TUESDAY, 10 MARCH 2020
16 pages in 1 section
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THE MARKETS ON MONDAY		Chg#
Sensex	35,634.9▼	1,941.7
Nifty	10,451.5▼	538.0
Nifty futures*	10,462.3▲	10.9
Dollar	₹74.1	₹73.8**
Euro	₹84.6	₹83.5**
Brent crude ($/bbl)##	35.9##	45.3**
Gold (10 gm)###	₹43,838.0▼	₹399.0

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

BRAND WORLD P13
ON HOLI, BRANDS WALK THE EMOTIONAL PLANK

COMPANIES P2
DOMESTIC FLIGHT OCCUPANCY DROPS 15%

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

TROUBLE FOR MP GOVT AS 17 LEGISLATORS LAND IN BENGALURU

Fresh trouble broke out for the Kamal Nath-led Congress government in Madhya Pradesh on Monday, when 17 legislators who are believed to be close to senior party leader Jyotiraditya Scindia flew out of Bhopal to Bengaluru. Scindia and the legislators, including six ministers, were incommunicado. The Nath government has a thin majority in the Assembly. However, sources are of the view the government is safe. All ministers present in a Cabinet meeting chaired by Nath on Monday night submitted their resignations to him. 16

ECONOMY & PUBLIC AFFAIRS P6
FM to review PSB merger readiness on March 12

Finance Minister Nirmala Sitharaman is set to hold a meeting with chief executives of amalgamating state-owned banks on Thursday to review the planning and preparedness for the merger. The executives of each set of merging banks will have to make a presentation to the FM focusing on six areas.

COMPANIES P3
No resolution plan to revive Jet Airways

Efforts to revive Jet Airways have reached a dead end as it did not receive any resolution plan from its suitors till the last date. The committee of creditors of Jet is set to meet on Thursday to take a call on the future course of action, including liquidating the company. The resolution professional did not receive any expression of interest, which would have allowed him to seek an extension.

COMPANIES P3
NITI Aayog speaks in two voices on telco floor rates

Less than a week after the NITI Aayog sent its comments to the Telecom Regulatory Authority of India (Trai) opposing any kind of floor price for data or voice tariffs, it has said in another letter that it stood "for" putting in place a minimum floor price.

ECONOMY & PUBLIC AFFAIRS P6
GSTN glitches top on Council agenda

Glitches on the goods and services tax (GST) portal will dominate the agenda of the GST Council meeting on Saturday, even as states will vehemently seek a resolution of delayed compensation. Infosys Chairman Nandan Nilekani has been asked to make a presentation before the Council.

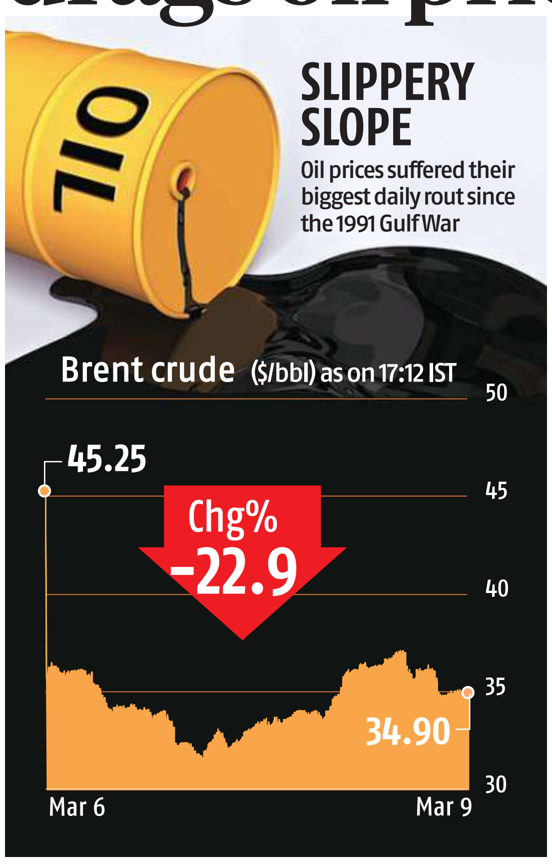
BS SPECIAL ON TUESDAY

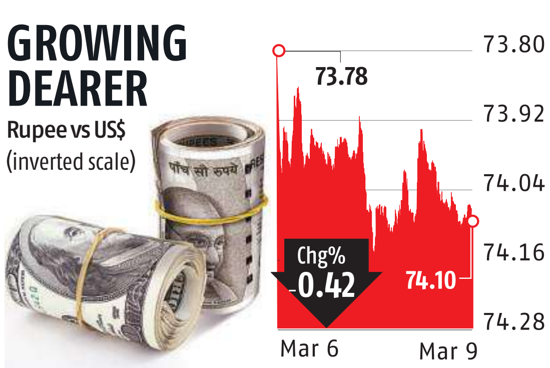
VALUE PICKS: Good time for bargain hunting 14

Investors who picked companies with strong business franchises in the year 2008 or 2012 have seen a multi-fold jump in their portfolio values, writes **KRISHNA KANT**

After corona, it's a crude shock

Saudi-Russia standoff drags oil prices down





JYOTI MUKUL, PUNEET WADHWA & SHINE JACOB
New Delhi, 9 March

A standoff between Saudi Arabia and Russia over crude oil supply cuts saw international prices record one of their worst single-day dips in about three decades. Though this could help the Indian economy, which is facing a slowdown, to keep the subsidy bill under control, the fall could accentuate global distress.

At one point, Brent crude price was seen at a session low of $31 a barrel, down about 30 per cent, though it recovered later in the day to $35.60 (11:30 pm IST) a barrel. Even the West Texas Intermediate (WTI) price was down 23.18 per cent at $31.71 a barrel.

Indian consumers could gain from lower petroleum product prices, though a lot depends on whether the government makes use of the window to shore up its revenues and increases excise duty. Any duty hike would prevent the full benefit from accruing to consumers.

On Monday, Saudi Arabia reduced oil prices and offered to increase production, triggering a price war among oil-producing countries. The kingdom wanted Russia, too, to cut production to keep prices stable after the demand disruption caused by the coronavirus (COVID-19) outbreak.

The Organization of the Petroleum Exporting Countries (Opec) on March 5 asked Russia to join a 1.5 million barrels a day production cut to offset the economic impact of COVID-19, but the Russian government did not agree.

Goldman Sachs has cut its price forecast for Brent for the second and third quarters of 2020 (Q2 and Q3) to $30 a barrel, with possible a dip to $20 a barrel.

Saudi Arabia, which slashed prices for April delivery by $4-6 a barrel to Asia and $7 to the United States, has far more firepower than Russia in terms of readily available spare oil production capacity, analysts said.

"If Opec ends up discarding its proactive market management, the policy adopted in 2016 to combat the worst oil glut in the world's history, it essentially loses its raison d'être. The collapse of the Opec/non-Opec alliance was a major shock to the oil markets, and it comes with the added challenge that we don't have the full picture of what lies ahead," said analyst Vandana Hari, founder of Singapore-based Vanda Insights.

Turn to Page 13

Indices see worst rout in five years

SUNDAR SETHURAMAN
Mumbai, 9 March

The crash in oil prices on Monday sent shockwaves through global equity markets, which were already reeling from pressure because of the spread of coronavirus.

The Indian markets suffered their worst single-day rout in five years, with the benchmark indices falling 1,942 points and the rupee breaching 74 against the dollar.

Overseas investors pulled out close to $1 billion, taking their one-month pull out close to $4 billion.

At one point, the Sensex was down 2,467 points, or 6.6 per cent. After intense selling through the day, the Sensex ended 1,942 points, or 5.2 per cent, lower at 35,635, the lowest close since February last year.

The widely-tracked Nifty dropped 541 points, or 5 per cent, to close at 10,448.

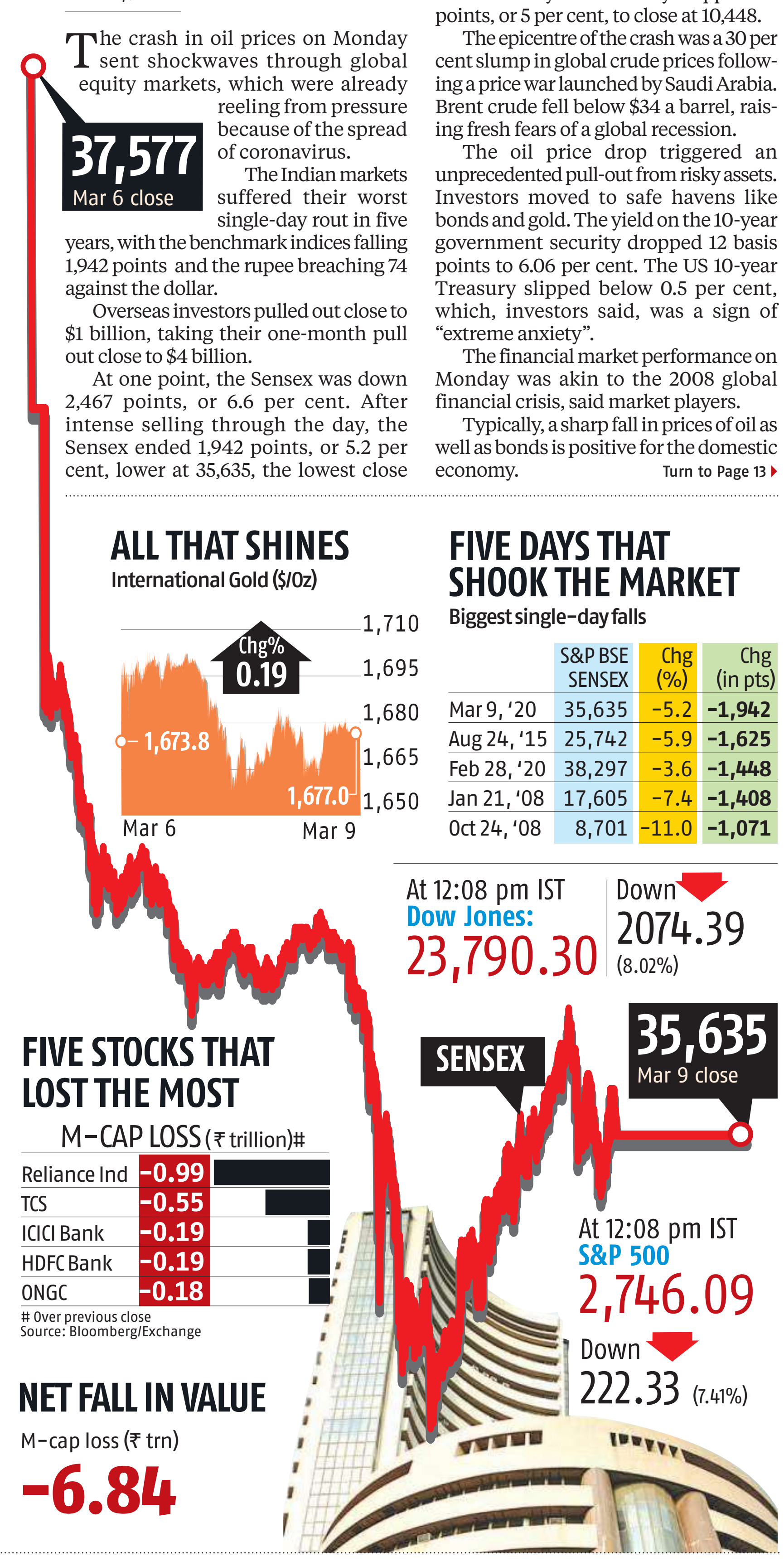
The epicentre of the crash was a 30 per cent slump in global crude prices following a price war launched by Saudi Arabia. Brent crude fell below $34 a barrel, raising fresh fears of a global recession.

The oil price drop triggered an unprecedented pull-out from risky assets. Investors moved to safe havens like bonds and gold. The yield on the 10-year government security dropped 12 basis points to 6.06 per cent. The US 10-year Treasury slipped below 0.5 per cent, which, investors said, was a sign of "extreme anxiety".

The financial market performance on Monday was akin to the 2008 global financial crisis, said market players.

Typically, a sharp fall in prices of oil as well as bonds is positive for the domestic economy.

Turn to Page 13



FIVE DAYS THAT SHOOK THE MARKET

Biggest single-day falls

	S&P BSE SENSEX	Chg (%)	Chg (in pts)
Mar 9, '20	35,635	-5.2	-1,942
Aug 24, '15	25,742	-5.9	-1,625
Feb 28, '20	38,297	-3.6	-1,448
Jan 21, '08	17,605	-7.4	-1,408
Oct 24, '08	8,701	-11.0	-1,071

FIVE STOCKS THAT LOST THE MOST

M-CAP LOSS (₹ trillion)#	
Reliance Ind	-0.99
TCS	-0.55
ICICI Bank	-0.19
HDFC Bank	-0.19
ONGC	-0.18

Over previous close
Source: Bloomberg/Exchange

NET FALL IN VALUE

M-cap loss (₹ trn)
-6.84

10-year bond yields at decade-plus low; rupee falls as oil prices crash

The rupee crossed 74 to a dollar and 10-year bond yields fell below 6 per cent — the first time since March 3, 2009 — even as crude oil prices crashed 30 per cent overnight, taking down global markets with it. The Sensex tanked nearly 2,000 points, as foreign investors liquidated their investments for safe haven assets such as US bonds. The US bonds rallied, taking the 10-year yields to a record low of 0.32 per cent, even as US equities continued with their slide. Indian bond yields fell too. The 10-year bond yield fell 12 basis points to 6.07 per cent, from its previous close of 6.18 per cent. One benefit for India from the oil price fall was that it could potentially contain inflation, said analysts. **ANUP ROY** reports 10

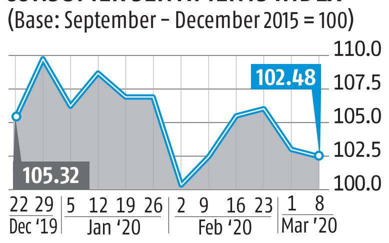
Valuations come down, but still not in the comfort zone

The recent rout on Dalal Street has resulted in a sharp drop in the valuation of the broader market and benchmark indices. The Sensex is now priced at 22.8 times its underlying earnings per share (EPS) in the trailing 12-months — the lowest in nearly two years. Just five months ago in November 2019, the index was trading 28.4 times its trailing earnings. The index's valuation peaked in May last year, when it was trading at nearly 29 times its underlying trailing earnings. The current market correction is, however, the sharpest since the second half of 2015, when the index's price-to-earnings multiple (P/E) had contracted by nearly a quarter in the six-month period between July 2015 and February 2016. **KRISHNA KANT** writes 11

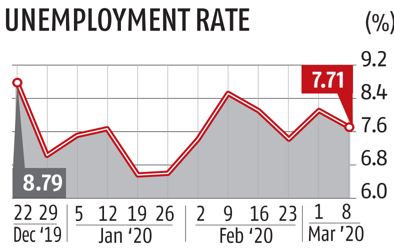
Opinion PAGE 9 — EDIT: The oil crash
P10 Low oil prices good for importing countries like India
Fall may delay BPCL's stake sale
Centre may not hike excise duty for petro products
P11 RIL tumbles close to 13%

THE CMIE TRACKER

CONSUMER SENTIMENTS INDEX
(Base: September - December 2015 = 100)



UNEMPLOYMENT RATE (%)



Source: CMIE

BLEAK PROSPECTS 8

MARKETS CLOSED TODAY
Stock, currency and commodities markets will remain closed on Tuesday on account of Holi.

No edition
There will be no edition of the newspaper on Wednesday (March 11) as the offices of *Business Standard* will remain closed on account of Holi. The e-paper of the newspaper can be accessed at *epaper.business-standard.com*.

YES Bank to transform into a retail bank: Kumar

Hopeful that moratorium on withdrawal will be lifted by Friday, says bank administrator

ABHIJIT LELE & DEV CHATTERJEE
Mumbai, 9 March

Prashant Kumar, the new man in charge of YES Bank, has chalked out the strategy of the beleaguered bank, which includes selling down part of its vast portfolio of corporate loans, and focusing on retail banking — the mainstay of its highly profitable rivals.

Opinion PAGE 9
EDIT
PRICE OF LEADERSHIP

The focus on retail banking is the opposite of what the management led by Rana Kapoor had focused on, and which led to the accumulation of a huge amount of bad debt in its corporate loan portfolio. This had resulted in the ouster of the board by the Reserve Bank of India (RBI) last week, and a moratorium was placed on withdrawals of deposits above ₹50,000. According to an estimate by JP Morgan, the bad loans in the bank could go as high as an additional ₹45,000 crore.

In an interaction with *Business Standard* on Monday, 59-year-old Kumar said the queues at bank branches and ATMs were thinning after State Bank of India (SBI) and the RBI offered support to maintain liquidity at India's fourth-largest private bank. "We are hopeful that by Friday we will be able to lift the moratorium on withdrawals. We are also thankful to our customers for standing by us," said Kumar, who was appointed the bank's administrator by the RBI.

"We are banking on three things to instill confidence in customers. First, SBI is investing up to 49 per cent of the bank's equity, which is a big thing. Second is the speed of resolution, which is moving very fast with support from the RBI and SBI. Finally, the bank is firming up capital-raising plans and will announce these soon," he said.

YES Bank
BSE stock price
▲ 31.17%

The bank will come out with its financial numbers for the December quarter by March 14, as announced earlier, Kumar said. "The RBI is in the process of appointing a new board and our strategy to convert into a full-fledged retail bank will then be placed before this new board," said Kumar.

Turn to Page 13

Axis Trustee moves court over AT-1 bond cancellation

Axis Trustee representing bondholders of YES Bank's additional tier-1 (AT-1) capital bonds worth ₹8,400 crore on Monday filed a writ petition in the Bombay High Court, seeking remedy against the Reserve Bank's (RBI's) decision to cancel the bonds as part of reconstruction plan. The central government, represented by the Department of Financial Services and YES Bank, and the RBI have been included in the petition. The petition, reviewed by *Business Standard*, stated that AT-1 bondholders may seek legal remedy against the RBI's move. **HAMSINI KARTHIK** reports 4

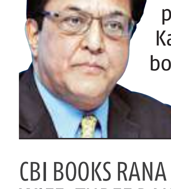
PHOTO: KAMLESH PEDNEKAR

Prashant Kumar, administrator of YES Bank

YES BANK CRISIS
PAGE 4

PRIYANKA IN A SPOT OVER PORTRAIT SALE

In a fresh twist in the YES Bank money laundering probe, the Enforcement Directorate has got possession of text messages between the bank's co-founder Rana Kapoor and Congress leader Milind Deora relating to a portrait that Kapoor (*pictured*) bought from Priyanka Gandhi Vadra.



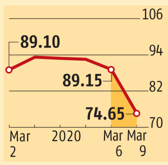
CBI BOOKS RANA KAPOOR'S WIFE, THREE DAUGHTERS

MONEY MANAGER
Yes, no; and the big runout! 5

The fiasco at YES Bank will forever change the way banks, bankers, and Mint Road are looked at; so too, the relationship between them, writes **RAGHU MOHAN**

STOCKS IN THE NEWS

Oil and Natural Gas Corporation

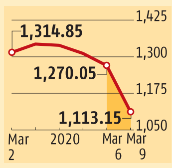


Market capitalisation falls below ₹1 trillion, first time since Sept 2004

₹74.65 CLOSE

▼16.26% DOWN*

Reliance Industries

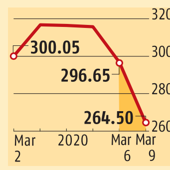


Slips to second spot in market-capitalisation ranking

₹1,113.15 CLOSE

▼12.35% DOWN*

Sobha

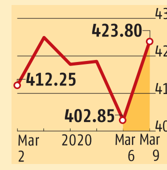


Top loser in the S&P BSE Realty index

₹264.50 CLOSE

▼ 10.84% DOWN*

Bharat Petroleum Corporation

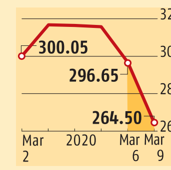


Government invites bids for entire stake sale, fall in oil prices

₹423.80 CLOSE

▲5.20% UP*

RBL Bank



Falls below initial public offer price of ₹225

₹207.80 CLOSE

▼ 19.78% DOWN*

*OVER PREVIOUS CLOSE

IN BRIEF

Auto dealers fear not being able to liquidate BS-IV stocks: FADA

With several state governments issuing circulars to end registration process for BS-IV vehicles much before March 31, 2020, and the fear of coronavirus keeping buyers away from showrooms, automobile dealers fear that they would not be able to liquidate the BS-IV inventory before the month-end deadline. According to automobile dealers' body Federation of Automobile Dealers Associations (FADA), things were under control till February-end and it was only in the first week of March that the dealers started getting circulars from state transport departments with deadlines for getting the BS-IV vehicles registered. **PTI**

NCLAT upholds CCI order on Adani Gas for abuse of position

The NCLAT has upheld the fair trade regulator CCI's order, holding Adani Gas (AGL) "guilty of of abuse of dominant position" while supplying piped natural gas to industrial customers in Faridabad. However, a bench headed by Chairperson Justice S J Mukhopadhaya reduced the quantum of penalty from four per cent of the average annual turnover to one per cent. **PTI**

FICCI FRAMES 2020 postponed due to coronavirus

The annual media and entertainment summit called FRAMES organised by the Federation of Indian Chambers of Commerce and Industry (FICCI) has been postponed. FICCI said on Monday that it was postponing the event, to be held this month in Mumbai, due to the coronavirus issue. Last week, Goafest, the annual advertising event, which was to be held next month, was postponed due to health concerns around the virus. 40 cases of coronavirus have been detected so far in India, with the number steadily rising. **BS REPORTER**

Cognizant names Archana Deskus to board of directors

IT firm Cognizant said Archana Deskus has been appointed to its board of directors as independent director. "...on March 5, 2020, Archana Deskus was appointed to its board of directors as a new independent director, effective immediately," Cognizant said in a statement. **PTI**

Tata Steel CoD approves raising ₹670 cr via NCDs

Tata Steel said the committee of directors (CoD) has approved raising ₹670 crore through issuance of debt securities. The decision was taken at a meeting of the CoD which is constituted by the board, on March 9, the company said in a BSE filing. **PTI**

Zydus Cadila inks licensing pact with XOMA

Drug firm Zydus Cadila on Monday said it has inked a licensing agreement with Nasdaq listed XOMA Corporation to develop an immuno-oncology (IO) drug candidate. As part of the agreement, Zydus will advance the new IO candidate through formal clinical trials, the company said. **PTI**

Tesco seals $10-bn Asian business sale to Thai billionaire

Tesco agreed to sell its asian businesses to Thai billionaire Dhanin Chearavanont for more than $10 billion, clinching a record deal in Thailand even as the coronavirus outbreak damps enthusiasm for mergers and acquisitions worldwide. Britain's largest supermarket chain said it plans a $6.6 billion special dividend after the sale of the assets to Chearavanont's Charoen Pokphand Group. **PTI**

Domestic flight occupancy drops 15%

The drop is primarily for flights to major metro cities

ANEESH PHADNIS & ARINDAM MAJUMDER
Mumbai/ New Delhi, 9 March

Fresh bookings and occupancy in domestic flights have dropped by almost 15 per cent in the past few days as customers are deferring or cancelling trips over fears of coronavirus. With domestic travel — generating the bulk of the revenue for carriers — slowing to a crawl, the slump in crude oil price will provide limited relief to airlines.

