new tax regime. "If these lenders (parent companies) continue to report strong operating performance, their valuation would get good support, even if their insurance business sees some disturbances," adds Aggarwal.

Wide distribution franchise, scope for efficiency enhancement, and likely improvement in overall credit costs are some other factors suggesting that the core business performance of these financiers would remain strong. In fact, after the December 2019 quarter results, the Street was looking at corporate banks like SBI positively, mainly due to asset quality improvement. Some tweaks though may be necessary on growth expectations. Under the proposed new tax regime, exemptions for interest paid on home loans has also been excluded, which could hurt the retail loan book growth of lenders.

According to Kajal Gandhi, analyst at ICICI Securities, "Though it is difficult to assess the impact on home buying due to removal of 80C tax exemption, it disincentivises home buying by borrowing funds, which was lucrative earlier."

This becomes a concern, given many banks have already started scaling up their retail loan portfolio. Since March 2019, shares of SBI and ICICI Bank's retail loans in their overall loan book has gone up by 300-400 basis points to 61-63 per cent as of December 2019. Retail home loans account for 76 per cent of HDFC's loan book. There could be an impact on their fee income, too, as these lenders also earn some income from cross-selling insurance and other investment products, say analysts. Gandhi, thus, believes that strong core performance of these financiers would be key for their valuation, even if the contribution from other businesses fall marginally.

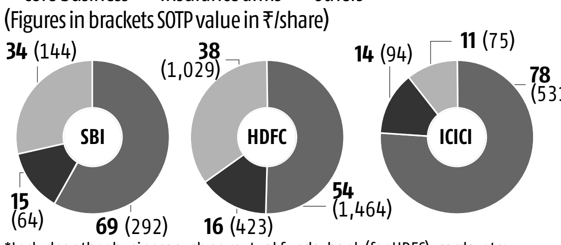
Positively, analysts also say that life insurance is now being considered more as a protection product rather than a savings option and believe that life insurance penetration would improve further. In that case, if insurers are able to drive their high-margin protection offerings, it could help the growth top line as well as profits.

Likewise, individuals are also focusing on securing products, such as health insurance, to protect their families from adverse medical situations, rather than as a tool to save taxes.

More on business-standard.com

VALUATION MIX

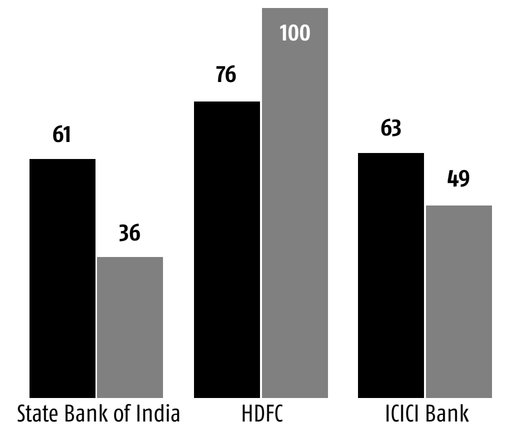
Contribution (%)
Core business | Insurance arms | Others*
(Figures in brackets SOTP value in ₹/share)



*Includes other business such as mutual funds, bank (for HDFC), cards, etc;
SOTP: Sum of the parts

SIZEABLE SHARE OF HOME LOANS

Home loan exposure (%)
■ Share of retail loans in total loans
■ Home loans as % of retail loans



Source: JM Financial

IRCTC: Dalal Street's new bullet train

Stock surges 50% in a fortnight

CATCHING INVESTORS' FANCY

Month	Market cap (₹ cr)	Ranking*
October 2019	5,120**	56
January 2020	15,723	31
February 2020	24,145	23

Note: *For most-valued PSUs in terms of market value; **At IPO price;
Source: Capitaline

SAMIE MODAK
Mumbai, 5 February

Gravity-defying rally in shares of Indian Railway Catering and Tourism Corporation (IRCTC) has helped the railway ticketing company climb the league table for the most-valued public sector undertaking (PSU).

In the past 10 trading sessions, shares of the state-owned company have shot up more than 50 per cent. Currently, IRCTC ranks 23 in terms of the most-valued PSUs, with a market capitalisation (m-cap) of more than ₹24,000 crore. At the time of its initial public offering (IPO) in October 2019, it didn't even feature in the top 50.