International air travel to and from India has already been hit due to ban and warning issued by many countries, including those from West Asia.

According to analysts at JM Financial Institutional Securities, the international air route mix is 19 and 25 per cent for IndiGo and SpiceJet, respectively.

Executives of Indian airlines said that the drop was primarily for flights to major metro cities like Delhi, Mumbai, Hyderabad, Bengaluru, which are the prime revenue generators on the domestic front. "Domestic travel was the only thing that had somewhat insulated Indian airlines from the impact of coronavirus. But now it is being impacted and that is visible from the fares," said an airline executive.

A cursory glimpse of fares on the Chennai-Bengaluru route shows that tickets for the same day were being sold for ₹1,100 lower or equal to the fare on a Volvo bus.

"Airfares are falling in line with oil prices which continue to drop. Airlines are also refraining from increasing prices as they expect weakening of demand on the domestic side. Few domestic carriers are also waiving change and cancellation fees for immediate travel due to the virus outbreak. While overall last-minute fares on popular domestic routes have decreased 20-25 per cent, variable spot fares on certain routes have seen an increase due to holiday travel on the occasion of Holi," said Aloke Bajpai, co-founder, ixigo.

Airline executives also said that if such a dip in demand continues to be a long-term phenomenon, airlines will start grounding aircraft. German airline major Lufthansa is slashing half of its flights due to the virus impact on the airline industry. When the epidemic spread in January, Indian airlines were hoping for minimal impact from coronavirus as Indian carriers have limited exposure to China and Southeast Asia. But visa restrictions and travel bans have forced them to cancel flights.

On Monday, Qatar announced a ban on the entry of Indians and 13 other nationalities. An IndiGo executive said they have cancelled all flights to Doha as there is minimal transit passengers onwards Doha.

Fuel accounts for over 30 per cent of an airline's operating expense and a low fuel environment will, however, help Indian carriers which have not been able to add fuel efficient planes to their fleets due to delivery delays (A320neo) or regulatory bans (Boeing 737 MAX). But with crude oil under $35 per barrel, even conventional variants like the A320ceo and Boeing 737 Next Generation will become attractive to operate, said an industry expert.

LAST-MINUTE FARE ON POPULAR DOMESTIC ROUTES (In ₹)

Origin	Destination	Avg one-way fare March 9-11	Avg one-way fare Feb 23-29
New Delhi	Mumbai	3,333	4,169
New Delhi	Bengaluru	5,980	6,770
Chennai	New Delhi	4,541	5,856
Mumbai	Ahmedabad	3,099	3,672
Delhi	Hyderabad	3,290	4,698
Mumbai	Bengaluru	3,615	3,026
Mumbai	Kolkata	6,651	5,691

Source: Ixigo

JSW plans Monnet-like structure for BPSL buy

Group firm to have majority holding; JSW Steel to have lesser share

ISHITA AYAN DUTT
Kolkata, 9 March

Sajjan Jindal-controlled JSW Steel is mulling a Monnet-like structure for the proposed acquisition of Bhushan Power and Steel (BPSL) to avoid having debt on its books.

Sources said a group company would have majority holding in a special purpose vehicle (SPV) for the acquisition; JSW Steel would have minority holding. In the case of Monnet Ispat & Energy, Aion is the majority partner, while JSW Steel has minority holding.

A spokesperson declined to comment.

The Monnet acquisition happened in August 2018, when the sector was still riding the wave. The sector and the economy slipped into slowdown since September-October of last year.

Steel prices had dipped to a low of ₹32,250 (hot-rolled coil), though prices have been on the rebound from November, on the back of a demand recovery from the construction sector and infrastructure push by the government.

To keep debt off JSW's books, a group company is being roped in with majority share in the SPV.

Industry analysts said to avoid having debt on JSW Steel's books, it would have to have a holding less than 50 per cent.

However, it is not clear whether it would be possible to have the SPV structure in place at the time of acquisition since the resolution applicant was JSW Steel, or whether it would be in force at a later date.

The net debt of JSW at the end of December quarter was ₹49,552 crore. On Thursday, rating agency ICRA downgraded JSW Steel's long-term rating to 'AA-', from 'AA'; the short-term rating has been reaffirmed.

ICRA has factored in an expected increase in JSW Steel's leverage in the near-to-medium term owing to the proposed acquisition of BPSL. While arriving at the ratings, ICRA has considered consolidated financial risk profile of JSW Steel, including that of the acquisition vehicle for BSPL, the rating agency said.

The proposed acquisition is largely debt funded, which, along with absence of fresh equity-raising by JSW Steel, is expected to adversely impact its consolidated financial risk profile, ICRA noted.

"JSW Steel, along with other partners (consortium) on joint and several basis, will also act as put option providers for non-convertible debentures of ₹3,000 crore, to part-fund the acquisition of BPSL," it added.

ICRA has also noted JSW Steel's large ongoing capital expenditure programme towards upstream and downstream capacity expansions, which would keep its free cash flows under check and keep the overall debt levels elevated in the near and medium term.

The National Company Law Appellate Tribunal approved the resolution plan of JSW Steel to acquire BPSL on February 17. However, the company's former chairman and managing director Sanjay Singal has challenged JSW's resolution plan in the Supreme Court, which has agreed to hear the matter. However, there is no stay on payment and JSW's 30-day timeline ends on March 16.

Banks are hoping that the recovery from Bhushan Power would be completed in March. Bhushan Power owes financial creditors around ₹47,000 crore.

QUICK VIEW
BHUSHAN POWER & STEEL

2.75 million tonnes
of capacity at steel-making facility in Odisha

₹47,000 crore
owed to financial creditors

₹19,350 crore
JSW's upfront offer

Pharma sales clock double-digit growth of 12% in February

SOHINI DAS
Mumbai, 9 March

The domestic pharmaceutical market recovered in February. It clocked 12.1 per cent growth, riding on higher demand for respiratory medicines and antibiotics.

In the past two months, the market was registering single-digit growth — 7.7 per cent in January and 8.8 per cent in December.

The growth was essentially led by therapies like respiratory (which saw the highest growth of 17.9 per cent), followed by anti-infectives (clocking 14.1 per cent growth) and cardiac at 13.3 per cent. In fact, eight of the top 10 therapies in the domestic market have registered a growth of over 10 per cent.

Overall, February's growth rate was led by prices that grew by 5.4 per cent, followed by volumes (3.8 per cent) and new products at 2.9 per cent.

As coronavirus fear grips the world, sales of anti-infectives and respiratory medicines have seen a spike. The data from market research firm AIOCD AWACS showed that of the top 20 sub-groups in the respiratory segment, 18 have registered double-digit growth, with an average growth of 16.8 per cent during the month.

Similarly, while the anti-infectives segment (comprises antibiotics) grew at 14 per cent, top eight of the 10 sub-groups have shown double-digit growth at an average of 18.7 per cent.

The AIOCD-AWACS, however, noted, "This would be a little too early to comment if the same is due to the widespread fear of viral infection that has taken the world by storm."

The data shows that both the anti-infectives and respiratory therapies have suddenly seen a spike in sales. Anti-infectives grew by 14.1 per cent in February, while it was clocking 10.4 per cent growth between April 2019 and February 2020 and 10.8 per cent growth during December 2019-February 2020.

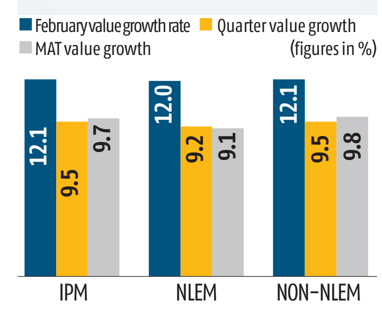
Similarly, respiratory therapy medicines were growing at 12.2 per cent between April 2019 and February 2020. It suddenly grew at 17.9 per cent last month.

In fact, the top molecules in February were antibiotics — amoxicillin and clavulanic acid — that sell under brands like Augmentin from GSK (clocked 19 per cent growth), cefixime, which sell under brands like Taxim clocked over 20 per cent growth, paracetamol (a fever and pain medicine) clocking 18 per cent growth, anti-allergics like montelukast and levocetirizine clocked 17.7 per cent growth.

February growth is good news for the market, which has been witnessing slowdown in growth for the past few months. January was the third straight month of decelerating growth, slipping from a high growth of 14.5 per cent in November.

On a moving annual turnover basis, the domestic market clocked ₹1.4 trillion. Among the top 50 corporates, 37 exhibited double-digit growth, with an average of 16.84 per cent.

SHOT IN THE ARM



MAT: Moving annual turnover for last 12 months' turnover; NLEM: National List of Essential Medicines
Source: AIOCD-AWACS

Solvay picks up minority stake in Catàsynth

SURAJEET DAS GUPTA
New Delhi, 9 March

Solvay, a leading global producer of ingredients of flavour and fragrance, has concluded an equity investment to take a significant minority shareholding in Catàsynth Speciality Chemicals.

This will be the company's first investment in India in a joint venture. The amount of investment in Phase I by Solvay and the Anthea Group, which has set up Catàsynth, is $40 million. Solvay is a 155-year-old firm headquartered in Brussels with 24,500 employees in 61 countries and net sales of 10.3 billion euros in 2018.

Anthea Aromatics Private, a leading manufacturer of speciality chemicals in India, makes downstream products from key starting intermediate, methylenedioxybenzene (MDB), based on its patented manufacturing processes.

Established in 1991, the Anthea Group includes four firms. They include DRT-Anthea Aroma Chemicals, an equal joint venture with DRT (France), and Catàsynth Speciality Chemicals. The third one is India Advantage Fund Series 4, a private equity fund managed by ICICI Venture Funds Management Company, a wholly-owned subsidiary of ICICI Bank. And there is Anthea Aromatics. The joint venture will leverage Anthea's production capabilities and reinforce Solvay's downstream integration into catechol-based products. Solvay is the largest producer of catechol in the world, the key raw material required by Catàsynth, and has committed to meeting the raw material requirements of the joint venture. The JV between the Anthea Group and Solvay will introduce a number of products over the years and Solvay will market them globally.

India is fast becoming a manufacturing hub for speciality chemicals and the only real alternative to China. Catàsynth, based on its patented technology, aims to be the most sustainable producer globally.

When contacted Vincent Paul, founder and chairman of the Anthea Group, confirmed the investment by Solvay and said "We are very happy to be partnered with Solvay in this venture, and we are confident that this joint venture will contribute to the development of the region, the country's exports, and to the recognition of India as a significant player in the speciality chemicals sector". Peter Browning, president of Solvay Aroma Performance GBU, said: "Catàsynth, ideally located in India, is reinforcing Solvay's downstream integration and enables enlarging our product offer. We are committed to supplying our global suppliers with quality and security of supplies."

Rolls-Royce, Force JV to start operations in a few months

GIREESH BABU
Chennai, 9 March

Rolls-Royce, which is into civil aviation, defence and power systems, is expecting its engines and gensets manufacturing facility, in joint venture with Force Motors, in Chakan (Pune) to start operations in the next couple of months.

"Rolls-Royce, which has a tie up with Hindustan Aeronautics (HAL), among others in India, is also looking at more collaborations in the country. It is also looking at creating in India," said Kishore Jayaraman, president, Rolls-Royce India and South Asia.

Rolls-Royce Power Systems and Pune-based vehicle manufacturer Force Motors entered into an agreement in March 2018 for a joint venture.

The JV will manufacture Rolls-Royce's renowned MTU's 10 and 12-cylinder Series 1,600 engines, suitable for power generation and rail underfloor applications. The company had said that Force Motors will hold 51 per cent and Rolls-Royce Power Systems 49 per cent stake in the facility.

"India will be the only destination where the Series 1,600 engines will be made for all of Rolls-Royce's customers, globally. If everything goes well, we should open the facility in next couple of months," said Jayaraman.

"We are looking at about 2,000 engines per year and this will be for exports as well as local use. It will be in power generation as well as railways and we will look at other segments as well later," he added.

The supply chain and engineering are local and the whole genset will be packaged in India. While initially, there may be some components coming from overseas, localisation will be 100 per cent in this segment in a couple of years.

Over the years, Rolls-Royce has moved from selling products in India to technology transfer, people engagement, product development and building capabilities. It is now producing from India for the world market. The next step is to look at how it can build microgrids in the country.

"There are lots of opportunities to do partnerships (In India). Hopefully, India will grow into the wide-body market and we would like to have our fair share of that market. I think we would like to continue our journey of people and grow from strength to strength, in terms of capabilities and capacities," said Jayaraman.

On Monday, the company announced collaboration with Indian Institute of Technology Madras (IITM) to promote and explore opportunities for joint research programmes and to roll out a 'Technical Higher Study Framework'. This will facilitate higher education for its engineers, in partnership with IITM.

Rolls-Royce has a joint venture with HAL for manufacturing components for its civil aerospace business. Its engineering centres in India have around 750 people working, apart from the outsourcing partnership with companies like Tata Consultancy Services.

It is focusing on building capabilities in digital and electrical segments and has already built an over 100-people team in the digital segment. It is working on the electrical segment team, on how it can build the segment. It is also working closely with various organisations in the defence sector.

"We need to generate IP (intellectual property) by developing them in India for the globe. That is going to be the future or sustainability for India, for Rolls-Royce and any company that wants to be here for the next 100 years," he added.

NITI Aayog speaks in two voices on telco floor rates

MEGHA MANCHANDA
New Delhi, 9 March

Telecom companies believe that data prices should be regulated keeping in consideration the financial health of the sector

Less than a week after NITI Aayog sent its comments to the Telecom Regulatory Authority of India (Trai) opposing any kind of floor price for data or voice tariffs, it has said in another letter that it stood "for" putting in place a minimum floor price.

In a letter dated February 28, Archana G Gulati, joint secretary at the government think tank, said that the consultation paper itself highlighted the fact that market interventions in the form of price controls, such as the proposed minimum floor price, are likely to disincentivise competition, cost efficiency, price, and quality parameters and also deter new entries and innovation.

"In fact, the greatest disruption in recent years was the entry of a new player with better technology who made significant inroads into the market, thanks to very low tariffs. This brought intense competition and growth to the market," the letter said.

The letter was in response to Trai seeking recommendations from stakeholders in tariff issues, including a minimum floor price for voice and date tariffs.

Setting the floor price now could prevent a similar new entry riding on disruptive technology and depriving customers of the benefits of competition, said Gulati. The only reason a minimum floor price was being considered was to address the prevailing financial stress in the sector, she added.

But in a separate March 4 letter to Trai, NITI Aayog CEO Amitabh Kant has expressed a diametrically opposed view in which he 'emphasised' that floor prices are the 'need of the hour' to enable the continuation of a multiplicity of firms that is critical for healthy competition.

"Given the heavy debt burden being faced by the sector and the recent fall in prices to unsustainable levels, there is no option available but to set floor prices," he said in the letter.

In fact, Kant went further saying that the setting up of floor prices was in the 'national interest' and necessary to ensure that the sector received much-needed relief measures which would ultimately benefit consumers and the economy.

However, towards the end of the letter, Kant said that floor pricing was not a long-term solution. Telecom service providers — Bharti Airtel, Vodafone Idea, and Reliance Jio — have all sought a minimum floor price for mobile data services, while saying that voice call tariffs should be left to market forces.

The companies believe that data prices should be regulated, keeping in consideration the financial health of the sector.

"We recommend that the floor price be set for mobile data services. It is critical that the floor price should be made applicable to all categories of tariff plans, i.e., retail consumer, corporate, tendered or other contracts, segmented and any other, including one on one," Airtel said.

Reliance Jio said tariffs must not be hiked abruptly as it may dampen usage considerably. For now, it believes the tariffs can be raised to ₹15 per gigabyte (GB) and gradually to ₹20 per GB after six to nine months, based on data consumption. Reliance Jio said Trai can review its tariff order after three years.

While Vodafone Idea and Reliance Jio advocate restrictions on telecom service providers offering free off-net calls as long as interconnection usage charges are applicable, Bharti Airtel opposes it.

DoT will take six months to assess telco AGR maths

MEGHA MANCHANDA
New Delhi, 9 March

The financially stressed telecom industry could get a breather as the government has indicated that it would take at least six months to evaluate the companies' self-assessment of dues linked to adjusted gross revenue (AGR). So far, telcos including Bharti Airtel, Vodafone Idea, and Tata Teleservices have assessed their dues as a fraction of what the Centre had estimated.

According to an official with the Department of Telecommunications (DoT), numerous documents for multiple years have to be evaluated and cross-checked, making it a lengthy process.

After telcos had made part payment of the dues recently, the government, last week, asked them to settle the AGR bill fully without further delay. In October 2019, the Supreme Court (SC) had asked telecom operators to pay up their pending licence fees and spectrum usage charges along with penalties and interest, while upholding the DoT definition of AGR. The total dues for the telecom industry was estimated at ₹1.47 trillion. The DoT had written to all telcos asking them to pay the balance dues "without delay" and submit detailed bifurcation of payments (explanation of self-assessed amounts), which it said was necessary for proper reconciliation of legitimate AGR dues.

On whether the evaluation exercise would be conducted by the DoT or the Comptroller and Auditor General of India (CAG), the official said, "CAG has done a detailed audit from 2006-07 to 2014-15 of the AGR dues. This evaluation will be done by us, for all the firms, all the quarters and all the 22 circles." In all, 16 entities owed the government an estimated ₹1.47 trillion in AGR liabilities — ₹92,642 crore in licence fee and another ₹55,054 crore in outstanding spectrum usage charges. Of the dues that include interest and penalty for late payments, Airtel and Vodafone Idea accounted for 60 per cent. The SC last month rejected a plea by Airtel and Vodafone Idea for extension in the payment schedule and asked firms to deposit their past dues for spectrum and licences.

Vodafone Idea pegged its total dues to the Centre at ₹21,533 crore — less than half of what the DoT had estimated at more than ₹50,000 crore. The firm has so far paid ₹3,500 crore out of the "self-assessed" liability of ₹21,533 crore.

On a similar self-assessment pattern, Airtel paid ₹13,004 crore to the Centre in two instalments, while depositing an additional ₹5,000 crore as an ad-hoc payment to cover any reconciliation differences. According to the government estimates, it owed ₹35,500 crore in AGR dues to the Centre.

Flipkart, Swiggy, Ola, gear up to fight COVID-19

PEERZADA ABRAR & NEHA ALAWADHI
New Delhi, 9 March

With an increasing number of COVID-19 cases, consumer internet firms such as Ola, Swiggy, and Flipkart are leaving no stone unturned to create awareness among their delivery and driver partners against the disease.

Known as gig workers, these people are more vulnerable to such kind of infection and consumer internet companies are providing them with all the support ranging from health information to masks and sanitisers. They are sending out advisories from the Ministry of Health and the World Health Organisation (WHO) in English and local languages to keep them updated with the latest information. Bengaluru-based Ola said its walk-in centres across cities have been equipped with a steady supply of health advisory material, sanitisers, and masks which can be picked up and used by the driver-partners to ensure the highest levels of cleanliness for themselves and their vehicles. This will help create a safer and cleaner ride experience for the customers as well.

"The health and safety of our customers and driver-partners are Ola's top priorities," said an Ola official. Uber said it has formed a dedicated team of operations, security, and safety executives, guided by the advice of a global consulting public health expert, to respond as needed in each market where it operates in South Asia.

"We remain in constant contact with local public health authorities and will continue to follow their advice. We have also communicated their recommendations to our drivers," said an Uber spokesperson.

Food delivery firms Swiggy and Zomato said they are also committed to ensuring the safety of their consumers, restaurant partners, delivery partners and employees. Bengaluru-based Swiggy has started training its delivery partners on how they can mitigate the risk of contracting the virus, as well as on methods to identify symptoms.

JET AIRWAYS CRISIS

No resolution plan yet

ANEESH PHADNIS & SUBRATA PANDA
Mumbai, 9 March

Efforts to revive Jet Airways have reached a dead end, as it did not receive any resolution plan from its suitors until the last date of plan submission.

The committee of creditors (CoC) of Jet is set to meet on Thursday to take a call on the future course of action, including liquidating the company.

The resolution professional has not received any proposal or expression of interest from suitors, which would allow him to seek a further extension. Also, the 270-day corporate insolvency resolution process (CIRP) of the firm comes to an end in the second week of March.


The resolution professional has not received any proposal or EoI from suitors

Under the insolvency and bankruptcy code (IBC), the amended maximum time limit for completion of CIRP has been set at 330 days, which includes the litigation period.

Russia-based Far East Development Fund, New Delhi-based Prudent ARC, and South America-based Synergy Group had submitted expression of interest for the airline in the second round of bidding.