Currently, it is valued more than other marquee PSUs, such as The New India Assurance Company, Bharat Electronics, Oil India, and Bharat Heavy Electricals.

In the past fortnight, IRCTC has seen its m-cap swell by over ₹10,000 crore — more than the combined market value of the bottom 20 listed PSUs.

On Wednesday, shares of IRCTC closed at ₹1,509, up 6.8 per cent over the previous day's close and 52 per cent over its January 23 close of ₹995.

The rally would be music to the ears of the government, which holds 87.4 per cent stake in the company. IRCTC made its stock market debut in October last year. Shares of the company were priced at ₹320 in the IPO. The stock had soared 2.3x on listing day itself, breaking the record for the highest gain on debut.

The latest jump in shares of IRCTC comes a week ahead of its December quarter result announcement.

Market players say investors need to be cautious, as the company's valuations have reached lofty levels. At the current market rate, the stock is valued at nearly 80x its trailing 12-month earnings.

Analysts at Prabhudas Lilladher believe the company will be able to log a compound annual profit growth rate of a whopping 49 per cent between 2018-19 and 2021-22 (FY22). According to the brokerage, the stock is valued at a reasonable level of 20x and 18x its projected earnings estimate for 2020-21 and FY22, respectively.

"IRCTC is a monopolistic entity authorised to provide packaged drinking water, catering, and online ticket booking services to passengers travelling by Indian Railways. It has a dominant position in online rail bookings and packaged drinking water. Being a regulated monopoly acts a strong moat and limits competitive risks," said the brokerage in a note.

ITI withdraws FPO as poor demand weighs

SUNDAR SETHURAMAN
Mumbai, 5 February

Poor response has prompted ITI to withdraw its ₹1,300-crore follow-on public offer (FPO), a move that is unprecedented by a government company.

ITI is a technology solutions provider to the telecom sector.

While the FPO wasn't part of the government's disinvestment programme, it underscores the challenges when it comes to diluting stakes in public sector undertakings that are not in the limelight.

"The company has decided to withdraw the issue, due to the prevailing market conditions," ITI said in a statement. The FPO had garnered only 62 per cent subscription, data provided by stock exchanges showed. ITI had extended the closing date twice and also had lowered the price band to attract investors. The FPO, was to originally close on January 28. The closing date was first extended to January 31 and later to February 5. The price band was lowered to ₹71-₹77 per share from earlier band of ₹72-₹77 per share.

Shares of ITI rose nearly 5 per cent to end at ₹84 on Wednesday as the share sale overhang ended. Through the FPO, ITI was looking to issue 181.8 million fresh shares. The issue would have led to dilution of 20 per cent, weighing on the secondary market price.

The government holds 90 per cent stake in the company. ITI is valued at ₹7,550 crore, currently.

BOB Capital Markets, Karvy Investor Services and PNB Investment Services were the investment bankers to the FPO.

In the past, government-owned entities such as Life Insurance Corporation (LIC) and State Bank of India (SBI) had bailed out PSU after a share sale. The failure of ITI's FPO indicates that the government wanted to raise funds supported by organic demand, said bankers. Analysts said steep pricing and uncertain business outlook could have hurt investor demand.

"Besides the pricing, investors were concerned over the drop in profitability of the company in the last financial year and the business outlook falling. Most of ITI's business comes from state-owned telecom companies which aren't in great shape," said an analyst.

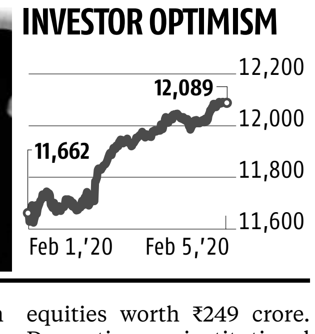
ITI was looking to utilise the FPO proceeds to retire debt and fund its working capital.

Analysts said ITI will have to look for other means of fundraising, such as private placement.

PMI, global cues lift indices

SUNDAR SETHURAMAN
Mumbai, 5 February

INVESTOR OPTIMISM



The benchmark indices rose on Wednesday mirroring gains in the global markets after news of a breakthrough in coronavirus vaccine and optimism over positive economic data at home.

The Sensex closed at 41,143, up 0.9 per cent, or 353 points, extending its three-day rally to 1,407 points, or 3.5 per cent. The Nifty rose 110 points, or 0.94 per cent, to close at 12,089.