The Russian fund expressed interest in airline's revival last month hoping to introduce Sukhoi Super Jet 100 in the Indian market. Its executives met the top functionaries of the Centre but were apparently nudged to consider investing in Air India. Prudent ARC had sought additional time to raise funds from investors but failed to muster a plan while the third suitor Synergy Group turned cold as it had issues regarding airports slots in India and abroad. Besides slots, Synergy had also made some reservations about the past liabilities of Jet.

Biocon-Mylan oncology portfolio get USFDA nod

SAMREEN AHMAD
Bengaluru, 9 March

In a positive for Biocon, US drug regulator USFDA has accepted a biologics licence application by biopharmaceutical major and partner Mylan for a proposed biosimilar to treat advanced colon or rectal cancer.

The application seeks approval of biosimilar bevacizumab for treatment of patients with metastatic colorectal cancer in addition to other ailments.

"Once approved, our proposed biosimilar bevacizumab will provide an affordable alternative to the branded biologic for the approved indications. Biocon Biologics' strong R&D and manufacturing capabilities have enabled us to offer two key biosimilars to cancer patients in the US and bevacizumab will further expand our oncology portfolio," said Christiane Hamacher, chief executive officer, Biocon Biologics.

The biosimilar, the approval of which is expected by year-end, would be the third biosimilar from the partnered portfolio of Biocon and Mylan for cancer patients in the US. It is currently available in India and other developing markets.

Swiss drugmaker Roche markets bevacizumab under brand name Avastin. The drug had garnered about $7.3 billion in sales in 2019. Amgen and Allergan, too, had launched Mvasi, a bevacizumab biosimilar in the US last year and has been selling the product 15 per cent lower than Roche's Avastin.

According to an EY report, India is likely to capture about 8 per cent of the global $62 billion biosimilar market by 2025.

Troubled bank's borrowers may soon face funds crunch

RAGHU MOHAN
Mumbai, 9 March

A wide swathe of YES Bank's borrowers may soon face a serious credit crunch. A reappraisal of their credit worthiness is on the cards, and with not many safe harbours to drop anchor in, it will be tough sailing ahead.

A substantial portion of YES Bank's corporate loans are "bilateral transactions", and fall outside the pale of consortium lending.

In FY19, it had recorded growth of 18.7 per cent in advances to ₹241,500 crore, primarily due to an increase in term loans. Corporate banking accounted for 65.6 per cent of this portfolio, with retail and business banking (micro-medium and small enterprises) accounting for the rest.

The reason for the bank opting for bilateral deals was that it gave the freedom to "tailor" solutions to borrowers.

"These charmed borrowers have two options. Either they can hope the reappraisal will be in their favour, or they shift the relationship to other banks," said a senior corporate banker. These borrowers may also lead to a second round of defaults — to non-bank counter-parties and vendors.

The Reserve Bank of India (RBI) had done with mandatory consortium banking in 1997, and waived in multiple banking. The idea was to usher in competition and better loan pricing. Borrowers could shop around for loans bilaterally from banks, and if their stars were good, avail of a "bespoke" structure and pricing of it.

To many in India Inc, YES Bank had been the lender of last resort. It's erstwhile promoter, Rana Kapoor, dished out loans to those who had been turned away by other lenders. And bilateral loan transaction presented the bank an opportunity to cherry-pick collateral as it went about structuring transactions few other lenders would have touched. At another level, it also ring fenced the borrowers credit history from leaking out.

The RBI's Central Repository of Information on Large Credits, and the asset quality reviews upset YES Bank's style-sheet, but it still could engineer deals, the dubious nature of which finally led to its meltdown.

The bank's charmed circle of borrowers will now be in more than a spot of bother.

State Bank of India's (SBI's) entry into the bank as an equity holder, and a new management team is seen as leading to a relook at the credits extended by the bank so far. Ravneet Gill as managing director and chief executive officer, had cleaned up the bank's Augean stables to a large extent. But a lot many legacy relationships from Kapoor's stint as its helmsman continue to be on the bank's books.

Given the "structured", nature of many of these loans with a question on their credit worthiness to boot, a buy-in from new lenders is not going to be easy. It would also entail that the new management at YES Bank releases the underlying collateral in favour of a new lender. If there has been substantial erosion in the loan account, this can prove to be difficult. In many instances, loans which were under stress were shown as "current" in the books of the bank through creative deal-making; and routing funds through many layers.

If all these were not bad enough, the situation can prove tricky even looked at from the bank's liabilities side.

Of its total deposits of ₹227,610 crore in FY19, the share of current and savings accounts ratio accounted was 33 per cent. What is to be watched out for is whether depositors -— be it retail CASA and term-deposits which includes wholesale as well — will withdraw these balances once the moratorium period ends.

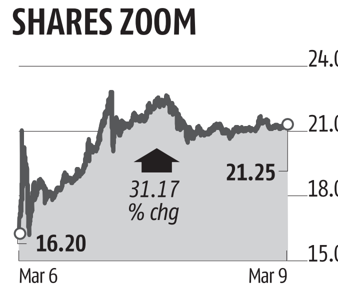
This could lead to a situation where in the entire book of the bank goes out of balance, and even genuine borrowers face a credit crunch as both existing and fresh limits may not be ably serviced.

It's been a long journey for YES Bank. Its first Annual Report referred to a bank being a "public trust institution"; that "it is our endeavour to institutionalise world-class and transparent systems, processes and practices. We are also committed to pursuing the highest levels of professional integrity".

IN CHOPPY WATERS

- In FY19, corporate banking accounted for **65.6%** of the bank's advances due to an increase in term loans
- A good portion of the corporate loans are "bilateral", and structured
- These borrowers may now be reappraised, and not considered credit-worthy
- Shopping around for fresh lenders will also be tough
- The bank's liabilities profile may also change
- Of its total deposits of **₹227,610 crore** in FY19, the share of current and savings accounts ratio was **33%**
- Depositors may withdraw funds once the moratorium ends

SHARES ZOOM



Priyanka in a spot over sale of Rajiv's portrait to Kapoor

The bank's founder tells ED he was threatened and forced to buy the art piece

SHRIMI CHOUDHARY & ARCHIS MOHAN
New Delhi, 9 March

In a fresh twist to the YES Bank money laundering probe, the Enforcement Directorate (ED) has come into possession of text messages between the bank's co-founder Rana Kapoor and Congress leader Milind Deora in connection with a portrait of the late Prime Minister Rajiv Gandhi. Kapoor bought the portrait from Priyanka Gandhi Vadra for ₹2 crore in 2010, an ED official said.

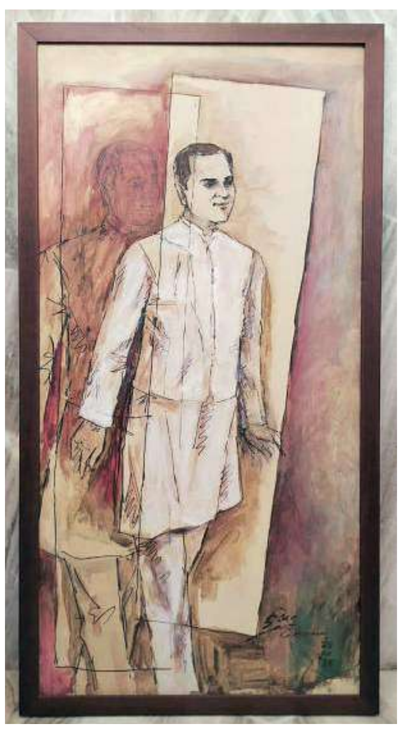
The portrait was painted by MF Husain during the centenary celebrations of the Congress party in 1985.

During his custodial interrogation, Kapoor claimed that he was threatened and forced to buy the art piece, according to an ED official. The agency said it had evidence to support the claim.

The official said the agency had the transcript of the BlackBerry messages between Deora and Kapoor on the matter. In one of the messages, Deora said to Kapoor, "Need to know when the cheque is ready....I am afraid further delays in communicating the date to Delhi will give them the impression that YES Bank is not serious. That might scuttle the transaction and won't create a good impression in their minds."

Calling Rana Kapoor "uncle", Deora wrote, "PG (Priyanka Gandhi) will be sending you a letter stating that she's agreed to sell you the painting and that I will negotiate the price with YES Bank on her behalf. After that, please write to her saying that you and I have agreed on ₹2 crore and send her the cheque immediately."

Rana Kapoor claimed that he had sent the YES Bank cheque to Priyanka Gandhi's personal secretary.



The portrait of late Prime Minister Rajiv Gandhi by MF Hussain was made during the centenary celebrations of the Congress in 1985 PHOTO: ED

A text message sent to Deora for his comments in this regard remained unanswered.

According to the ED official, the painting was the property of the Congress party, and not Priyanka Gandhi, and yet she had sold it to Kapoor.

In a letter to Kapoor sent on June 3, 2010, Priyanka Gandhi expressed her gratitude and acknowledged the payment towards the painting. "I trust you are aware of the historical value of this work, and will ensure its placement in an environment that befits its stature," she wrote.

The ED seized the painting from Kapoor's residence during its searches in the on-going money laundering probe against him and his family for an alleged kickback.

Rana Kapoor possesses over 40 paintings. While buying art, he got experts to certify their authenticity and valuation, but no such certificate was obtained in the case of the painting acquired from Priyanka Gandhi, the ED said.

The Congress on Monday said that a controversy was being drummed up over the painting to deflect attention from the serious questions about acts of omission and commission by the Narendra Modi government in handling the crisis at YES Bank.

Congress spokesperson Randeep Surjewala said, "How does an MF Husain painting of Rajivji sold 10 years ago by Priyanka ji to YES Bank owner Rana Kapoor and disclosed in her tax returns connect with the unprecedented giving of loans of ₹2 trillion in five years of the Modi government? More so, when the (Kapoor's) proximity to BJP leaders is well known?"

Sources in the Congress said, moreover, there was no evidence that the painting belonged to the party, and that the party had never declared it as part of its assets.

They also dismissed Kapoor's claim that he was forced to buy the painting, saying that a portrait of a former prime minister by an artist like MF Husain was a coveted piece for art connoisseurs and a good investment in the art market.

Kapoor's family booked by CBI

The CBI has booked YES Bank founder Rana Kapoor's wife and three daughters over allegations he received kickbacks through scam-hit DHFL's ₹600-crore loan to a family-owned company. The agency searched seven locations, including their homes in Mumbai, the agency said on Monday.

The CBI action in which seven individuals, including Kapoor, 62, his wife Bindu and daughters Roshini, Raakhe and Radha, and five firms were named as accused in its FIR came even as the Enforcement Directorate (ED) expanded its money laundering probe against the arrested banker. As the purported foreign assets of Kapoor and multi-crore loans issued by the bank to corporate houses that turned a non-performing asset came under the ED scanner, agency sources said the bank CEO, Ravneet Gill, was questioned at its office in Mumbai.

DHFL and RKW Developers and their then directors Kapil Wadhawan and Dheeraj Wadhawan, respectively, also figure as accused. DoIt Urban Ventures controlled by the Kapoor family, RAB Enterprises (India), in which Bindu Rana Kapoor was director, and Morgan Credits, in which Rana Kapoor's daughters were directors were named as accused.

While 10 teams of the CBI were involved in its search operations spread across swanky south Mumbai neighbourhood, the agency issued Look Out Circular against all the seven accused — Kapoors and Wadhawans — named in the FIR.

PTI

YES Bank founder Rana Kapoor's wife Bindu (*left*) and daughter Roshini at the Enforcement Directorate office in Mumbai on Monday. According to *PTI*, the ED had got an LOC issued on the basis of which Roshini was on Sunday stopped from leaving for London at Mumbai airport

PHOTO: KAMLESH PEDNEKAR

THE COMPASS

Partnering other investors crucial for SBI

Unless quick remedy is stitched up, there's looming threat of YES Bank being forced into SBI's books

HAMSINI KARTHIK

The State Bank of India (SBI) stock on Monday is not far from its 22-month lows. While the reasons for this are the same, concerns are a lot bigger now. The only difference is that, earlier, when SBI had to absorb its smaller associates, the lender knew exactly what it was looking at and had an idea of the pain ahead.

With YES Bank, neither is the case. While SBI's shareholders, including foreign portfolio investors, insurance companies, and mutual funds (who hold roughly 36 per cent), know the bank is putting all its might to restrict investment to 49 per cent in the reconstructed YES Bank and that this money will strictly be classified investments, what irks them (and rightly so) is the worst-case scenario of SBI having to be more than just an investor in the struggling private lender.

SBI's stock, which is down by about 15 per cent since last Thursday when probability of YES Bank bail-out first surfaced, also indicates the Street isn't convinced of the lender's 'investment' philosophy.

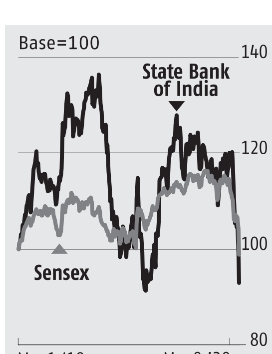
For instance, analysts at Centrum Research project that even if YES Bank turns out to be a ₹11,760-crore investment, risk weighted assets, based on December quarter numbers, will increase by only 1.5 per cent, as investment will be weighted 250 per cent and hence, impact on SBI common equity tier-1 (CET-1) may not exceed 15 basis points.

SBI's CET-1 stood at 10.18 per cent in the third quarter and the bank has stated it will maintain its capital adequacy ratio at least 0.5 per cent higher than regulatory level. But here's the catch. Will ₹11,760 crore of capital be adequate to absorb YES Bank's questionable asset quality? Assuming 60 per cent of YES Bank's loan book is susceptible to stress, analysts at ICICI Securities estimate further provisioning burden of around ₹24,750 crore. SBI's infusion will only partly solve the problem.

How successful SBI emerges in partnering other investors is the crucial piece of the puzzle. Also, Suresh Ganapathy of Macquarie sounds off that if the intention of placing YES Bank under moratorium was to preserve the interests of its deposit holders, whether SBI classifies YES Bank as investment is questionable.

"Had SBI merged YES Bank into itself, retail depositors would be happy to stay put with SBI. We are not sure that merely a restructuring scheme with several banks participating can solve the problem," he points out.

For SBI, the size of hole that YES Bank can drill into its financials will depend on how fast it can convince other investors to join hands. Unless there is a quick remedy, it doesn't take away the looming threat of YES Bank being forced into SBI's books.



Compiled by BS Research Bureau

Axis Trustee moves high court against AT-1 bond cancellation

KEY BONDHOLDERS (₹ cr)

Nippon MF	2,483
Indiabulls	662
Franklin MF	590
Retail holders	466
UTI MF	405
Barclays Bank	372
Chanakya	302
Reliance Nippon Life	244
Bajaj Allianz Life Insurance	240
Kotak MF	130
HDFC Life	105
L&T	100
Reliance Industries	100
Others	2,216

Total Axis Trustee exposure **8,415**

Source: Petition

HAMSINI KARTHIK
Mumbai, 9 March

Axis Trustee, representing bondholders of YES Bank's additional tier-1 (AT-1) capital bonds worth ₹8,400 crore, filed a writ petition in the Bombay High Court on Monday seeking remedy against the Reserve Bank's (RBI's) decision to cancel the bonds as part of reconstruction plan.

The central government, represented by the department of financial services and YES Bank, and the RBI have been included in the petition. The petition was reviewed by *Business Standard* and it was the first to report on March 7 that AT-1 bondholders may seek legal remedy against RBI's move.

The main contention of Axis Trustee is that when YES Bank is treated as a going concern, AT-1 bonds issued by the bank cannot stand extinguished and ought to remain as active instruments. The petition also puts forth that AT-1 bonds cannot be treated inferior or subordinate to equity and that this is contradiction to global best practices where AT-1 bonds are treated superior to equity.

According to Axis Trustee, this point was mentioned in the information memorandum of YES Bank, while issuing these instruments. "A complete write-down of AT-1 bonds while retaining the value for equity holders is against the principles of justice and prevalent best practices."

The petition says information memorandum issued by the bank at the time of raising bonds mentioned that value of these bonds could be reduced to zero, only at the time of liquidation, which isn't the case yet with YES Bank.

The petition states that under Basel-III norms and global practices, AT-1 bonds can be written off only when the value of equity of YES Bank is completely eroded. The petition will be heard on March 11.

Paying loan instalments? Shift ECS mandate to a nationalised bank

SANJAY KUMAR SINGH

Coming soon after the Punjab and Maharashtra Co-operative (PMC) Bank scam, the events at YES Bank have left deposit holders a shaken lot. However, they should take heart from the fact that the regulator has acted very rapidly in this case, so their troubles may end soon. But they, too, need to take a few steps to contain the adverse fallout of this development.

The Reserve Bank of India (RBI) superseded the board of YES Bank and imposed a month-long moratorium on it. The moratorium period will last from March 5, 2020, until April 3, 2020, during which each depositor will be allowed to withdraw a maximum of ₹50,000, even if he holds multiple accounts. The good news is that the central bank has already come up with a restructuring plan for the bank. State Bank of India will infuse ₹2,450 crore in lieu of a 49 per cent stake.

YOUR MONEY

Customers, who had their entire liquid money parked in a YES Bank savings account, are the ones who will experience hardship. Bank account holders are asking whether they need to make changes to the way they manage their accounts. The solution, say financial advisors, is to maintain at least two accounts. "The norm we are witnessing is that withdrawal restrictions are placed as soon as a bank gets into trouble. If you have a second account, you can use money from it till the troubled bank stabilises," says Arvind Rao, chartered accountant, Securities and Exchange Board of India-registered investment adviser and founder, Arvind Rao & Associates. He adds that one of the two accounts should be with a nationalised bank. "Since the government has at least a 51 per cent shareholding in public-sector banks, it is unlikely to allow the situation to deteriorate to the extent where a moratorium has to be imposed," adds Rao.

If your mutual fund systematic investment plans (SIP) were linked to a YES Bank savings account, you need to act. "Payments should go through for SIPs of less than ₹50,000. But if your SIPs are for a larger amount, you should give the electronic clearance service (ECS) mandate for another bank account," says Kaustubh Belapurkar, director-manager research, Morningstar Investment Adviser India.

Credit card dues and equated monthly instalments (EMIs) of loans could also pose a problem. "Delay or non-payment of credit card bills or loan EMIs will attract penalties from your lender. Your credit score could also come down significantly, which could impact your future loan applications," says Naveen Kukreja, chief executive officer and co-founder, Paisabazaar.com. Again, the answer lies in transferring your ECS mandate to another bank at the earliest.

The hit to your credit score may not be big if you act fast. Says Parijat Garg, a credit scoring expert: "A 10-15-day delay in repayment of home loan EMI will at the most affect your credit score by 10-30 basis points."

Insurance companies offer multiple channels for payment of premiums. "Customers can pay their premiums using any one of the channels like debit or credit card, internet banking, wallets, etc," says Sanjeev Chopra, chief financial officer and executive director, IFFCO-Tokio General Insurance. He adds that during the moratorium period, his company will check with customers whether they would like to receive their claims payment in another bank's account.

Life insurance covers come with a grace period. "Your risk cover will continue until the end of the grace period, which is 15 days for monthly mode policies and 30 days for other modes," says a spokesperson at Bharti AXA Life Insurance.

The insurer will waive the interest applicable on delayed payments. It has also requested the regulator to allow extension of the grace period to YES Bank customers.

IF YOU HAVEN'T SOLD YES STOCK, THEN HOLD ON

- The YES Bank stock has oscillated between a 52-week low of ₹5.65 and a high of ₹286. It closed at ₹21.25 on Monday
- The stock is down 92.6 per cent from its 52-week high
- An investor who has been holding the stock for a while and has not sold it yet should continue to do so as most of the news has already got factored in
- A reconstruction plan is in place, so things are moving from a zone of uncertainty to certainty
- Those with high-risk appetite may enter the stock with at least a two-year horizon

Yes, no; and the big runout!

The fiasco at YES Bank will forever change the way banks, bankers, and Mint Road are looked at; so too the relationship between them, reports **Raghu Mohan**

YES Bank can be expected to fashion history for some time to come. Tucked away in Section 35 of the Banking Regulation Act (BR Act: 1949) is a little-known, but powerful provision — "to examine on oath any director or other officer (or employee) of the banking company in relation to its business". This power given to the Reserve Bank of India (RBI) has never been used in its 85-year old history. A senior official of a bank had only to be reminded of it in the past — he fell in line. YES Bank's top brass, drawn from its superseded management, may be administered this medicine; we will tell you why this could happen, but later.

First up: Ravneet Gill

The deposed managing director and chief executive officer (MD & CEO) at YES Bank must be getting a sense of déjà vu. He had a five-year stint at BCCI Bank as a young banker, before it fell apart. And like in the case of its Indian operations, the State Bank of India (SBI) has been roped in to scoop the YES Bank mess from the floor.

Gill, a former occupant of the corner-room at Deutsche Bank, failed to hold up the private bank's roof like Atlas. "At Deutsche Bank, systems, processes and internal controls are very strict; it's regimented. The bank serviced clients answering to a certain profile: large multinationals and big homegrown groups with a global footprint. It was not an asset-driven business model; it had substantial fee-based services, and cutting-edge solutions", notes a peer in a private bank.

Gill was known in niche corporate banking and financial circles, "but then fund raising for your clients, and selling your story to investors is not the same", says a senior banker who knows Gill well.

This latter aspect can be testing even at the best of times; and the YES Bank narrative — under Rana Kapoor, and after his removal from the MD and CEO's post by the central bank — was by most accounts, well past the sell-by date by the time Gill walked in. It is most likely Gill is the most relieved man today.