Most equity markets rallied by over a per cent on hopes that the impact of the coronavirus on the global economy won't be as severe as anticipated. Moreover, news reports suggested scientist in the UK made a significant breakthrough in the race to develop a vaccine.

Market players also rejoiced positive domestic economic data, as the services Purchasing Managers' Index (PMI), released Wednesday, rose to a seven-year high at 55.5 in January. Earlier, the manufacturing PMI had shot up to an eight-year high at 55.3 in January from 52.7 in December.

Analysts said underlying growth dynamics for the economy appeared to be bottoming out with some high-frequency indicators showing positive trends.

"Rural consumption is on the way to recovery, given the increase in food inflation, improving farm economics and high reservoir levels. Moreover, monthly auto numbers are showing stability. Select sectors with better earnings visibility will continue enjoying valuation premium over the broader markets," said a note by Motilal Oswal.

Foreign portfolio investors (FPIs) were net buyers for the second consecutive day on Wednesday. They bought equities worth ₹249 crore. Domestic institutional investors were net buyers to the tune of ₹263 crore.

Some believe the markets could benefit from the outbreak of Coronavirus, which has hit economic activity in regional peers such as China and Southeast Asia.

Brent crude hit a 52-week low on Tuesday at $53 per barrel. Though prices rose nearly 3 per cent on Wednesday, they were still 18 per cent below early 2020 levels. Experts say markets are keenly eyeing Thursday's RBI monetary policy meeting.

While the RBI is expected to keep rates unchanged, investors will take cues on economic growth and inflation projections.

COMMODITIES

PRICE CARD

As on Feb 5	International Price	International %Chg#	Domestic Price	Domestic %Chg#
METALS ($/tonne)				
Aluminium	1,687.0	-7.0	2,021.9	6.7
Copper	5,652.0	-3.9	6,304.4	2.9
Zinc	2,217.5	-14.5	2,471.2	-11.3
Gold ($/ounce)	1,553.7*	4.7	1,749.0	3.1
Silver ($/ounce)	17.6*	0.1	19.9	-2.9
ENERGY				
Crude Oil ($/bbl)	54.6*	-13.4	58.0	-6.4
Natural Gas ($/mmBtu)	1.8*	-35.7	1.8	-35.9
AGRI COMMODITIES ($/tonne)				
Wheat	196.1	8.6	291.4	-5.0
Maize	186.5*	7.3	267.8	-7.2
Sugar	415.5*	19.5	490.3	-0.7
Palm oil	690.0	14.5	1,151.4	19.7
Cotton	1,501.4	6.7	1,603.2	-0.7

* As on Feb 05, 20 1800 hrs IST, # Change Over 3 Months
Conversion rate 1 USD = 71.2 & 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.

eNWR, eNAM integration set to conclude in 2 mths

RAJESH BHAYANI
Mumbai, 5 February

Integration of Negotiable Warehousing Receipts (eNWR) with the Electronic National Agriculture Market or eNAM, as announced by the finance minister in her Union Budget speech on Saturday, is expected to be complete in one or two months.

Warehouse receipts are issued by repositories, which keep electronic records of goods deposited and subsequent transfers, the way depositories operate in the capital market. Receipts for warehoused goods now can also be negotiable and, hence, tradeable. Central Depository Services has set up a CDSL Commodity Repository which has completed the integration mentioned earlier and begun issue of eNWRs for goods traded on eNAM.

Another repository, the NERL, set up by the National Commodities and Derivatives Exchange, is in the process of integration. Kedar Deshpande, the former's chief executive, said: "Doing so will help farmers participate in auctions by storing quality produce in registered warehouses, which will thus become market yards. This will be the beginning of warehouse-based sales in India and would make eNAM a country-wide success."

The eNWR will be useful when farmers deposit their produce in a regulated warehouse (as certified by the Warehousing Development and Regulatory Authority). Th that warehouse would have to be notified as a mandi or market yard. The central government has already asked states to follow its model Agriculture Produce Market Committee (APMC) law, which provides for this.

THE IMPLICATIONS

- eNAM, department of economic affairs, agriculture ministry, and two repositories discussing integration
- One repository integrated with network; another in advance stage
- States have to notify regulated warehouses as APMCs
- AP, Telangana already notified 40 warehouses as *mandis*
- Farmers depositing commodities in such warehouses will get eNWR
- Farmers then can deliver such eNWR instead of delivering their produce
- Farmers can get finance and wait for right price to sell
- As on December 31, 2019, NERL generated over 1.8 lakh eNWRs/eWRs

Andhra and Telangana have so notified a little over 40 warehouses and 15 other states have told the Union agriculture ministry that they are considering doing so.

The eNAM is a national networked platform connecting mandis or APMCs electronically, for helping farmers to realise the highest price for produce in the state from where he is selling. In physical mandis, farmers get the prevailing price there, where he has brought the produce. The eNAM connects all mandis in the state and all states in a national network.

The Centre is in discussion with market participants to promote the use of eNWRs on eNAM platforms. A farmer would simply have to deposit the e-receipt, against the goods deposited by him in a regulated warehouse. Based on this receipt, his goods will be up for sale and he will hopefully get the best price; the buyer gets the receipt and the repository will debit the farmer and credit the commodity in the buyer's name. A farmer can use this receipt for getting bank finance against it and wait to sell those goods till he gets a better price, avoiding any distress sale at mandis.

Dairy sector hopes to attract ₹60K cr in 5 yrs

DILIP KUMAR JHA
Mumbai, 5 February

The country's dairy sector hopes to see up to ₹60,000 crore of new investment and creation of 10 million jobs in five years, in the wake of the Union Budget proposals.

The finance minister had announced a target of doubling the annual milk processing capacity to 106 million tonnes, from the existing 53 million tonnes (or from 140 million litres a day to 300 million) in five years.

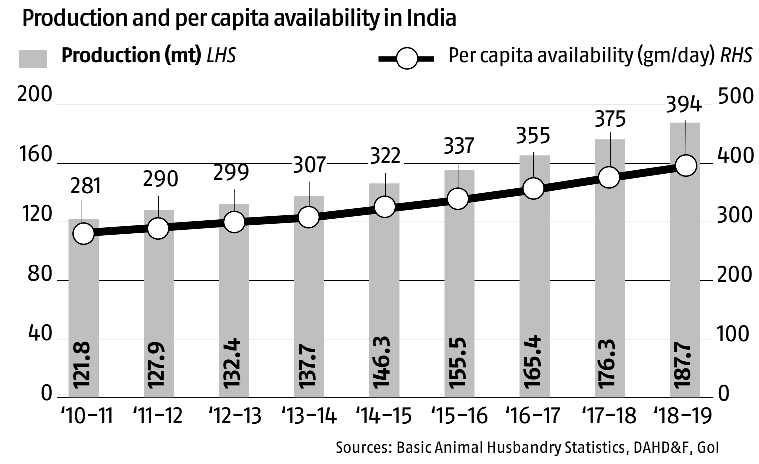
"To process this massive capacity, the industry requires between ₹20 and 40 crore investment for every 100,000 litres of processing. Thus, the sector would attract a fresh investment of at least ₹60,000 crore. As every 100,000 litres of milk production creates 6,000 new jobs, the sector will see 10 million new jobs by 2025," said R S Sodhi, managing director, Gujarat Cooperative Milk Marketing Federation, holder of the Amul brand.

The Karnataka Milk Federation ('Nandini' brand) has begun examining the potential for a processing unit in the Mumbai area, setting aside ₹200 crore for the proposed expansion. "We recently launched the Nandini brand of cheese to institutional buyers like hotels, restaurants and other bulk consumers in Maharashtra. We have started looking for sites near Mumbai (for a milk processing unit) to support supply of our Nandini brand, of milk and processed products, from local sources. Currently, we supply milk and its derivatives from Karnataka to consumers in Maharashtra," said B C Sateesh, managing director.

The Centre has also proposed the setting up of a national cold supply chain for perishables and to eliminate foot and mouth disease in cattle. Coverage of artificial insemination is proposed to be increased from the present 30 per cent to 70 per cent. Also, fodder farms and to link farming of grass to the rural employment guarantee scheme. "FMD reduces milk production capacity by at least 25 per cent in animals. So, eliminating it would automatically increase India's milk production by 25 per cent," said Devendra Shah, chairman, Parag Milk Foods.

THE MILKY WAY

Production and per capita availability in India



Sources: Basic Animal Husbandry Statistics, DAHD&F, GoI