What to look out for

- The hole in YES Bank's books will turn out to be much bigger – in excess of ₹60,000 cr
- The new board members not drawn from the SBI pool
- Next meeting of the RBI's board for Financial Supervision will be critical
- New governance norms for banks from RBI soon
- Heat on auditors, and independent directors
- Banking licence aspirants can take a holiday for now
- Privatisation of state-run banks to become a non-issue
- Relook at the definition of systemically important entities; size may not be the driver
- Possibility of a wholesale review of the Banking Regulation Act (1949)
- Shareholding profiles in private banks may be up for review; especially dispersed level of shareholding

RAVNEET GILL, former MD & CEO of YES Bank, failed in the chase to raise capital, and ran out of partners

For there was only a remote chance of a sensible investor putting in money to resurrect YES Bank. It had been imagined by Kapoor in a certain way. Potential global investors were left stunned at the level of impairment in its books when they got to look at it. "The hole is much, much bigger than what most people think it is", said a person in the know. The small- and medium loan portfolio, according to this person, "is pretty bad. You wait till 14 March; you will know the position", he says. Simply put, those keen to get a toe-hold in the country's financial sector via a repaired Yes Bank ran scared. And there was no reason to believe the banking regulator would have offered a special dispensation on the path to nursing it back.

Rethink on stated positions

Former RBI governor Urjit Patel had said in the aftermath of the blowout at Punjab National Bank (PNB) that the banking regulator was better positioned when it came to the oversight of private banks. Really, even after what transpired at YES Bank? Or for that matter, at ICICI Bank? The residual effects of what we are seeing now will hit banking licence aspirants: universal and small finance; those desirous of moving up in life from an urban co-operative bank. Fund-raising by banks — of all hues — will be affected. The nascent privatisation debate – and you could have argued on both sides of it — of state—run banks will not see any forward movement during the term of the current dispensation at the Centre.

Think about it: the Union Budget made no provision for recapitalisation of state-run banks. This mirrored the RBI's Report on the Trend and Progress of Banking (2018-19): "Going forward, the financial health of these banks (state-run) should increasingly be assessed by their ability to access capital markets rather than looking at the government as a recapitaliser of the first and last resort". And now, SBI has thrown a lifeline for YES Bank. SBI chairman Rajnish Kumar, was candid at the presser last week: "I wish there were not many times where SBI had to step in as a trouble-shooter". On being asked if SBI will look to poach the customers of YES Bank, he said: "We don't thrive on the misery of others". It is, after all, the banker to every Indian!

That said, what's gaining ground is the sense that it is "professional bankers (with no public sector baggage) who have spoilt the copy book". Like Ramesh Gelli's Global Trust Bank, which had to be put in the belly of Oriental bank of Commerce. And yet, it is state-run banks which get abused — season in, season out. The discourse is premised on a false binary, but it will gain currency.

You can expect the RBI to come down with a heavy hand on the poor governance at banks (this has been in the works for some time, and it would be wrong to read this as being triggered by YES Bank): it has the responsibilty to restore confidence in the system.

A wholesale review of the BR Act may be on the cards. This will get to be more interesting for a different set of reasons: senior private banks had made a case for a relook at the BR Act – the clauses which make it difficult for them to get good quality independent directors appointed to their boards. If anything, both North Block and Mint Road may make their responsibilities more onerous — the net-result will be good names shying away from taking up such responsibilities. Our banking system will be poorer for this.

You could also see a rethink on the dispersed level of shareholding in private banks.

While the RBI's intention in the first instance was to ensure that no particular shareholding group – promoter or otherwise calls the shots – what we now have is a situation wherein it is the "professional management" (and an all-powerful MD & CEO) setting the ground rules. You have no dominant shareholder, and the management team as a collective body has become the most influential in the current scheme of things. It's another matter that Kapoor was allowed by the central bank to unload his stake in the bank – the promoter's stake in a case like YES Bank may have to be quarantined going ahead so that they pay with their skin, and bones.

Sure, a relaxation in the level of institutional shareholding in private banks may lead to a situation wherein large private equity investors may come to acquire significant stakes to set the agenda. But a revisit of the five per cent cap on shareholding in private banks outside the promoter grouping — to 10 per cent, or even to 15 per cent – cannot be ruled out.

A caveat is in order: corporate governance has been less than adequate both when the promoter shareholding was substantial, and also when widely held. The short point is: the days of personality-driven banking are well and truly over. And if the regulatory grapevine is to be believed: the length of tenures of bank CEOs – irrespective of ownership, or the colour of capital — may be up for review.

The mood within Mint Road

Finance minister, Nirmala Sitharaman, when specifically asked at her presser last week if the Central Bureau of Investigation will look into the YES Bank cesspool, said: "This is for the RBI to answer". The developments over the weekend gave enough proof of this. But rest assured: many questions will be asked of the central bank, too.

The central bank has slipped up five times (including YES Bank) in less than two years – PNB; Infrastructure Leasing and Financial Services (IL&FS) with IFIN, a core-investment company (CIC), which slipped the regulatory radar; Dewan Housing and Finance; and Punjab and Maharashtra Urban Co-operative Bank. In the specific case of CICs, the central bank's Financial Stability Report had raised concern on the systemic risks arising from light-touch regulation in December 2017 — seven months later, IL&FS hit the roof.

The events leading up to the mess at YES Bank, its follow-on effects and the regulatory and supervisory gaps it has thrown up, may come up for discussion at the next meeting of the RBI's board for Financial Supervision this month end. It brings us to Section 35 of the Banking Regulation Act (1949). Facing intense public pressure, and more than a few red-faces within its cadre, the RBI may not hesitate to use its nuclear weapon: "to examine on oath any director or other officer (or employee) of the banking company in relation to its business". YES Bank's former directors on its board, and key officials can expect a fiery spell of fast bowling from Mint Road.

You can also expect a huddle within the banking regulator for another set of reasons.

It has been learnt on good authority that the accountability for RBI inspections is to be hard-coded — at whose desk does the buck stop? Is it to be at the level of officials who look into the banks' books on the field? The chief general manager, the executive director or the deputy governor (DG) in-charge of supervision? Or the BFS — the highest internal decision-making body on matters of supervision – which signs off inspection reports, and deliberates on the curative. It does not end here: should non-cadre members on RBI's board (other than the Governor) have access to highly sensitive BFS meetings which are held every month, other than in special situations?

Then, in the current arrangement, the DG in-charge of regulation is from the RBI cadre – N S Vishwanathan, who resigned last week on health grounds (even though there is speculation that there could have been other reasons as well). The DG who overlooks supervision is Mahesh Kumar Jain, whose immediate previous role was as MD & CEO of IDBI Bank. There is also the matter of better co-ordination between RBI's regulatory and supervisory teams — both have to feed each other far more efficiently.

These issues are intertwined with the central bank's move to create a specialised supervisory and regulatory cadre (SSRC): should this unified portfolio come under a single DG? Is it to be under a DG drawn from within the RBI cadre? Or a commercial banker from outside who as on date also keeps the human resources department? It's a different matter the central bank has delayed the SSRC to July 31 this year – the SSRC was proposed at the RBI board meet in Chennai no less on May 21, 2019.

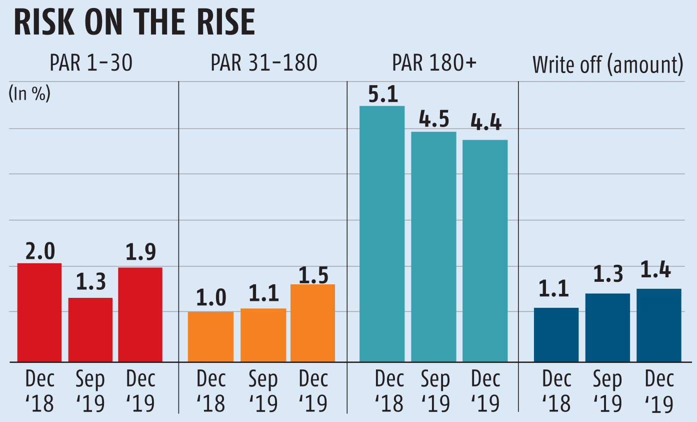
Brace for a traffic jam ahead.

MFI PAIN ON THE RISE

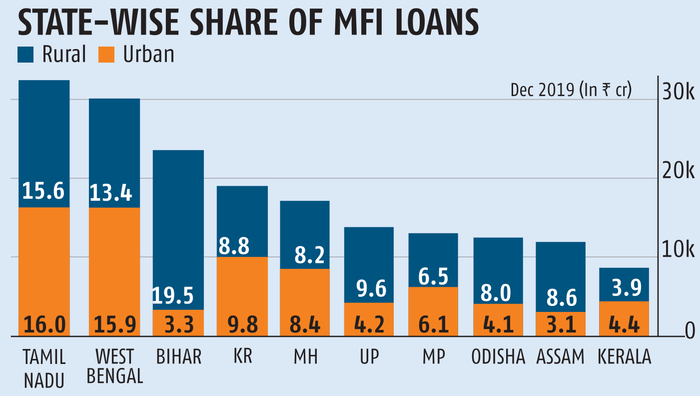
Microfinance institutions (MFI) may have to brace for more pain going ahead. Delinquencies in Q3FY20 were higher than the previous quarter. The portfolio-at-risk (PAR) in the 1–30 due-past-date (DPD) period rose by 60 basis points (bps) to 1.9 per cent over the previous quarter; PAR in the 31–180 DPD rose by 40 bps to 1.5 per cent; while PAR 180+ DPD fell by 10 bps to 4.4 per cent. The overall write-offs in this period stood at 1.4 per cent of the portfolio, 10 bps higher than the previous quarter. What is surprising is banks' exposure to the MFI sector which had been at the least risk in the previous quarter. The narrative has changed and there was a sharp uptick in PAR across rural and urban geographies – in the DPD 1–30 bucket, it was up by 174 bps and by 96 bps in rural and urban areas.

CRIF's report on the sector – MicroLend – says the North East which has the smallest share of MFI loans at 7 per cent saw considerably high early repayment stress in Q3FY20, at 10.3 per cent compared to all-India figure of 1.9 per cent. Assam saw 16.1 per cent of its MFI portfolio under early repayment stress.

RISK ON THE RISE



STATE-WISE SHARE OF MFI LOANS



KR: KARNATAKA, MH:MAHARASHTRA, UP: UTTAR PRADESH, MP: MADHYA PRADESH

LOANS IN ASSAM WORST HIT

Dec 2019 (In%)	Rural	Urban	Overall
TAMIL NADU	1.1	1.1	1.1
WEST BENGAL	1.2	1.1	1.1
BIHAR	0.6	0.7	0.6
KARNATAKA	1.5	1.5	1.5
MAHARASHTRA	0.6	1.0	0.8
UTTAR PRADESH	0.8	1.3	0.9
MADHYA PRADESH	1.0	1.4	1.2
ODISHA	0.9	0.8	0.9
ASSAM	15.7	17.1	16.1
KERALA	1.5	1.5	1.5

The risk level is based on the 31–180 days past due portfolio and overall portfolio reported at the last quarterly book closing period

BANKS' LOAN DELINQUENCIES UP SHARPLY

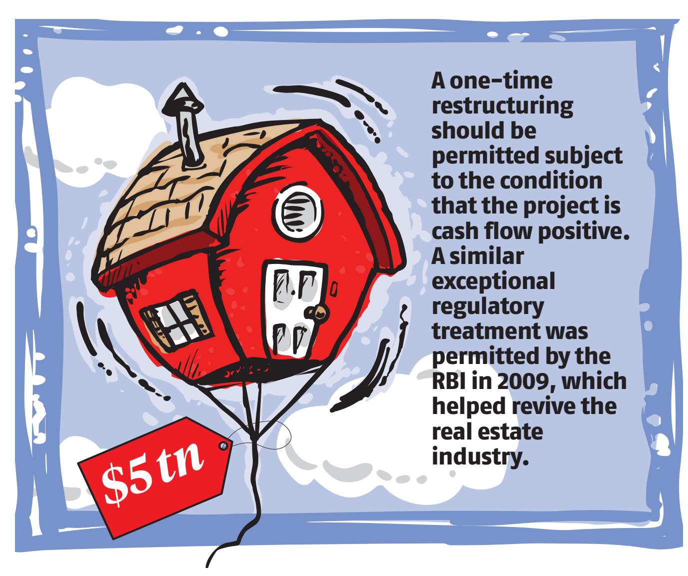
	Rural (%)			Urban (%)		
	Dec '18	Sep '19	Dec '19	Dec '18	Sep '19	Dec '19
NBFC MFIs	1.10	1.28	1.48	1.48	1.49	1.59
Banks	1.62	0.91	2.65	1.68	0.78	1.74
Others	2.14	1.28	1.44	2.11	1.70	2.03
SFBs	4.17	1.99	1.98	3.40	1.86	1.59
Systemic	**1.87**	**1.24**	**2.02**	**2.06**	**1.31**	**1.69**

Source: CRIF MicroLend

Housing finance key to $5-tn economy

GUEST COLUMN

KEKI MISTRY
Vice-chairman & CEO
Housing Finance and Development Corporation



Housing plays a pivotal role for the long-term sustainable growth of any economy. For many of us, having our own home fulfils a long-sought aspiration.

In the US, home ownership is a critical component of the American dream. It is a symbol of upward mobility and optimism. It carries the notion that tomorrow would be a better day than today. That is why the effects of the subprime crisis in 2008 were so devastating - too many dreams were crushed. Thankfully, the US was able to recover from the crisis and get their economy back on track.

People will go ahead and take a housing loan only when they are optimistic about their future prospects. That is why as housing finance professionals we are not worried about interest rate changes but pay close attention to employment creation and job stability.

As an economy improves, the mortgage to GDP improves till it reaches a sustainable level. When we say that the mortgage to GDP ratio in India is only 10 per cent compared to 66 per cent in the UK, 53 per cent in the US and 26 per cent in China, it signifies that the Indian housing market is still under penetrated with a tremendous potential to grow. If India is to be a $5 trillion economy in the next few years, then housing finance will be an important contributor to achieve that landmark.

Demographics in India are extremely favourable. The average age of a middle class Indian when he or she first buys a house and takes a loan is 38 years; and with 2/3rd of our population being below 35 years of age, all these people will over a period of time need housing and, therefore, housing loans. Hence, there is a huge potential for home loans.

I am optimistic and do believe that the economy has bottomed out.

For the housing sector, the authorities are aware of the strong linkages it has with the economy. The sector has significant backward and forward linkages with nearly 300 industries, which contributes to capital formation, employment and income opportunities. An increase in employment leads to more wages which in turn leads to increased consumption. Housing demand creates more jobs both in the construction industry as well as in affiliated industries. This in turn spurs consumption and incentivises manufacturers to produce more and satisfy the demand and consequently create more jobs. Thus, housing catalyses and provides a fillip to economic growth.

Despite the progress the housing industry has made over the years, there is a need to bring in further reforms to achieve the sector's true potential. I am happy to see some projects have been cleared for the ₹25,000-crore special fund that has been set up to revive stuck projects. Currently, housing projects which are 60 to 80 per cent complete are unable to receive last-mile funding. Regulators may want to consider changing the regulations such that any secured fresh funding should be ring-fenced. Lenders are reluctant to lend to stressed projects due to the fact that any fresh funding will be classified as a non-perfoming assets on Day One in the books of the new lender. Such stuck projects can become unviable as interest costs rise.

Historically, some part of the funding for a project used to come from sale proceeds of under-construction properties. In recent years, for a variety of reasons, the demand for under-construction properties has come down resulting in developers unable to get last mile funding. The Reserve Bank of India (RBI) has permitted a one-time restructuring of real estate loans provided that the project for which the loan was taken is delayed for reasons beyond the control of the developer.

My suggestion would be that this provision should also be applicable to instances where slow project sales have resulted in a shortfall of cash flows and thus severely hampered the developer's ability to repay the loan on time.

In such instances too, a one-time restructuring should be permitted subject to the condition that the project is cash flow positive. A similar exceptional regulatory treatment was permitted by the RBI in 2009, which helped revive the real estate industry.

Another issue I would like to mention is about how land funding can be made available at a reasonable rate. Since 2006, the RBI has prohibited banks and housing finance companies from funding land transactions. Funding for land is therefore done largely by private equity funds, who charge exorbitant interest rates. This increases the cost of construction and therefore the sale price of the house. If HFCs or banks of a certain threshold size are permitted to fund developers to acquire land for affordable housing, then the current high interest rates are likely to get rationalised. This in turn will help reduce the ultimate cost for a homebuyer.

A final point I wish to make is that infrastructural amenities need to be developed in conjunction with the construction of housing. One of the problems with affordable housing projects is that they are often constructed in far flung city outskirts where the land may be cheaper. There are at times few takers for such homes since the necessary infrastructure such as schools, hospitals and other civic facilities may not be available.

To conclude, the thrust on housing by the government, coupled with the demand for housing finance and the growth of the housing finance industry has made many investors positive about this sector. The sector has endured a number of unprecedented events over the past few years. But despite bracing such storms, the sector has always come out stronger than before. The lessons learnt are that there is no substitute for prudent lending. Relying on the basics of lending will lead to sustained long-term success.

GSTN glitches top on Council agenda

Infosys chairman Nandan Nilekani to make presentation on Saturday

DILASHA SETH
New Delhi, 9 March

Glitches on the goods and services tax (GST) portal will dominate the agenda of the Council meeting on Saturday, even as states will seek resolution of the delayed compensation issue. Infosys Chairman Nandan Nilekani has been asked to make a presentation before the Council this weekend.

"Hassles on the GST portal even 30 months after the roll-out is unacceptable and that has been communicated to the GST Network (GSTN) and Infosys," said a government official.

States are likely to demand Infosys should have a point of contact in each state to resolve these glitches, the official said.

Meanwhile, the electronic invoice facility is likely to be deferred by three months from April 1 to July owing to lack of readiness of both GSTN and the taxpayers.

Finance Secretary Ajay Bhushan Pandey took a detailed meeting with Infosys officials on March 7 on GSTN-related matters, more importantly ahead of the crucial roll-out of new simplified returns from April 1. GSTN's tech support partner Infosys has been asked to come up with a plan for quick resolution within a fortnight.

System capacity constraints and the inability of GSTN to provide smooth return filing will be taken up at the Council.

With new return format to be rolled out from April, it was imperative for GSTN and Infosys to work effectively, he added. The Department of Revenue, in a letter to Infosys on March 5, highlighted that the issues flagged in 2018 were still unresolved and that month after month of failures resulted in genuine taxpayers getting frustrated. "It is requested to go through the pending issues, day-to-day disruptions, and the future road map and come up with a plan for quick resolution within 15 days. Infosys has set high international standards and it is expected that the efficiency which your organisation is known for should be visible in the GST project also," the letter said.

It also said even though the GST system has been in operation for the last 30 months, there have been instances of taxpayer complaints on facing issues in filing returns in the last two days of filing of returns. "It is noticed that MSP (Master Service Provider) Infosys has been repeatedly asked to take timely action and to identify the root cause of issues after each event and taken corrective action. However, problems still persist," it said.

The ministry said such glitches on the portal led to an unhealthy tax compliance requirement, more so when on account of such disruptions some taxpayers end up becoming liable for payment of late fee, interest.

The ministry is working to shore up GST revenue. In the April-February period this fiscal year, GST collection stood at ₹11.24 trillion, down from ₹12.67 trillion in the year-ago period.

No response at peak hours, wrong computation of late fees for annual returns for 2017-18, and offline tool not available for GSTR9 are among a list of problems flagged in the letter.

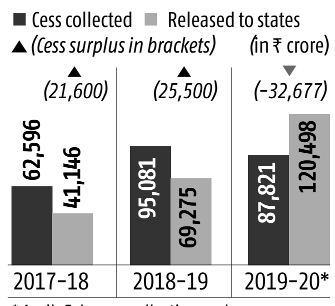
Compensation cess issue will be raised by the states which are likely to ask for full compensation for the fiscal year, irrespective of collections and pitch for extension of the compensation period. The Centre, meanwhile, is expected to clearly tell states that they will be compensated only as much as is collected in the cess fund, according to the law.

With only 56 per cent of compensation dues for October and November worth ₹19,958 crore disbursed last month, states are expected to strongly seek a resolution on the matter.

The Centre is supposed to compensate states on a bi-monthly basis for any losses they incur in the first five years of GST implementation. The loss is estimated if they do not record 14 per cent increase in the subsumed indirect taxes, keeping 2014-15 as the base year.

The Centre has released a total of ₹1.20 trillion as GST compensation to the states and Union Territories so far in 2019-20 (of the ₹87,821 crore collected till February).

GST COLLECTION



* April–February collection and April–October disbursement

FM to review bank merger preparedness on Thursday

Banks likely to set up common call centres and monitoring cells

SOMESH JHA
New Delhi, 9 March

Finance Minister (FM) Nirmala Sitharaman is set to hold a meeting with chief executives of amalgamating state-owned banks on Thursday to review the planning and preparedness for the merger, which will begin from April 1.

According to a communiqué issued by the ministry to the banks on March 5, the executives of each set of merging banks will have to make a presentation to the FM focused on six areas.

On the top of the agenda is to ensure "no disruption to flow of credit in the run-up to the amalgamation, on the day of the amalgamation and thereafter".

Executives of merging banks will make a presentation before Finance Minister Nirmala Sitharaman on six key areas

From April 1, Punjab National Bank (PNB), Oriental Bank of Commerce, and United Bank of India will combine to form the nation's second-largest lender. Canara Bank will take over Syndicate Bank; Union Bank of India is planned to be amalgamated with Andhra Bank, and Corporation Bank; and Indian Bank will subsume Allahabad Bank. Immediately from April, the balance sheets and stocks of the banks will be merged. The integration of technology, human resources ,and branches/ATMs will take place in a phased manner.

The banks will present to the FM their "business and financial plans, including credit and deposits growth and year-wise synergy realisation plan". The banks had already submitted these details to the Department of Financial Services in the finance ministry recently.

The FM will check on the preparedness and capacities of the amalgamating banks to handle and address customer queries and difficulties and the banks may be asked to set up "common call centre with regional language support, to ensure customer issues are addressed and responded to the same day," according to the communication issued by the finance ministry.

The banks will submit plans for "ensuring enhanced delivery of banking services and products to customers, with indication of likely time frames" to the government.

A monitoring cell will be set up to track "social media content and trends" with direct reporting line to the top management for real-time detection of amalgamation-related problems and "effective response to nip any issues in the bud".

Besides, the banks will present a comprehensive list of frequently asked questions catering to different target groups such as pensioners, media, investors, analysts and employees.

This will be the first set of mergers of state-owned banks under the National Democratic Alliance government. From April 2019, Vijaya Bank and Dena Bank had become a part of Bank of Baroda. Before that State Bank of India took over its five associate banks and Bharatiya Mahila Bank from April 2017.

After the mega merger of 10 banks into four, the number of public sector banks in India will reduce from 27 in 2017 to 12.

'Drugs imported from unregistered dealers cannot be sold to local buyers'

CHATROOM

T N C RAJAGOPALAN

We are pharmaceutical manufacturers. We had imported raw material under the advance authorisation scheme to export the final product to the US. Due to circumstances, the order was cancelled and the raw material is in our factory. How can we dispose it of? There are local buyers who intend to purchase it from us, as it is still saleable and has sufficient expiry date. Please advise us, referring to the relevant section/circular.

Since the export obligation is not fulfilled, you have to regularise in accordance with Para 4.49 of the HBP, which, besides other conditions, involves payment of duty on the raw materials with interest. Thereafter, you can transfer the raw material, other than drugs imported from unregistered sources, to local buyers. Do take special note of sub-para (g) of Para 4.49 that requires you to destroy or re-export drugs imported from unregistered sources with pre-import condition.

This refers to the query regarding DGFT PN 55 dated January 3, 2020 (*Chatroom*, February 25, 2020), allowing extension in the EO period. The final EO period has been extended, and shipments have been made during this period — i.e., from expiry date of EPCG authorisation to date when request for extension was made. Will shipments made during this period go towards discharge of EO, or is that a matter for the Policy Relaxation Committee (PRC)?

In my opinion, shipments made within the original or extended EO period can be counted towards discharge of EO, regardless of when you made the application for EO extension.

We obtained advance authorisation for items covered under Appendix 4J of HBP. We did not fulfil the export obligation within the initial EO period of six months, or even within the extended EO period of nine months. The import item was removed from Appendix 4J, 18 months after issuance of advance authorisation. Thereafter, we fulfilled the EO within 24 months. Given this, is there any remedy for regularising and redeeming the authorisation? If the answer is yes, what is the quantum of composition fee for extension?

I do not think removal of the item from Appendix 4J after the expiry of the initial and extended EO periods of your advance authorisation will help you. However, you may try your luck with the PRC.

We want to import some machinery from a foreign party on a temporary lease and, after using it for some time, send it back. What are the duty implications?

You can import the machinery under the exemption notification 72/2017-Cus dated August 10, 2017. Alternatively, you can import it on payment of full duty, and after use, re-export it under claim of duty drawback under Section 74 of the Customs Act, 1962, read with notification 19/1965-Cus dated February 6, 1965.

A lost opportunity?

Commercial pig farming can be lucrative as the cost of rearing them is low and the herd size can be expanded rapidly

FARM VIEW

SURINDER SUD

Pig farming is among the most lucrative segments of the livestock sector. The reasons are many. Pigs are the most prolific breeders, delivering between six and 14 piglets in one go. Litters of eight to 12 piglets are fairly common. Their females attain sexual maturity very early, at merely eight to nine months age, and can conceive twice a year, if managed well. The cost of rearing them is relatively low as they can thrive on a variety of foods, such as damaged grains, unmarketable vegetables and fruits, kitchen wastes and various kinds of fodders and sugarcane leaves. Moreover, they are efficient converters of feed into meat and grow fast to put on the marketable weight of 60 to 90 kg in seven to 10 months. The returns on investment in the commercial pig farms, therefore, start accruing early. The herd size in a piggery can be expanded rapidly to scale up the business.

Yet, commercial swine farming has not developed to its potential in India. Religious and social taboos against tending pigs and consuming pork are partly responsible for this. But the factors like inadequate promotional effort and infrastructural and logistical constraints are also to blame. Pig husbandry has, consequently, remained confined largely to the poor households belonging to the lower socio-economic strata of the rural society. Only recently have entrepreneurs begun to invest in setting up commercial pig farms and pork processing industries to produce popular culinary products like sausages, ham, bacon and salami. Some medium to big modern pig farms have come up in states like Kerala, Punjab and Goa in recent years. A sizeable part of the demand of processed and value-added pork products in the hotels, restaurants and household sectors has so far been met through imports. The recent spurt in demand for pig fat for use as chicken feed and for the production of soaps, paints and cosmetic products is likely to give a further boost to commercial swine farming.

The systematic research on pig husbandry began in India in the early 1970s with the emergence of farm universities and livestock research centres. The Indian Council of Agricultural Research (ICAR) also launched its all-India coordinated research project on pigs during this period with its centres in Assam, Andhra Pradesh, Uttar Pradesh and Madhya Pradesh, to begin with. However, the piggery research and development activity got impetus with the setting up of the National Mission for Protein Supplements in 2012. The mission helped set up 16 nucleus pig breeding centres in different states, each having its own satellite field breeding units. They produced high calibre male pigs for distribution to farmers for breeding purposes.

Several new breeds of pigs have been developed by cross-breeding local and exotic animals. In fact, as revealed by the 2012 animal census, the population of exotic and cross-bred pigs is now steadily swelling, while that of the indigenous ones is on the slide though the latter still outnumber the former by a big margin. This is a cause of concern as pigs of *desi* breeds have many desirable characteristics that need to be preserved, preferably through backyard piggery. These have been recorded in a publication on "Swine Genetic Resources of India", brought out by the ICAR. This publication, first of its kind, also lists advantages of the indigenous pigs over the exotic ones. The *desi* pigs are well-adapted to hot and humid climate, possess higher immunity against diseases, and can survive with low inputs and poor management. In some regions, notably the northeast, native pigs are preferred because of better taste of their meat.

This compendium on pigs recommends that the exotic inheritance in the cross-bred animals should be restricted to 50 per cent, barring exceptional cases where it could go up to 75 per cent. Besides, live animals — not their frozen semen — should be used in breeding programmes for better results. And most importantly, it stresses the need for conservation and registration of all the native breeds of pigs with elaborate documentation of their characteristics.

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The slippery slope of oil prices

The crash means big savings for the Indian economy, but impending West Asian investments could slow too

SUBHOMOY BHATTACHARJEE

Before estimating the possible bonanza for the Indian economy from the massive drop in oil prices, check this out. In late February, the Economist Intelligence Unit (EIU) issued a report about the top five global risks for 2020. The first of those was a possible escalation in global oil prices to about $90 dollars a barrel: "The Economist Intelligence Unit estimates that there is a 25 per cent chance that the US and Iran will be dragged into a direct, conventional war, which would have devastating consequences for the global economy... a prolonged disruption to oil supplies could cause oil prices to rise to as much as US$90/barrel, fuelling a rise in global inflation and dampening consumer and business sentiment".

By March 9, oil prices have crashed to $31 a barrel, down nearly 30 per cent. The drop was already coming. It was aggravated, as a *Business Standard* report notes, since the world's biggest crude oil producers failed to agree on production cuts, kicking off a price war. A Bloomberg Quint report notes that Brent Crude fell the most since the 1991 Gulf War "dropping 31 per cent in a matter of seconds, after Friday's OPEC+ meeting broke up in disarray". A war, whether between the US and Iran or among the oil producers will certainly correct the prices, bringing them up from the free fall.

TAKE TWO

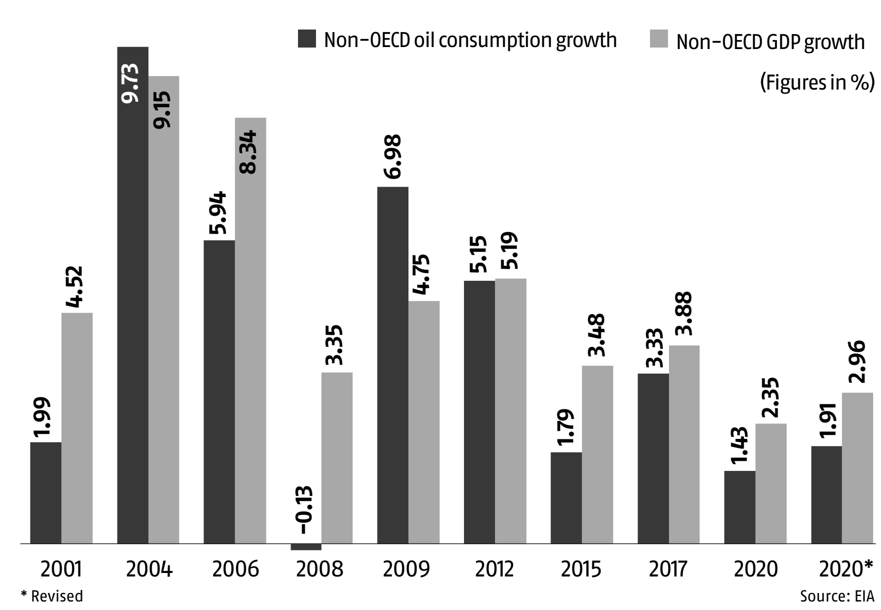
ANALYSIS BEHIND THE HEADLINES

Meanwhile, using the ballpark figure of ₹2,900 crore savings in import bill for each dollar drop in oil prices will translate into an annual savings of ₹2.1 trillion for the Indian economy (assuming a $20 drop in the price of Brent Crude). These are big savings for the economy, which faces a huge headwind to growth from the coronavirus-led global growth slowdown. There are other positives. Spot prices of LNG have more than halved year-on-year to a decadal low to less than $3 per million metric British thermal units (mmBtu) because of oversupply and the coronavirus outbreak. This is happy news for those companies planning to invest in city gas investments for homes and setting up CNG pumps. The viability of their planned ₹50,000 crore capital expenditure has improved, which "augurs well for both volumes and operating margins of distributors, and consequently, project returns", notes a Crisil report.

What is the flip side? The upending of forecasts by the current free fall also make it clear that the global oil economy is in serious trouble. This has implications for the gas economy's viability too. One of those could be the impact on our own oil and gas exploration companies. If the prices of oil threaten to remain at such low levels, both government-run ONGC and Oil India as well as private sector RIL-BP or Vedanta could find it extremely unprofitable to dig more fields, even for gas. It will mean the banks that have financed some of the debts are into fresh trouble. There are no comparable figures for India's investment-grade energy debt as in the global markets but with those overseas being pulled down so low will not make the banks or anyone else financing the projects happy.

That is only one of the issues. The other is the massive investment plans the state-led companies from West Asian countries have for India. All those investments are meant to shore up capacity for the use of oil or gas in India. Last year Aramco, Adnoc and many others had come calling to bid for properties. If fuel prices remain so low, there is little incentive for them to make those outlays. It is partly for this reason that the Indian markets crashed practically out of sight this morning. The Yes Bank shore-up by SBI and RBI did not help at all to correct the ruin.

IN A FREE FALL



* Revised
Source: EIA

Of course, in the OPEC world it is extremely difficult to make predictions. Last week some analysts had begun to put out reports that the long bear phase in the energy market was about to get over as Saudi Arabia and Russia reach a deal on deep oil production cuts. Instead we have the free fall on Monday.

The road from here becomes choppy. All the oil-producing economies have huge sovereign debt. Except the USA, all of them depend on oil revenues to balance their books. The rule of thumb is that oil is profitable to pump out at $40 a barrel. The three giants, the USA, Russia and Saudi Arabia, are all pumping out at less than that. Long ago, Saudi Arabia with its long-depreciated oil wells was the least cost producer of oil. It is not any more. Paradoxically, the slump in the debt market could give the same governments a chance to borrow easily to finance their debt, but this is a risky street for the latter two. For smaller economies, this is of course deep trouble. In any case any loans they can raise depends on how far the markets feel a turnaround will happen. State-run companies will survive the longest with privately-run companies going for the towel sooner. Once one of them does so, it can be a domino effect from there.

It could bring up short production from the oil fields and that could potentially begin a turnaround for the oil sector. But it will require a fresh set of investors and even management to begin work on those fields. These in turn have massive costs.

India has already begun to get the upside of lower oil prices. Lower investments by the West Asia funds is the downside. This could reverse if the growth rate in the Indian economy turns up. There is a strong relationship between GDP growth rates and growth in oil consumption, especially in India and China (see chart). In two decades since 2001, oil consumption in non-OECD countries declined only three times each coinciding with sharp rise in the price of the fuel. If China, as expected stays in the doldrums, how the global oil prices will behave depends mostly where Indian growth goes from here. This could be the sixth risk in the EIU list.

CHINESE WHISPERS

3 seats, many contenders

The last date for filing nominations for three Rajya Sabha seats from Madhya Pradesh is March 13. Yet neither the Bharatiya Janata Party (BJP), nor the Congress has been able to finalise the list of candidates. The BJP has sent 22 names, including national general secretaries Ram Madhav and Kailash Vijayvargiya, to the party's central poll panel. The names of Satyanarayan Jatiya and Prabhat Jha, both sitting RS members from the state, also figure. For the Congress Digvijaya Singh (sitting Rajya Sabha member) and Jyotiraditya Scindia are the main contenders, but there are reports that Chief Minister Kamal Nath might send Deepak Saxena to the Rajya Sabha. Saxena, a Nath loyalist, vacated the Chhindwara Assembly seat for Nath, who sees this as pay-back time. Singh holds the third seat falling vacant. Going by the numbers, the BJP and the Congress will win one seat each. The tussle is for the third one.

Ballard Estate turnaround

Thanks to the Enforcement Directorate (ED), Mumbai's sleepy Ballard Estate area has suddenly sprung to life. The south Mumbai office area, close to the docks, was a prime real estate market until a couple of decades ago. But after the swanky Bandra Kurla Complex and central Mumbai's textile companies set up multi-storey office spaces, many top companies moved uptown. The British era buildings and the areas around them are largely used for shooting period movies these days. But the sharp rise in the number of top Mumbai industrialists being questioned in the ED's Ballard Estate office almost every day has meant brisk business for local restaurants and even smaller food joints, with journalists and photographers staking out the area in large numbers.

Rajini's party, at last

Two years after announcing his entry into politics, south superstar Rajinikanth and his followers are working overtime to launch their political party ahead of the 2021 Tamil Nadu Assembly elections. He has been conducting back-to-back meetings with his fans' associations in Chennai and working towards an April launch. A local report says that a survey, conducted by a private consultancy, has come as a shot in the arm for the 69-year-old actor. Analysing the strengths of Rajinikanth, who is pitted head-on against Dravida Munnetra Kazhagam (DMK) leader M K Stalin for chief ministership, it said the actor's influence among the rural and urban population was four times that of Stalin. This has enthused his would-be party workers, who are hoping Rajinikanth would reconsider his earlier decision to not take up chief ministership if his party came to power.

ON THE JOB

Bleak prospects

New risk in the form of the Covid-19 virus only adds to the economic cholesterol that India has accumulated over the past few years

MAHESH VYAS

It is logical to believe that employment conditions in India have deteriorated quite substantially during 2019-20 economic growth has slowed down and investments show no sign of picking up. Outlook for the economy in 2020-21, and therefore also for employment, is also getting increasingly difficult by the day. With capacity utilisation remaining very low at around 70 per cent, the prospects of an investments turnaround remain very bleak. As a result, the prospects for growth in good quality jobs also look very difficult.

Confidence in the financial system is getting dented with increasing regularity; government measures to prop the economy do not seem to be effective and elections now violently disrupt social harmony and increase mistrust. These scars and the apparent impotency of state capacity has a direct impact on the well-being of citizens. The most proximate and clinical impact is on employment and livelihood.

Such conditions can be expected to lead to high unemployment rates, low labour participation rates and a structural shift in favour of poor quality employment.

The unemployment rate has been rising steadily for over two years now. Till recently it looked like it would settle at a shade below 8 per cent. But now again it seems that the rate could rise to more than 8 per cent. In February 2020, the unemployment rate was 7.8 but, in three of the four weeks of the month, the rate was over 8 per cent. Now, the 30-day moving average of the unemployment rate during most of the first week of March 2020 was over 8 per cent and the week ended with an unemployment rate of 7.71 per cent.

Nevertheless, in India there is, apparently, a limit to the increase in the unemployment rate. After a point, people get so discouraged by not finding jobs that they exit the labour markets. This can have a rather incongruous impact of a fall in the unemployment rate. If people who cannot find jobs stop looking for jobs, they are quitting the labour markets and in doing so, they are reducing the count of the unemployed and thereby reducing the unemployment rate.

But this decline in the unemployment rate is not a good sign. On the contrary, it is worse than an increasing unemployment rate. This is what has been happening in India. The labour participation rate has been falling. And given the poor prospects of growth, this is likely to continue to happen.

The labour participation rate in February was 42.6 per cent. In the last week of the month it had dropped to 42 per cent. The 30-day moving average labour participation rate has been falling since February 20. In the first week of March 2020, it was 42.14 per cent.

The labour participation rate has been consistently below 43 per cent since October 2019. If the unemployment rate continues to rise, then the likelihood of the labour participation rate falling further increases.

There is an additional reason why the labour participation rate may decline. This is because the quality of employment is deteriorating. The emerging composition of employment indicates a decline in good quality jobs and an increase in risky employment choices.

During 2019, there was a big increase, of 8 million, in the count of self-employed entrepreneurs. At the same time, salaried jobs declined by 1 million.

A salaried job is arguably, the most preferred kind of employment. When these jobs decline, labour has few choices. It may either drop out of the labour force or may turn into becoming entrepreneurs. But, everyone cannot become an entrepreneur. Those who cannot, will drop out of the labour force. So, we are seeing an increase in entrepreneurs, but no increase in salaried jobs and a fall in the labour participation rate.

During 2019, there was also an increase in the number of farmers.

Farming is risky business, which has required additional support from the central government and several state governments. Farming is not the first choice for employment of any young graduate. It can be either disguised unemployment or a compulsion. While some may make such a choice, many others would rather choose to not do anything. In technical terms, remain out of the labour markets and thereby bring the labour participation rate down.

New risks have emerged in the form of the Covid-19 virus. This threatens to shutdown economic activity in many pockets of the world. This could disrupt some supply chains in India and it has started to impact tourism and hospitality industries which are significant providers of employment. This new risk only adds to the economic cholesterol that India has accumulated over the past few years.

The economic slowdown must be seen in terms of its impact on households, human beings and their well-being. A continuation of this economic slowdown, the erosion of trust in financial institutions and the new risks to social harmony, mutual trust and health that India faces have a much greater impact on the well-being of the average Indian than the GDP growth numbers can measure.

The author is MD & CEO, CMIE

LETTERS

Customer woes

"Yes Bank rescue: India's TARP moment?" by Tamal Bandyopadhyay (March 9) made an interesting read. One observation in the article stands out: "Over the past year, whenever a new large bad asset surfaced in banking system, YES Bank has been exposed to it." This is one area that needs to be explored. There has been reports of risky asset cases being approved for large fees upfront, being shown as income. This source of income helped shore up the bottom line in the previous years.

Usually, auditors are very strict when it comes to advances. But when it comes to income, not much credence is given to the sources. "Outliers" on the income front should be flagged by the auditors and thoroughly investigated. These "outlier" sources of income could well be the seeds of toxic assets. It would be worthwhile if the Reserve Bank could revisit the audits of all the players in the market to check if they have any income, which are of a "deviant" variety. The assets behind these cases should be flagged. In the YES Bank case, let us hope the steps being contemplated by the government are finalised soon and the moratorium lifted.

In all the cases involving failure of banks, it is the common man who has to go through unwarranted stress. While the Deposit Insurance and Credit Guarantee Corporation will now take care of deposits up to ₹5 lakh, a sizeable amount of money belonging to individuals who hold more gets lost. It is this fear that caused a lot of depositors exiting

YES Bank in the last couple of months. There should be provision to rank the interests of individual depositors above other creditors. On the sale of assets of beleaguered organisations, the first right should be that of individuals. Only after claims of individuals are settled should those from other entities be entertained. This way individuals would not have to go around opening accounts in multiple banks.

K V Premraj Mumbai.

Way forward

The piece by Tamal Bandyopadhyay, "Yes Bank rescue: India's TARP moment?" (March 9) might bring peace to many stakeholders but not the AT-I bondholders. But the intriguing part is this: The board and top management of the bank were allowed to lend recklessly, demeaning asset quality and putting the bank to a great risk, despite a host of regulatory norms and internal loan policies. The epicentre of revival will be the effectiveness of the action plan of the new management to recover loans, a difficult task given the debt resolution ecosystem and likely litigations.

The rescue package should be able to reduce the pace of deposit outflow, once the window is opened and the bank is put on normal mode, it will take considerable time for new deposits to accrue.

K Srinivasa Rao

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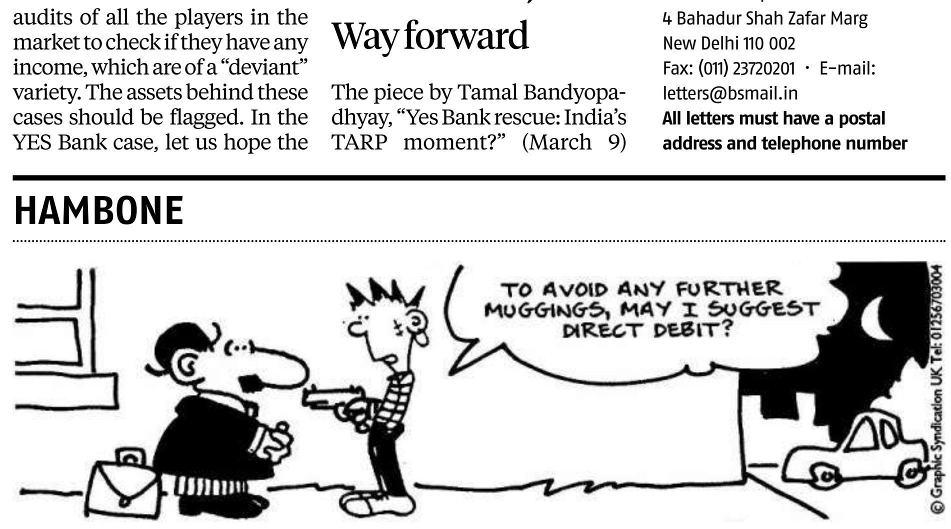
HAMBONE



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The oil crash

Govt should seize the opportunity to improve its finances

Brent crude prices cracked 30 per cent in the early hours of trade on Monday, extending the decline to about 45 per cent since the beginning of the year. Oil prices are likely to remain soft in the foreseeable future and analysts are predicting that the Brent crude prices could fall to $20 per barrel from the present level of about $36. The immediate trigger for the fall is the disagreement between the Organization of the Petroleum Exporting Countries (Opec) and Russia over cutting output. Saudi Arabia, as a result, slashed prices and is likely to increase production. It is likely that Russia and other producers too would ramp up production. However, at the fundamental level, the need to cut production rose because of weak demand globally. It is possible that the impact of a simultaneous demand and supply shock to the global economy could last much longer even after coronavirus is contained.

The crash will affect all major oil-producing countries. The US is the largest producer of crude oil. This will not only affect investment, but could also tighten credit conditions, which can have wider implications. Countries in West Asia are heavily dependent on oil revenues. According to the International Monetary Fund, Saudi Arabia needs oil to remain above $80 per barrel to balance its budget. Since the oil prices are significantly below the level desired, it will need to cut expenditure. This would not only affect global demand but remittances in countries such as India would also take a hit. While lower oil prices help consumers, the overall impact on growth could be limited because of wider uncertainties in the system.

As a large importer of crude oil, India benefits from the decline in prices. At the macro level, a better position in terms of net exports will add to overall growth. Even in the third quarter of the current fiscal year, growth in gross domestic product was significantly driven by net exports and government expenditure. However, the fall in prices would need careful policy management. The government should use this opportunity to strengthen its finances, as was done after the 2014 crash. Given the weak economic environment, its finances are likely to remain under pressure even in the next fiscal year. So, higher taxes on petroleum products will help contain the fiscal deficit. However, the government should recognise that the gains would be temporary; lower oil prices and uncertainties in global markets can also result in significant volatility in the currency market and a rise in risk aversion can lead to large capital outflows. Besides, research shows that a lower current account deficit owing to lower oil prices resulted in significant real appreciation in the rupee last time, which affected exports. Therefore, it is important that the Reserve Bank of India actively manages the currency and avoids a similar outcome.

The government can also make a beginning in oil-pricing reforms and direct oil-marketing companies to change their pricing mechanism from trade parity price (TPP) to one based on market realities. TPP is based on product prices in the international market, assuming that 80 per cent of the petrol and diesel is imported and 20 per cent is exported. It is high time the oil-marketing companies started pricing their products independently and transparently based on market principles.

Price of leadership

SBI's YES Bank investment raises questions

State Bank of India's decision (SBI) to come in as a white knight for YES Bank has raised several questions. Capital investment at ₹10 per share (face value of ₹2, premium of ₹8) defies logic, as at least one marquee foreign brokerage cut YES Bank's target price to ₹1 just last week. Only time will tell whether SBI shareholders will gain from this investment. As rumours of a bailout by state-owned financial institutions began, the SBI stock started declining. It has fallen 16 per cent since February-end, while the Sensex has lost only 7 per cent. No doubt YES Bank's failure would have had consequences for the economy, given its ₹2 trillion-plus deposits, but the question that begs an answer is whether it is only SBI's responsibility even if it is one of the three domestic, systemically important banks as defined by the Reserve Bank of India (RBI).

Analysts see SBI's investment in YES Bank as a big nudge from the government as SBI Chairman Rajnish Kumar was earlier not in favour of "doing anything for YES Bank". This brings up the issue of moral hazard — should taxpayers' money be used in bailing out failed private-sector institutions? The government as SBI's promoter also has the responsibility to minority shareholders, who do not have a say in such decisions. At a time when the world is staring at a recessionary environment, SBI officials' time and management bandwidth will be diverted to YES Bank, which is not desirable. Ultimately, does the government want to send a message that a big bank will always be there to shield failing institutions to protect the system?

Most potential investors, including SBI, would have been reluctant to enter YES Bank, not knowing what skeletons would drop out of the closet. For SBI, thankfully, the windfall gains of ₹2,800 crore from the offer for sale of SBI Cards and Payment Services will come in handy as it will put in ₹2,450 crore in the first round of capital infusion. SBI has readied a ₹10,000-crore war chest to put in more funds and the SBI chairman has estimated that another ₹10,000 crore will come in from external investors. The question is whether the bank would be worth anything at all. Once restrictions on withdrawals are lifted, depositors may look elsewhere. Even before the cap on withdrawals, deposits at YES Bank witnessed a steady decline during the March-September period last year as retail customers took out over ₹18,100 crore, in a reflection of falling confidence in the bank. The bank's asset book is already in deep trouble and if its deposit franchise also turns bad, SBI may find it difficult to rope in other investors.

Even if SBI had to come in, the government would have done well to take the decision earlier. That would have spared India's financial system the ignominy of having a large private bank put under a moratorium. The fact that YES Bank under a new managing director was struggling to raise equity capital from investors with names that could not have passed muster was known to everybody for quite some time. So the delay is inexplicable. The clean-up would have progressed by now had the government and the RBI been more proactive in their approach.

ILLUSTRATION: AJAY MOHANTY

Covid-19 is sign of an ecological crisis

Dealing with it as if it were a singular phenomenon occurring in a single domain will not work

SHYAM SARAN

The coronavirus (Covid-19) epidemic continues to spread across the world and is already a major health crisis. It has begun to spill over into the economic domain, causing cascading disruptions to the dense networks of production and investment, travel and trade. It is possible that within a year or so, an effective vaccine may be developed but that might be too late in preventing a full scale pandemic.

While focusing on the immediate crisis one should consider its deeper implications. The Covid-19 is a symptom of a deeper ecological crisis that endangers the survival of humanity itself. It is the inevitable outcome of the growing industrialisation of agriculture and animal husbandry based on standardisation of species at the cost of bio-diversity, the steady loss of wild habitats, which compels wildlife to intrude into human settlements and the unintended exposure of human communities to organisms to which they have no immunity. In our own cities, we see bands of marauding monkeys. Leopards and elephants often stray into villages and urban settlements because forests are being denuded. Industrial techniques of mass production have been brought into the animal husbandry domain with animals and poultry packed together in cramped spaces. Any infection in one animal spreads quickly to others. Examples are swine flu and avian flu, and these then cross-over to human hosts. In order to minimise such risks, animals are routinely pumped full of antibiotics. This then gets into the food-chain with its own adverse health consequences. The industrialisation of agriculture and animal husbandry may have enhanced food security but this creates a negative feedback loop in health security.

In reality, multiple crises confront humanity today, such as climate change, environmental degradation, declining water, food and energy security and social and economic inequality. These are all densely inter-connected, sometimes mutually reinforcing, while at other times mutually off-setting. They are symptoms of a deeper civilisational malaise embedded in our way of life, our value system, our understanding of the past and our aspirations for the future. Dealing with each crisis as if it were a singular phenomenon occurring in a single domain will not work because it is linked through feedback loops to multiple domains. A crisis in one part of our planet's ecology such as the outbreak of Covid-19, may be linked to phenomena occurring in other domains, although this may not be immediately obvious. There was an interdependent causal chain at work here. The Covid-19 was a virus hosted by a species normally resident in the wild, in this case wild bats. These bats were brought into close proximity with industrially raised animals packed together at a food market in Wuhan, China, heightening the risk of contagion. The risk is inherent in the nature of processes developed to enhance food security without regard to consequences in other domains.This inability to look at our challenges in a comprehensive frame is inherent in our current knowledge systems, which progress through ever-increasing specialisation and focus on the micro, abstracting from the macro. The big picture, the awareness of the myriad threads that bind the planet's fragile ecology together, that a small disturbance in one part of this ecology may trigger large disruptions in other parts, this compelling truth has been increasingly obscured and is now being denied in a fit of collective blindness. The reason is not hard to find. Acknowledging the truth will demand that we alter our lifestyles, change our value systems and reconnect humanity with nature —Man in Nature, not Man Against Nature, which has been the credo of our industrial age.

The report of the Inter-Governmental Panel on Climate Change (IPCC) has looked at the implications of the aspirational goal, incorporated in the Paris Climate Agreement, to limit global temperature rise to only 1.5 degrees centigrade compared with what it was at the beginning of the industrial revolution. It has come to the conclusion that we are already well on the way to reaching the 1.5 degree range and this will already be enough to unleash climate mayhem. More significantly the report concludes that "the pathways to avoiding an even hotter world require a swift and complete transformation not just of the global economy but of society too". Societal change is impossible without effecting a civilisational response.

Ours is an age of technological hubris. There is a pervasive belief that somehow technology will find the solutions we need to resolve the multiple crises we confront without having to change our patterns of living. There is a new world of artificial intelligence and machine learning waiting round the corner. There are the wonders of quantum computing and genetic engineering whose potential is already being actualised. There is a sense, in the words of one scientist, that "the outcome of future technological evolution could surpass humans by as much as we, intellectually surpass slime moulds."

May be. But will our planet and life on earth survive long enough to see the wonders of this technological advancement? Could there, for example, conceivably be a strain of virus whose virulence decimates the world's population before an antidote is found? The Covid-19 is perhaps a timely portent of an ecological disaster which we ignore at our peril.

What is the civilisational response needed to stave off the looming ecological crisis? We must look upon Nature as a living source of nurture from which one must never extract more than necessary for its regeneration. Biodiversity is fundamental to the maintenance of all life on our planet and must be preserved.

The cross-domain nature of the challenges we confront require a comprehensive and collaborative response at the global level. There is no alternative to multilateral processes through empowered international governance institutions.

Above all, we need a new definition of affluence which values clean air to breathe, fresh water to drink and a green earth to walk on above all else, and does not squander the inheritance of succeeding generations.

The writer is a former foreign secretary and a senior fellow CPR. He was prime minister's special envoy for climate change 2007-2010

Successions, values and loyalties

ET CETERA

SHREEKANT SAMBRANI

"Pursue studies as if your whole life is ahead of you, but perform your duties as if you are going to die tomorrow," goes an old Sanskrit saying. Kanika Datta's reference to Jack Welch's thoughts about succession long before his retirement in 2000 in her column in this paper (March 5, 2020) indicates the priority he accorded this task among his responsibilities as a chief executive. He stated in a 1991 address that from then on, his major concern was choosing his successor. He was, of course, not alone to display this trait.

Mahinda Silva of what was then the Ceylon Civil Service, served Sirimavo Bandaranaike, Sri Lanka's and the world's first woman prime minister, as permanent secretary of land and agriculture from 1970 to 1977. He framed the estates nationalisation and land redistribution policy that became the hallmark of the Bandaranaike government. The prime minister considered him an irreplaceable asset and wondered what she would do without him. "Not to worry Madam, I shall have at least eight younger officers who can carry on just as well after me," he assured her. Official Colombo knew about Silva's *Goliyas* (Sinhala for acolytes). Mr Silva retired prematurely in 1977 as he rightly feared that he would never get along with J R Jayewardene who won the election that year. True to his word, six of the subsequent permanent secretaries in that powerful ministry were Silva understudies.

Most organisations have identified career development paths for their star performers. Even if there are no clearly designated successors or succession processes, a tacit understanding prevails within the organisation and its immediate environment about the likely schedule of handing of the baton and its possible receivers. Some also resort to search processes (not all of which are entirely transparent). These act as shock absorbers for the system and ensure the least disruption following the change of guard. As Ms Datta observed, even though Welch did not name his successor, James McNerney, Robert Nardelli, and Jeffrey Immelt were widely known to be among the very short list of people who would helm GE after him.

But not all entities and their chiefs follow such practices. Ravi J Matthai, the first full-time director of Indian Institute of Management, Ahmedabad (IIMA), announced at a faculty meeting in April 1972 that he would step down as soon as a new incumbent was chosen. He was then in position for less than seven years and by common consent, fully in command of an institution that was gaining in reputation and prestige. He was just 45; the question of who after Matthai would have been laughed out of any court then. The stunned silence in the meeting was broken when Dwijendra Tripathi, the business historian, said he felt betrayed, an indication of his bewilderment, shared by almost the entire faculty. Matthai made two provisos: He would stay on at IIMA (rather than use the position as a stepping stone for something else) and play no role in the choice of the successor. He scrupulously adhered to them both.

The succession is a foregone conclusion in most family-owned entities, corporate or otherwise, and not just in India. The mantle descends on a designated close kin, most often the progeny of the current occupant of the position. Most dynastic successions have not led to beneficial outcomes either for the organisation or individuals concerned, warping businesses, professions — and politics. This writer termed it the Dhritarashtra complex, after the Kaurava patriarch whose obsessive love of sons led to the Mahabharata war (*Business Standard*, October 14, 2012).

Not all successions, however well planned and in advance they may be, work out in reality. Power struggles within dynasties ensure tumult for the designated heir, as is happening presently in the House of Saud, or in the two Yadav clans of Uttar Pradesh and Bihar. Verghese Kurien, the *paterfamilias* of India's White Revolution had long designated Amrita Patel as his successor, but publicly disowned her policies when she was not too long in the position. The House of Tatas is still grappling with its dispute with Cyrus Mistry who was ousted in what amounted to a boardroom coup. The root cause in all such cases appears to be the obsession of the person retiring with their personal legacy, forcing them on a vengeful path, rather than ride into the golden sunset (see "Revenge of the angry old men," *Business Standard*, October 26, 2016).

On the other hand, as Shyamal Majumdar shows, Welch was greatly concerned about the "four Es (Energy, Energise, Edge, Execution) and one P (Passion) principle of hiring" (*Business Standard*, March 6, 2020) which formed the core of the organisational culture he espoused in GE and not the disruption that he practised after reaching the top. Mr Silva emphasised the professional independence and not sycophancy as the motive force of the bureaucracy. Matthai ensured that faculty autonomy and commitment to the institution became the core of the IIMA culture. These instances of adherence to values and shared culture, and not personal loyalties, led to the successful transition of their respective organisations. Although drawn from a microcosm of institutions, this is a valuable lesson for societies in times of turbulence.

The writer taught at Indian Institute of Management, Ahmedabad and is a management consultant

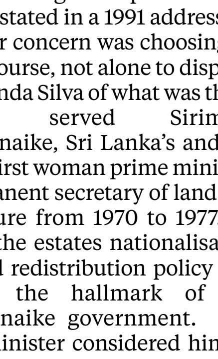
Harmonic nationalism

BOOK REVIEW

PRADEEP DATTA

Towards the end of this compelling volume, Lakshmi Subramanian touches on the after-life of Gandhi's music. She mentions the compositions inspired by Gandhi, including *Raga Mohan Kaus* by Ravi Shankar and Kumar Gandharva's *Gandhi Malhar*. These are commemorative and classical. Also interesting — and this touches on the popular power of Gandhi's music — is the everyday memory. I recall a family elder who never listened to any music. But he made an exception for Gandhi's favourite *Ram Dhun*. He liked it so much that he possessed two copies of the 78 rpm vinyl recording, presumably to keep one in reserve. But the most fascinating part of his involvement was his utter silence when he listened to the *bhajan*.

Ms Subramanian's volume provides insight into the structure of feeling that Gandhi left behind, the imprint of which was visible in my relative. Gandhi was no composer or aficionado. But he was no ordinary listener. He was really a maker of sonic communities. Musical stalwarts like D V Paluskar pioneered the deployment of music as a national heritage, but the conditions for this were laid out by the shift in music from the courts and *ustads* and that of the *devdasis* and *tawaifs* by the rise of a middle-class public that insisted on the national identity of music. Gandhi was very close to Paluskar who pioneered the shift from classical compositions to those that catered to public devotional congregations of Hindus. Paluskar composed *bhajans* for Gandhi. However, Gandhi departed from Paluskar in two important respects. The first was his refusal to be tied to the exclusive insistence on Hinduness that was central to Paluskar's concerns. The second was the ethical (in addition to the spiritual) element that Gandhi brought to the idea of music. The second element provides an illuminating gloss to the stillness of my relative as he listened to the *Ram Dhun*.



SINGING GANDHI'S INDIA: Music And Sonic Nationalism
Author: Lakshmi Subramanian
Publisher: Roli Books
Price: ₹495

For Gandhi, music created spiritual and ethical publics. While Gandhi emphasised the Hindu elements, the latter was regarded as part of a universal spirituality that did not hesitate to include the name of Allah with Hari as variants of the same God. In his later public prayers, Christian hymns were sung together with reading of verses from the *Koran* and *Avesta*. This was an essential part of what Ms Subramanian calls Gandhi's sonic nationalism. Together with spirituality was the emphasis on self-discipline. By singing together, participants inculcated mastery over the self — like the act of prayer or of spinning. For Gandhi, it generated a disciplined social body that could even include drills. This was not to be routinised, however. Singing involved an "inner" conviction in devotional self-discipline. Parenthetically, I must observe that Ms Subramanian could have elaborated on Gandhi's suspicion of the senses. For him, music was a way of controlling and mastering the senses. Did this also produce a narrowing of the affective experience of music itself — may be even of making music into an ethical fetish? A comparison here with Tagore's ideas on music, especially because of the common preoccupation with the spiritual, would have been interesting.

The idea of sonic nationalism was based on producing a nation through a moral politics anchored in universalist principles. What makes Ms Subramanian's conception significant is her handling of Gandhi's responses to the role of music in Hindu-Muslim conflict. There are two phases in Gandhi's relationship with communalism that Ms Subramanian explores. The first is the formative period of mass communalism in the 1920s. This was marked by massive, pan-Indian riots over music before mosques and *go-korbani* (cow slaughter). Ms Subramanian dwells on the ambivalence and contradictory ways in which Gandhi framed his responses to this issue, calling the Muslims bullies and Hindus cowards — while enjoining both communities to refrain from provoking the other. Ms Subramanian dwells on his statements, but leaves out the (largely ineffective) silence that accompanied the public fasts that Gandhi deployed to counter these conflicts.

The most moving and complex part of the book covers Gandhi's response to the mass communal carnages of the Partition- related riots. Ms Subramanian shows how Gandhi moved to the practice of public prayer and underlined the importance of music in all walks of life. These required an inner conviction in work. Indeed, Gandhi appears to have given greater value to his universalist "inner" ethical conviction than before. Indeed, he went so far as to say that he was closer to Hinduism by reading the *Koran*. He also emphasised the responsibility of the majority community in India and Pakistan to respect the sensitivities of their minorities.

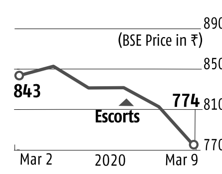
Gandhi's last phase and its tremendous importance on the inner conviction raises the question as to whether the affective unity of the nation was more important to him than the beliefs he thought indissociable from the nation. Was there a rupture in Gandhi's understanding of music as producing national togetherness on the one hand and the social values of his nation committed to communal peace and to preserving the sacred value of human life on the other hand?

Business Standard
NEW DELHI | TUESDAY, 10 MARCH 2020

The Smart Investor

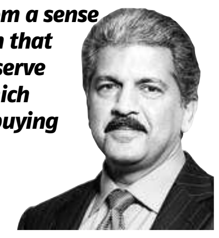
WWW.SMARTINVESTOR.IN FOR INFORMED DECISION MAKING

QUICK TAKE: VOLUME GROWTH TRIGGER FOR ESCORTS



The Escorts stock has tracked the over 7 per cent fall in the BSE Sensex since the start of the month. But brokerages are positive on the tractor maker, given the strong volumes it reported in February and on expectations of a bumper rabi season that will help demand

"And when will investors shift from a sense of frenzy and panic to recognition that low oil and low bond yields may serve as a kind of global stimulus — which could make this a historic stock-buying opportunity?"



ANAND MAHINDRA
Chairman, Mahindra Group

10-year yields sink to 11-year low

Rupee closed at 74.09 to a dollar, the lowest since October 11, 2018

ANUP ROY
Mumbai, 9 March

The rupee crossed 74 to a dollar and 10-year bond yields fell below 6 per cent — the first time since March 3, 2009 — even as crude oil prices crashed 30 per cent overnight, taking down global markets with it.

The Sensex fell nearly 2,000 points, as foreign investors liquidated their investments for safe haven assets such as US bonds. As prices of bonds rise, yields fall. The Indian bond yields fell too, in line with other emerging market (EM) bonds. The 10-year bond yield fell 12 basis points (bps) to 6.065 per cent, from its previous close of 6.183 per cent.

"The immediate trigger for the yield movement is 30 per cent overnight oil price correction. The oil price fall is positive for India. Some of the benefits will go to the fiscal, and some will be there to contain inflation, which may come down by 25 bps due to the fall in oil prices," said B Prasanna, group head, global markets, ICICI Bank.

The foreign portfolio investor (FPI) outflow to some extent is getting compensated by the lower demand for dollars due to the fall in oil prices. The oil marketing companies will now have to pay roughly $20 billion less on their oil bills.

"The rupee will remain under pressure alongside all EM currencies as FPI pull-out happens. But oil fall will cushion the rupee and its depreciation will be limited," said Harihar Krishnamurthy, head of treasury, First Rand Bank.

The rupee closed at 74.09 to a dollar, the lowest since October 11, 2018 — a day when the partially convertible currency had closed at its record low of 74.48. However, "if the rupee depreciates 5-7 per cent from the present level, then most of the oil gain will be gone," said Gopal Tripathy, head of treasury at Jana Small Finance Bank (SFB).

But chances of that are very low, because the rupee is clearly a much better performing currency than others in the region. While rupee fell 0.40 per cent against the dollar, the Malaysian ringgit, Indonesian rupiah, and the South Korean won fell more than 1 per cent.

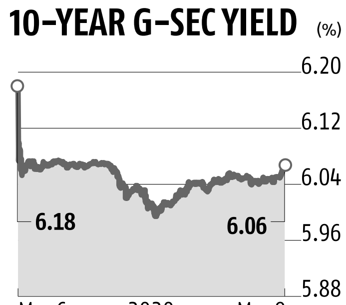
"This is not an unusual move on a day like today (March 9). The rupee could be nearing its resistance level," said Tripathy. In all possibility, when the coronavirus contagion stabilises, "the rupee should immediately bounce back because of low oil prices," said Devendra Dash, head of asset-liability management at AU SFB. "The gain on crude oil is significant," he said.

The bond yields are also reflecting an imminent cut in repo rate.

"We are looking at 25 to 40 bps rate cut by the Reserve Bank of India (RBI). If the repo is at 4.75 per cent (now at 5.15 per cent), it is possible that the 10-year yields can touch 5.75 per cent," said Prasanna.

Bond dealers say there was profit booking once the yields fell below 6 per cent, which pushed the yields up a little bit by the time of closure.

10-YEAR G-SEC YIELD (%)



Compiled by *BS* Research Bureau
Sources: Bloomberg, exchange

"Globally, bonds are very costly and equities have become very cheap," said Kumar Sharadindu, a market expert and former managing director of SBI Pension Fund.

In India, the equities will remain under pressure, but there is nothing much to panic about rupee because the RBI has formidable reserves.

"But when the global currencies are falling, the RBI is unlikely to waste its resources," said Sharadindu.

US Treasury yields fall to record lows

REUTERS
New York, 9 March

US treasury yields fell to record lows on Monday as worries over coronavirus and oil price decline sparked a massive sell-off in equities. However, the yields bounced back later. After falling as low as 0.318 per cent in early trading, the 10-year treasury yield climbed back to 0.512 per cent. "It does look like risk markets are recovering a little bit, so maybe it's some investors buying the dip in equities," said Gennadiy Goldberg, senior US rates strategist at TD Securities in New York. He cautioned while he has not seen any particular positive news, "liquidity is still very thin, so I wouldn't read into market moves here just because there is not a lot of volume behind some of these moves."

As global markets tumbled, investors fled headlong to bonds to hedge the economic trauma of COVID-19, and oil plunged more than 30 per cent.

Centre may not hike excise duty on oil products

ARUP ROYCHOUDHURY & INDIVJAL DHASMANA
New Delhi, 9 March

The Centre has ruled out an increase in excise duties on petroleum, and believes that softening global crude oil prices would dampen inflation, which would prompt the Reserve Bank of India to cut policy rates.

"We are not in favour of an excise duty hike as that would add to inflationary pressures for the end-users. Softening inflation due to oil prices would increase consumers comfort," a top government official said.

"The low crude oil prices have led to bond yields also coming down. This will also have a counter-inflationary impact, and could lead to a situation which is conducive for a rate cut," the official said. On Monday, the yield on the benchmark 10-year Indian government debt slid below 6 per cent for the first time since 2009. It ended trading down 12 basis points (bps) to 6.07 per cent.

For 2019-20 (FY20), the Centre had estimated average crude price of $55 a barrel, and for 2020-21, it has been assumed at $50 a barrel. The official admitted the crude price crash would be beneficial for them on the fiscal front, but declined to give details.

Analysts believe the steep fall in the international oil prices would give the government a bonanza in terms of reduced current account deficit (CAD), even as it may not have much impact on reining in the Centre's fiscal deficit.

So far as the Centre's fiscal deficit is concerned, economists don't believe that declining oil prices would impact it much. Nowadays, the burden of subsidies to the government comes for only LPG and kerosene. These subsidies were estimated at around ₹38,000 crore for FY20, against about ₹25,000 crore a year ago and ₹41,000 crore in 2020-21.

The Centre might not be as adversely placed in terms of revenues as its taxes on petrol and diesel are lump sum. On the other hand, states would be much worse affected as their taxes — value-added tax (VAT) — are ad valorem.

Karnataka has already increased VAT. Aditi Nayar, principal economist at ICRA, believed other states would follow suit.

So far as CAD is concerned, every $10 a barrel decline in oil prices could improve CAD by 27 bps, according to the calculation made by Soumya Kanti Ghosh, chief policy advisor at the SBI group.

CAD is essentially a gap between what the country receives imports and what it pays for exports of goods and services but excludes capital accounts such as money that comes in and goes out from the stock markets.

Nayar pegged CAD at 0.9 per cent of the country's gross domestic product for FY20 at the current oil prices, against 1 per cent that she was expecting earlier. She expected the deficit to come down to just 0.2 per cent of GDP in the fourth quarter of 2019-20, against 0.9 per cent in the third quarter and 0.7 per cent a year ago.

CAD remained over 2 per cent in the first quarter of FY20 and the first three quarters of 2018-19.

Nayar also projected CAD at 0.8 per cent for the next fiscal year against her earlier forecast of 1 per cent.

Lower CAD basically means that the country would not require too much capital inflows to finance it.

Devendra Pant, chief economist at India Ratings, said the country was net oil importer and hence softening oil prices would dampen CAD.

For instance, India is projected to be a net importer by $56.4 billion in the current financial year.

IMPORT BILL LIKELY TO HEAD SOUTH

	2017-18	2018-19	2019-20*
Export of petroleum products (mn tonnes)	66.8	61.1	54.7
Import of petroleum products (mn tonnes)	220.4	226.5	225
Export of petroleum products ($ bn)	34.9	38.2	31.3
Import of petroleum products ($ bn)	87.8	111.9	87.7
Current account deficit (% of GDP)	1.8	2.1	1.5**
Centre's fiscal deficit (% of GDP)	3.5	3.4	3.8***

Note: * projected, ** first half of FY20, *** Revised Estimates
Sources: MoPNG, RBI, Budget papers

India should take advantage of falling crude

ADITYA GANDHI

In late 2014, Saudi Arabia blocked calls from the Organization of the Petroleum Exporting Countries (Opec) to reduce production. Since the shale revolution and idea of oil being displaced by electric vehicles, people were worried that 'peak oil' was being replaced by 'peak use for oil' theory, and therefore Saudi Arabia did not want to give up market share by lowering production. Instead, they wanted to let the markets rebalance. They were also hoping that the rebalancing will reduce prices, making shale production unsustainable, and make them kings of the oil world again.

However, shale oil proved to be very resilient and survived that phase forcing Opec and Russia to announce production cuts in late 2016 to support prices. This helped oil prices recover to some extent and made financials of all these countries more stable. However, this further encouraged shale production and US oil production grew by almost 50 per cent in three years, taking away market share from Opec and Russia.

Over the last few quarters, as demand faltered — first because of trade war and now because of the coronavirus outbreak — everyone expected Russia and Opec to continue with the cuts they had agreed earlier and potentially increase them to keep the market from becoming oversupplied. However, this time Opec and Russia had a very different view. Russia wanted to extend the existing cuts, whereas Opec wanted to increase the cuts to support the prices. They were not able to find a middle path and the deal fell apart, leading to even the existing cuts being rolled back. In fact, Saudi Arabia has launched a full-fledged price war on the back of this, with its minister saying he will keep everyone wondering on Saudi oil production, with suggestions that they could ramp up production by 1-2 mbpd (million barrels per day), and Saudi has dropped prices of Arab Light by $6 so that it can quickly corner market share.

This is happening at a time when shale producers in the US are in a bit of a spot as well. Easy liquidity available earlier is drying up, debt is piling up, debt repayments are due and a lot of investors are looking for profitability and not just production growth. This is making the shale producers more conservative in their approach. So the decision by Opec+Russia could not be worse timing for shale. Low prices could lead to bankruptcies and consolidation in the shale industry. There is probably a geopolitical play in this as well. Off-late the US has used energy as a tool in a lot of its negotiations with China, India, Europe etc, and Russia may be trying to circumvent that by letting prices drop.

The aggressive stance taken by Saudi may have taken everyone, including Russia, by surprise, and this may bring the two parties back to the negotiating table

The aggressive stance taken by Saudi has taken everyone, including Russia, by surprise, and this may force Russia back to the negotiating table, else for next 3-6 months the oil markets will be in a lot of pain. Venezuela and Iran, already struggling because of sanctions may see a further hit, Canada and the US could see potential job losses in the energy sector and a lot of West Asian countries' budgets will be turned upside down by this. In the meantime, India should assume this is a short-term phenomenon, try and stock up on oil and take advantage of the low prices while it can.

The writer is vice-president (technology, energy and, commodities), Publicis Sapient

Oil price, market fall may delay BPCL's stake sale

UJJVAL JAUHARI
New Delhi, 9 March

A steep correction in stock markets, as well as in crude oil prices, may not be good news for the government's plan to divest Bharat Petroleum Corporation (BPCL).

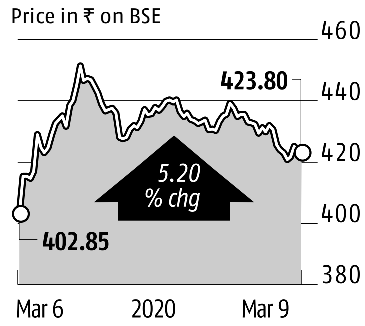
The BPCL stock, which had seen a high of ₹549.70 in November, outperforming markets on expectations of value unlocking with the government selling its majority stake and garnering high valuations, however, has continued corrected thereafter.

After initial euphoria, concerns had erupted on what valuations the stock could garner if BPCL's Numaligarh refinery was not part of stake sale. But the correction in the broader indices, against the backdrop of global slowdown concerns led by coronavirus outbreak, has been a major reason for further correction in BPCL's stock price.

The weakness and lower appetite for equities and investors seeking safe havens are not a favourable time for any stake sale. Since the same can have a bearing on valuations, the stake sale may garner lower funds for the government. This also means the divestment process may get delayed, feel experts. Nitin Tiwari at Antique Stock Broking says the market conditions need to be watched, even as falling crude prices is a positive for BPCL's fundamentals.

The lack of consensus among the Organization of the Petroleum Exporting Countries nations regarding oil production cuts, apart from concerns on global slowdown on the back of coronavirus breakout, has led to a steep correction in Brent prices to near-20-year lows on Monday. This bodes well for the Indian crude basket and oil marketing companies (OMCs) such as BPCL.

SHARES UP
Price in ₹ on BSE



India, which is one of the largest importers of crude oil, is estimated to have savings on oil imports to be around $30 billion in 2020-21 if there is no significant uptick in global demand, feels Acuité Ratings & Research.

A lower import bill also means reduced risk of subsidy burden and fewer chances of government intervention on fuel retail prices. Thus, while marketing margins are likely to remain firm, the demand for fuel should also continue to remain healthy. Not surprising, the BPCL stock closed 5.2 per cent up on Monday, even as Sensex tanked by 5.17 per cent.

Lower oil prices though may benefit OMCs. But it is not good news for the oil and gas sector. Morgan Stanley Research says the decline in oil prices will negatively impact the capital expenditure outlook for oil-related sectors as well as oil producing countries.

Lower crude prices mean that even large players, which are potential acquirers of the government's stake in BPCL, will be under stress. The government was to invite global oil producers to bid for its stake in BPCL.

At a time when their profits are under stress, it is unlikely that large petroleum majors will loosen their purse strings, says an analyst at a domestic brokerage. Morgan Stanley, too, points out that credit markets in the US, as well as emerging market oil producers, will likely react negatively, leading to further tightening of financial conditions as oil prices plunge.

'Low oil prices good for importing countries like India'

Hindustan Petroleum Corporation (HPCL) Chairman **M K SURANA** believes that the sharp fall in international crude oil prices will be a positive for the Indian economy. In an exclusive interview with **Shine Jacob**, he talks about the current market situation, future of crude oil prices, and its impact on product prices in India. Edited excerpts:

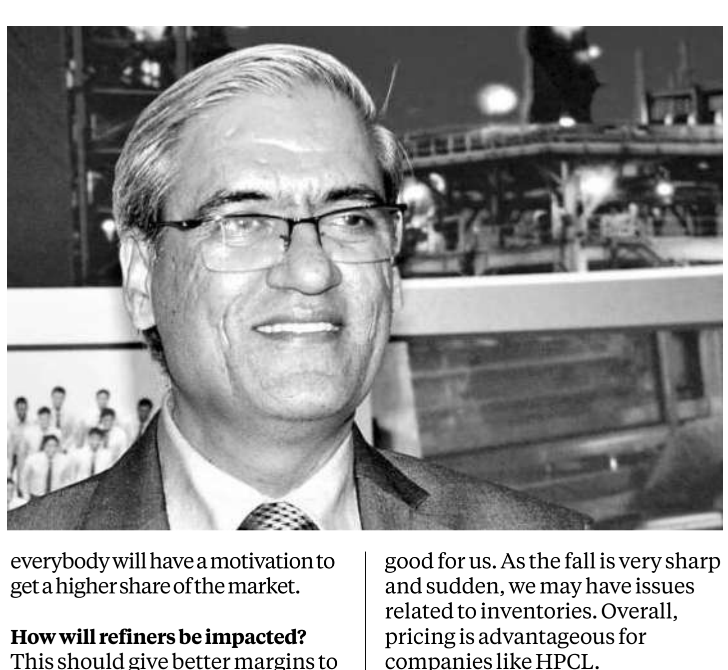
Q&A

M K SURANA
Chairman, HPCL

How do you see the international pricing scenario panning out?

This is not a pure demand-supply play. With the reduction in official selling price (OSP) by Saudi Arabia, I presume that others (oil producers) will follow. There is a possibility that Brent and Dubai differential may increase, but ultimately all oil benchmarks will be on downward spiral in the near future.

This is not a market-condition determined action. It depends on how long the two sides (Russia and Saudi Arabia) stick to their stand. The future will depend on the capacity of Saudi Arabia to sustain lower crude price. They would like to have a greater market share, too. There are only two ways for the oil producers: either you have to control the price or supply. If the fight is for lower price, then everybody will have a motivation to get a higher share of the market.



How will refiners be impacted?

This should give better margins to the refiners in the coming months. To that extent, lower pricing is good for us. As the fall is very sharp and sudden, we may have issues related to inventories. Overall, pricing is advantageous for companies like HPCL.

What does this mean for the Indian economy?

If we see better margins, it is good for importing countries like India and its economy. As it is no longer a unipolar world, there is more possibility for the prices to remain low for some time. As a country that imports 85 per cent of crude, lower crude prices are definitely better for India. If it may start impacting the investment on upstream side, it may impact supply side in the longer run, too. I believe others may follow the Saudi route in crude market, otherwise they will become uncompetitive.

"Subsidised LPG prices were increasing at a certain rate for some time. To that extent, lower crude prices may reduce the subsidy burden of the government"

During the first half of the year, oil prices were on a higher side. Do you expect this lower regime to compensate on the subsidy front?

Subsidised liquefied petroleum gas prices were increasing at a certain rate for some time. To that extent, lower crude prices may reduce the subsidy burden of the government.

The product prices have their own way of getting determined by the market because of their own supply and demand situation, which is different from crude prices. On the product side, not much has changed in terms of fundamentals — including demand, supply, refining capacity and processing. The current disruption is because of crude prices, and there is a possibility that the cracks will improve in the near term.

The product prices get determined by the cracks, but overall they will follow a low trajectory.

Has the price fall due to virus turned out to be positive for refiners?

What happened in China is, to some extent, related to COVID-19, but (the fall in oil price) is independent in its own ways. The China thing is a demand-side issue. The decline in demand has increased inventory in the market and kept the prices low. Following this, the Organization of the Petroleum Exporting Countries had some line of thinking which has not been bought by others. With this, there is a fight in the market.

Valuations come down, but still not in the comfort zone

KRISHNA KANT
Mumbai, 9 March


PHOTO: KAMLESH PEDNEKAR

The recent rout on Dalal Street has resulted in a sharp drop in the valuation of the broader market and benchmark indices. The Sensex is now priced at 22.8 times its underlying earnings per share (EPS) in the trailing 12-months — the lowest in nearly two years.

Just five months ago in November, 2019, the index was trading 28.4 times its trailing earnings. The index's valuation peaked in May last year, when it was trading at nearly 29 times its underlying trailing earnings.

The current market correction is, however, the sharpest since the second half of 2015, when the index's price-to-earnings multiple (P/E) had contracted by nearly a quarter in the six-month period between July, 2015 and February, 2016. At the time, the valuation had contracted by nearly 550 basis points (bps) from 22.4 times at the end of July, 2015, to 16.9 times by the end of February, 2016.

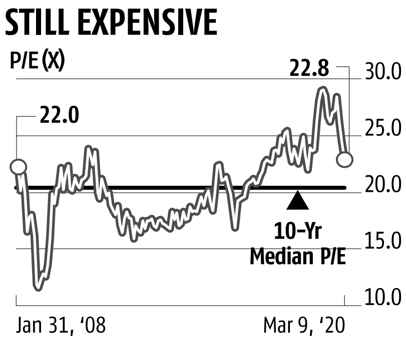
In the current episode, the valuation is down 560 bps, or around 20 per cent from the peak of November, 2019. One bps is one-hundredth of a per cent.

This, analysts say, makes the Sensex relatively cheaper, but when compared to its valuation, it is still far from a 'screaming buy'. An asset becomes a value-buy, when its valuation becomes lower than its long-term average.

"Many stocks in the broader market, including large-cap stocks, are now trading at a very low valuation, but the benchmark indices are still relatively expensive, thanks to the high weightage of richly-valued leaders in sectors such as FMCG, retail banking, non-bank retail lenders, telecom, and cement," says G Chokkalingam, founder and MD of Equinomics Research & Advisory Services.

The broader market remains expensive on a historical basis. The Sensex 10-year median price-to-earnings multiple is around 20.4 times, nearly 10 per cent lower than the index's current valuation.

STILL EXPENSIVE



A rich valuation of leaders may put further pressure on benchmark indices, but there may be price stability in beaten down but operationally and financially sound firms in sectors such as power & gas utilities, public sector banks, pharma companies, and IT services exporters.

Investors should also note that market correction has accounted for only half of the decline in the index's P/E multiple. The other half was contributed by gains from cuts in corporation tax in August, 2019, which lead to a one-time rise in corporate earnings after tax. The Sensex's underlying earnings per share shot-up by 10 per cent during the September, 2019 quarter over the April-June 2019 quarter, leading to a corresponding fall in the index's P/E multiple.

"Most of the gains from cuts in corporation tax accrued to leaders in sectors such as FMCG, retail lenders, paints, cement, and oil & gas. The gains will taper off in the second quarter of FY21, putting pressure in their valuation unless demand growth picks up by then," adds Chokkalingam.

This will hang over the broader market, unless investors get clarity about India's growth trajectory. Analysts, however, say that the Indian equity market and corporate earnings get a boost from low oil prices in the form of a lower import bill and higher margins as raw material prices, including metals & chemicals, are linked to oil prices directly or indirectly. The last time when there was a major plunge in oil prices in 2015, Indian companies, especially in the manufacturing sector, reported a sharp uptick in margins, which lead to a double-digit growth in net profits in 2016, resulting in higher share prices.

Black Monday for commodities with black gold

RAJESH BHAYANI
Mumbai, 9 March

The price of crude oil was frozen in consecutive lower circuits in the morning after it was down over 30 per cent following a crash in international markets.

However, during the day, it recovered a bit in MCX (Multi Commodity Exchange) futures and, at the end of the day's session, it was down 23.8 per cent at ₹2,406 per barrel.

However, brokers were seen selling everything they had to meet margin calls and cut losses.

There was selling in all commodities.

The Friday crude oil contract had a 16.3 per cent margin, which went on rising with the MCX raising it almost to 60 per cent.

A barrel has 159 litres and the Brent crude price comes to just ₹ 15 per litre.

In Mumbai's spot gold market, standard gold closed 0.9 per cent lower at ₹43,838 per 10 gm and silver closed 2.4 per cent lower at ₹46,005 per kg.

The fall was triggered by the cash in crude oil prices globally following a price war between Russia and Saudi Arabia. The Brent crude price in the morning fell to $31 per barrel, down over 30 per cent over Friday's close after Russia backtracked on the production deal with the Organization of the Petroleum Exporting Countries (Opec) and increased output further instead to take on the US over the latter's shale oil production.

Following that, Saudi Arabia also cut prices and announced production increase.

This has sparked panic in markets across asset classes in meeting losses in derivatives of all assets including equities, debt, currency, and commodities.

Many players who were long on crude oil had to pay additional margins beyond 16 per cent they had paid on Friday.

Ajay Kedia of Kedia Advisory said: "Today (Monday) is a black day for the financial markets as we have seen a 'horrific fall' in equities, commodities, and currencies after crude oil plunged to its biggest one-day fall since the Gulf War of 1991, and investors brace for a race to the bottom, as an all-out OPEC 'price war' erupts between Saudi Arabia and Russia."

With extra oil up to 3.1 million barrels per day pouring into a slowing global economy, Kedia said: "The price crash came at a difficult time for US shale, and for President Donald Trump the price crash had posed a conundrum. Lower oil prices are an important part of his pitch to voters, frequently calling on Opec to bring them down. But a prolonged price fall could spell economic trouble for energy-producing states such as Texas and North Dakota. Falling crude oil prices in rising or expanding economies is good but in a falling economy it is a sign of recession."

LME metals were trading 2-3 per cent lower and on the MCX all metals closed the day with a 1.5-3 per cent fall. Gold was stable but silver fell, with some improvement later.

Aluminium fell 1.5 per cent while nickel was down by 3.3 per cent. Copper and zinc were lower by 2.5 and 4 per cent, respectively. On the MCX the day session closed with metals lower by 1.5-3 per cent.

Anuj Gupta, deputy vice-president (research), Angel Broking, said: "Today (Monday) falling crude oil prices may also affect metals and agri commodities. All commodity segments corrected drastically on Monday. In general, crude oil is the primary driver of global growth. A fall in crude oil prices at a time when countries are struggling to take on increasing cases of coronavirus has created an emergency situation."

ON A SLIDE

	Mar 9 '20	% chg*
MCX base metal (₹/kg)		
MCX copper	420	-3.1
MCX zinc	154	-3.1
MCX nickel	935	-3.1
MCX aluminium	136	-1.5
MCX lead	143	-2.2
Energy		
MCX crude oil (₹/bbl)	2,406	-23.8
MCX natural gas (₹/mmBtu)	123	-5.2
Bullion		
MCX gold (₹/10 g)	44,217	0.1
MCX silver (₹/Kg)	46,320	-1.4

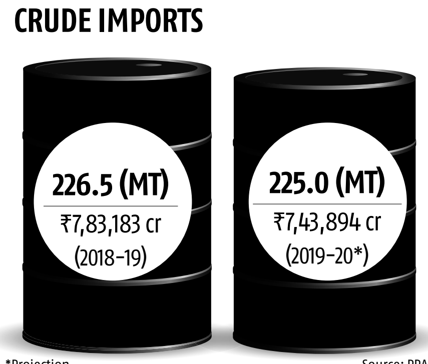
*Change over previous day's close. Source: Exchange
Compiled by *BS* Research Bureau

EDIT: The oil crash P9

Petrol, diesel prices may fall

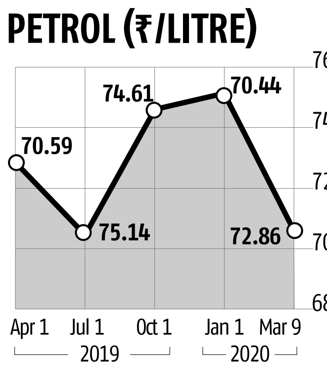
SHINE JACOB
New Delhi, 9 March

CRUDE IMPORTS

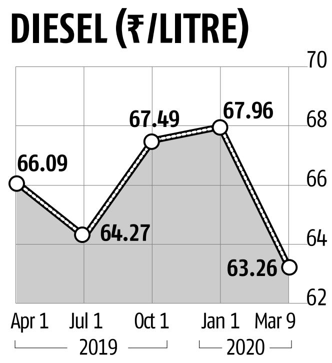


*Projection Source: PPAC

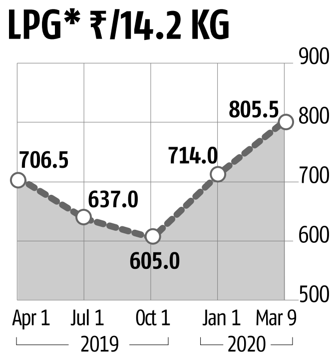
PETROL (₹/LITRE)



DIESEL (₹/LITRE)



LPG* ₹/14.2 KG



*Non-subsidised LPG Source: IOC

With international crude oil prices on Monday seeing one of the biggest single-day drops since the Gulf War in 1991, domestic petrol and diesel prices are likely to decline in the near future.

Based on the industry estimates, auto fuel prices may see a cut of another ₹9-13 per litre over a fortnight if the global prices remain at the same level.

This is so because petrol and diesel prices are aligned to 15-day average of crude oil prices. For a $1 decline in a barrel of crude oil, prices of petrol and diesel, too, will see a drop of 50-55 paise per litre.

Though product prices do not change in proportion to crude oil, a Mumbai-based analyst said $30 per barrel decline in crude price over the last 45 days should result in a cut of ₹15-17 per litre in auto-fuel prices.

"Already, oil marketing companies (OMCs) have gone for a cut of ₹4-5 a litre and an additional ₹9-13 following the current decline," he said.

At one point, Brent crude price was seen at a session low of $31 a barrel, down about 30 per cent, though it recovered later in the day to $35.60 (11:30 pm IST) a barrel. Even the West Texas Intermediate (WTI) price was down 23.18 per cent at $31.71 a barrel.

On the other hand, the Indian crude oil basket was at $47.92 per barrel on Monday, and is expected to go down further on Tuesday.

"Prices of petrol and diesel will depend on the product pricing, not the crude pricing directly. However, it may ultimately follow the crude trend, maybe with a time lag," said M K Surana, chairman of Hindustan Petroleum Corporation (HPCL).

The decline will also be advantageous for India as its import bill may also come down. According to the Petroleum Planning and Analysis Cell (PPAC), if crude oil prices change by $1 a barrel, it will have an impact on India's import bill by ₹2,936 crore.

On the other hand, if exchange rate of rupee versus dollar changes by ₹1 per dollar, import bill will change by ₹2,729 crore.

R Ramachandran, director (refineries), Bharat Petroleum Corporation (BPCL), said: "The West Asian crude is our stable crude, so prices coming down is a good thing. It is an opportunity for us to look at choices. We already have term contracts. Processing more of these crudes, if they are competing with other crudes is an option for us to look at."

He said: "Overall, if the crude prices come down, our working capital also comes down. In the long run, it may have an impact on product prices too. So, it is a good thing for us."

Though, product prices are likely to come down, it may not be advantageous for consumers, if the central and state governments decide to increase excise duty and value added tax (VAT) to raise its revenues.

The analyst indicated that in a similar situation in 2016, the Union government had increased excise duty on diesel by ₹13.8 per litre (from ₹3.5 a litre in February 2014 to ₹17.33 per litre in April 2016) and on petrol by ₹12.4 per litre (from ₹9.05 per litre in February 2014 to ₹21.48 per litre in April 2016).

In addition, state governments, too, had increased VAT on petrol and diesel, but later some states reduced it.

RIL stock tumbles over 12%

AMRITHA PILLAY
Mumbai, 9 March

Mukesh Ambani's Reliance Industries' (RIL's) stock fell close to 13 per cent on Monday, in anticipation of weak petroleum demand.

In Monday's trade, RIL closed at ₹1,113.15 per share, 12.35 per cent down from its previous close on the Bombay Stock Exchange. At play was the fall in crude oil prices and an expectation of lower demand for the petrochemicals business.

"What is playing out is a weaker demand for petroleum impacting RIL's stock prices. The petchem segment has around 1-1.5 times linkage to economic growth. A weaker demand environment which stems from weaker economic growth amidst capacity addition, especially in the US, is adding to headwinds. Weaker crude is positive to the extent that weakness pertains to oversupply in the crude oil market, and could be supportive for margins. However, any demand-related weakness is likely to weigh on margins," said Nitin Tiwari, vice-president, Antique Stock Broking.

RIL's petrochemicals business contributes roughly 31 per cent to RIL's consolidated earnings before interest, taxation, depreciation, and amortisation or Ebitda.

VOICES

"OIL PRICES HAVE FALLEN SHARPLY, BRINGING ABOUT THE QUESTION OF WHETHER THIS IS A NET POSITIVE OR NEGATIVE FOR THE GLOBAL ECONOMY. WE ARE VIEWING THIS AS A NET NEGATIVE FOR THE GLOBAL ECONOMY"

CHETAN AHYA
Global head of economics, Morgan Stanley

"SOMETHING LIKE THIS COULD HAVE MORE GLOBAL REPERCUSSIONS THAN A TRADE WAR BETWEEN CHINA AND THE US, BECAUSE OIL TOUCHES SO MANY THINGS IN THE WORLD ECONOMY"

ROHITESH DHAWAN
Director of energy, climate and resources, Eurasia Group

"THE PROGNOSIS FOR THE OIL MARKET IS EVEN MORE DIRE THAN IN NOVEMBER 2014, WHEN SUCH A PRICE WAR LAST STARTED, AS IT COMES TO A HEAD WITH THE SIGNIFICANT COLLAPSE IN OIL DEMAND DUE TO THE CORONAVIRUS"

DAMIEN COURVALIN
Head, energy research, Goldman Sachs

Crude collapse exposes Big Oil's weak points as valuations crash


PHOTO: BLOOMBERG

BLOOMBERG
9 March

NEWS ANALYSIS

The feud between Saudi Arabia and Russia is exposing oil companies' weak underbelly, just as they were starting to reap rewards from years of belt-tightening.

Producers have cut costs, sold assets and canceled projects to repair balance sheets following crude's 2014-17 slump. Now a renewed price plunge and a darkening outlook in the face of an all-out price war is threatening to sweep aside much of that work.

Crude's slide on Monday wiped about $250 billion off oil company valuations worldwide, after $135 billion was lost on Friday as Russia and Saudi Arabia failed to agree on production cuts. Saudi Aramco, the world's biggest oil producer, dropped below its IPO price from the first time, while Royal Dutch Shell Plc, BP Plc, and Total SA all fell the most since at least the late 1980s. On the MSCI ACWI Energy Sector Index, average company valuations sank to the lowest level since 2013, with the price-to-estimated-earnings ratio near a 40 per cent discount to the five-year average valuation.

Russia's refusal to back further OPEC+ production cuts is aimed at weakening competition from US shale. Yet, while the oil-price plunge toward $30 a barrel could potentially put higher-cost shale companies out of business, it also creates huge problems for the biggest global producers. BP, for example, is seeking to push its break-even oil price down to $40 a barrel by 2021, while Equinor ASA says it has a price of less than $50 a barrel — insufficient to drive profit growth if crude's slump persists.

Shell's break-even for projects approved in 2019 was under $30 and Total's "organic pre-dividend" cash break-even is below $25, but large debts could see that breathing space vanish. Analysts at Redburn expect break-evens to be elevated this year as the market languishes. That has cast doubt on the sustainability of the dividend. Shell and BP are among the world's biggest dividend payers, with bosses vowing to prioritise the payout above everything else. But with the price war brewing, investors are starting to question whether that commitment can last.

While Big Oil has much to lose amid the price war, it's the standalone exploration and production companies, as well as oilfield-service providers, that'll be hit the hardest, Redburn analysts wrote in a report. Bonds issued by Vallourec SA and Saipem SpA sank to record lows, while E&P shares dropped on fears that Europe's most indebted oil firms could be pushed to the brink.

AB Fashion changes the lens on lifestyle brands

With speedier turnaround of its collections and a strong digital discovery and delivery system in place, the retail brand is fighting to stay ahead of the race

VIVEAT SUSAN PINTO
Mumbai, 10 March

The company plans to introduce a new set of styles for the labels in its portfolio every month, and use a combination of online and offline tools to generate excitement in the brand

As rivals Zara, Hennes & Mauritz (H&M) and Uniqlo strengthen their grip over the Indian market, Aditya Birla (AB) Fashion is looking at ways to counter their widening reach and influence. To do that it has changed over to a 12-season calendar, infusing fresh styles into its retail stores and apparel collections every month instead of six times a year, as it did in the past. Plus a stronger digital outreach, through advertisements, ease-of-use and discovery features on its site and a strong ethnic wear collection are part of its moves to add power to the brands in its portfolio.

For the home-grown fashion retailer, which retails lifestyle brands Allen Solly, Peter England, Louis Philippe and Van Heusen, the strategy, said Ashish Dikshit, the company's managing director, would be to use a combination of online and offline tools and create excitement with a round-the-clock inventory calendar.

The push for zest and agility for its brands stems from the speed with which global rivals have paced their Indian journey. Last week, Uniqlo opened its third store in New Delhi within five months of debut in India. H&M, the world's second-largest fashion retailer, will launch at least 5-10 stores in the country this calendar year, taking its footprint to over 50 outlets in India.

H&M now has a small lead over competitor Zara, the world's largest fashion retailer, in terms of topline and hopes to widen the gap in the coming months. Zara, which is also pushing affordable fashion wear, has a joint venture with Tata group's apparel retailer Trent. The brand has 22 stores in India as per Trent's 2018-19 (FY19) financial report.

Launching a collection a month isn't easy, but AB Fashion will be among the first few in the country to be doing this, as pressure to provide newness within its assortment increases. Dikshit said, in a call with analysts recently that the company would switch to the new inventory model by digitising its product creation and go-to-market operation, working on a virtual trade show system that reduced both design risk and potential markdown liabilities. The ongoing Spring-Summer 2020 season would be the first full period for the new model that the retailer was putting in place.

According to the company's FY19 annual report, lifestyle brands, part of the Madura segment, gave the company nearly 53.02 per cent of its total revenue of ₹8,118 crore, followed by retail chain Pantaloons which contributed 39.34 per cent and the rest coming from other businesses.

Given that lifestyle brands of AB Fashion had grown in double-digits in the first nine months of FY20, analysts believe the business would continue to contribute over 52-53 per cent to the company's topline in the current financial year.

Contributors to growth include a perceptible shift from unbranded to branded apparel wear, pushing retailers to make deeper inroads into smaller towns and cities. E-commerce has helped too, with organised players now able to service "pin codes" they could not earlier.

A recent report by KPMG and the Retailers Association of India said that the penetration of e-commerce within the domestic fashion segment would touch 12 per cent in the next four years from 7 per cent now, higher than cosmetics whose e-commerce penetration would grow to 11 per cent from 8 per cent now.

AB Fashion has been aggressive with its store rollouts in recent months, adding 150 stores across formats in the October-December 2019 period alone, the highest within a quarter. FY20 could see the company add as many as 500 stores across formats, the first time it would be doing so, analysts tracking the company said.

Additionally, the company is identifying need gaps within ethnic and women's wear, preparing to launch a mass-market ethnic wear brand in the future and integrating its acquisitions such as Jaypore and Shantanu & Nikhil into its system. It will also continue to launch newer bridal and wedding collections to tap the huge marriage wear market in the country.

FROM PAGE 1

Saudi-Russia standoff drags oil prices down

The failure of a joint front added to increasing investor nervousness over COVID-19, which has dampened oil demand, and the undercut the efficacy of official response measures such as last week's emergency rate cut by the US Federal Reserve.

In a sharp downgrade from the International Energy Agency's (IEA's) February forecast, the Paris-based organisation said it sees global oil demand at 99.9 million barrels a day in 2020, down around 90,000 barrels a day from 2019. It had earlier said global oil demand would grow by 825,000 barrels a day in 2020.

"If we do see an all-out price war breaking out while the coronavirus is still rampant, Brent could well start skidding towards $30 a barrel. That said, as things stand, $20 a barrel looks a remote possibility and prices should stabilise before that," Hari said.

While China appears to be on the verge of containing the outbreak, cases outside of the country continue to grow and the potential impact on demand will be something Opec will have to consider. Analysts say oil looks weak in the backdrop of slowing demand and current oversupply.

China's oil demand, according to S&P Global Platts Analytics, is expected to grow by only 170,000 barrels a day in 2020, 20 per cent its original estimate.

Fatih Birol, executive director, IEA, said, "The COVID-19 crisis is affecting a wide range of energy markets — including coal, gas and renewables — but its impact on oil markets is particularly severe because it is stopping people and goods from moving around, dealing a heavy blow to demand for transport fuels."

Since China, the largest energy consumer in the world, accounted for over 80 per cent of global oil demand growth last year, developments in China have a major impact on global energy and oil markets, said Birol.

Indices see worst rout in five years

However, market players say as the latest fall is due to fears of recession, asset prices may decline.

"A fall in oil prices is good for India when it happens in isolation. Today, there is a global crisis akin to 2008 — India was a far stronger economy in 2008, when the global financial crisis hit. But we are now unprepared to withstand a crisis of this kind, given the fragile economic situation," said Shankar Sharma, founder, First Global.

Saurabh Mukherjea, founder, Marcellus Investments, said: "Over the last 20 years, there is a positive correlation between the Indian markets and oil prices. When oil prices fall, global markets fall simultaneously, as it leads to drying up of foreign fund flows."

The domestic markets, which touched record highs less than two months ago, are on the cusp of a bear conditions. After Monday's rout, the benchmark Sensex and the Nifty are down15 per cent from their highs in mid-January.

Market players say the oil price drop, coupled with issues such as coronavirus spread and turmoil in the domestic financial sector, has soured investor mood.

While shares of YES Bank rebounded sharply on Monday following the State Bank of India-led rescue package, investors are worried about a possible spillover, say experts. Moreover, coronavirus fears continued to play on the markets with the number of cases crossing 100,000 and the death toll nearing 4,000.

All sectoral indices of the BSE and Sensex components ended with losses on Monday.

The biggest drag on market performance was Reliance Industries (RIL), which fell 12.4 per cent, the highest in over a decade. The stock, bruised by a fall in crude oil prices, accounted for 472 of 1,942-point decline in the Sensex. Shares of ONGC fell 16.3 per cent and IndusInd Bank 11 cent.

Investor wealth of nearly ₹6.84 trillion was eroded in Monday's fall. RIL's market cap fell by ₹1 trillion.

Overall, 2,231 stocks declined, and 327 advanced on the BSE.

Domestic institutional investors bought shares worth ₹4,974 crore, helping partially offset overseas investors selling of ₹6,596 crore.

YES Bank to transform into a retail bank: Kumar

The officials posted in the corporate loan portfolio will be asked to focus on recovering old loans instead of disbursing new ones, he said.

The bank will have to be predominantly retail (assets), the share of which should be 60-70 per cent. At present, the share of retail in the loan book is around 30-35 per cent and the rest is corporate. We need to reverse this, Kumar said.

Kumar added that it was very important for the bank to demonstrate that it would be able to meet its customers' withdrawal demands. "If we are able to show on the first day that we will meet all the withdrawals, it will be a demonstration of our intention that all customers' deposits are safe."

This bank has very good customer connect and our teams are reaching out to tell them we are ready to meet their demands, Kumar said.

On various UPIs (unified payments interface), which are unable to transact business because of the moratorium, Kumar said those using YES Bank's back end will be able to transact as early as Friday, when the moratorium is expected to be lifted. "All the systems and technology are in place. Let me assure all customers that there is nothing to worry," Kumar said.

The administrator said several customers who were unable to repay loan installments to other banks will be given certificates by YES Bank about the RBI's plans, so that those banks take the moratorium into consideration and don't penalise customers.

When asked about the quantum of withdrawals of deposits in the past few months, Kumar did not provide any figures, but said all numbers would be provided on March 14.

BS SUDOKU # 2994

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SOLUTION TO #2993

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

Hard: ★★★★

Solution tomorrow

HOW TO PLAY

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

Good time for bargain hunting

Investors who picked companies with strong business franchises in the year 2008 or 2012 have seen a multi-fold jump in their portfolio values

KRISHNA KANT

A major crash in the broader market offers once-in-a-decade opportunity to accumulate great stocks at historically low valuations. It allows investors to create market beating returns on their portfolio once normalcy returns and economic growth and corporate earnings are back on long-term growth trajectory.

This is what happened in previous market crashes of 2008 and 2012. Investors who picked-up companies with strong business franchises in 2008 or 2012 have seen their equity portfolio grow many times over despite the post-recovery market volatility.

For example, the BSE Sensex jumped two and half times over the next 18-months from the bottom in February 2009. This translated into annualised returns of nearly 74 per cent.

Similarly, after the first half of calendar year 2012, which saw a major sell off, the index nearly doubled over the next three-years translating into annualised returns of around 20 per cent for investors who bought at the market lows.

VALUATIONS ON A DECLINE

NSE Sectoral Indices PE ratio (x)

	Feb 7	Mar 9, 2020
Metal	11.3	9.8
Oil & Gas	12.8	10.7
IT	21.4	19.3
Auto	24.8	21.7
Infrastructure	26.0	22.7
Pharma	26.1	24.0
Realty	30.1	24.6
Bank	35.7	30.3
FMCG	37.2	33.7
Nifty 50	27.0	23.8

Source: Exchange; Compiled by BS Researc h Bureau

Many leading stocks in sectors such as retail lending, FMCG, consumer durables, automobiles and cement are still up nearly 10 times from their 2012 lows despite recent correction.

Not surprisingly analysts are advising investors to treat current correction as a long-term buying opportunity. "We are asking clients to accumulate good names in consumer products, cement and retail lending," says Dhananjay Sinha, head research Systematix Group.

According to him, record low oil prices will lead to margin expansion in paints, cement and consumer products aiding corporate earnings.

Others see big jump in quality mid-caps once the dust settles in. "Many quality mid-caps are now quoting at single digit P/E ratio providing great value for long-term investors," says G Chokkalingam, founder & MD Equinomics Research & Advisory Services.

Analysts also see gains from a plunge in yields on government bonds across the globe, including India, due to flight to safety by investors and recent cut in benchmark interest rates by the US Federal Reserve.

This has created a situation where dividend yield on many stocks are lower than the bond yield, making stocks highly attractive.

The earnings yield for Sensex companies now exceeds US 10-year treasury yield by 390 basis points. Such a large spread was last seen during the 2012 market correction. One basis point is one-hundredth of a per cent.

We have curated a list stocks across sectors that could bounce back strongly once the macroeconomic dust settles-in. These stocks offer a good combination of strong balance sheet, leading position in their market, relatively low valuation on historical basis and strong track record of consistent performance.

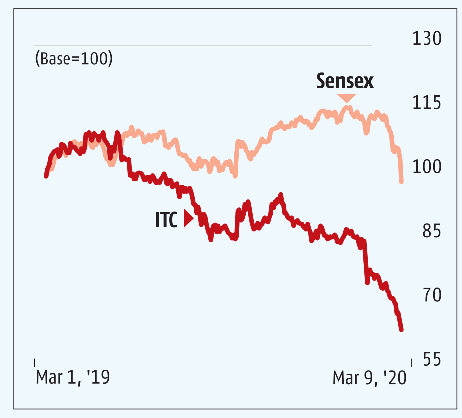
Stock write-ups by Ram Prasad Sahu, Ujjval Jauhari and Shreepad S Aute

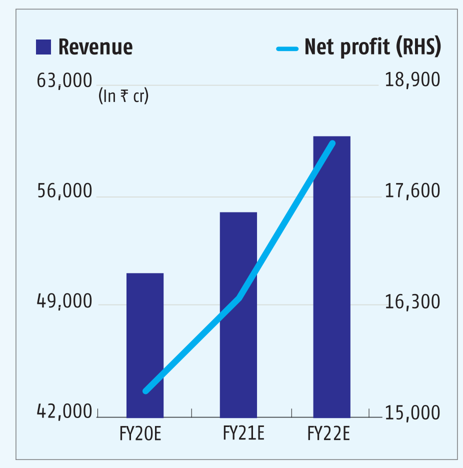
ITC

57%

P/E (Current)	P/E (FY20E)
17.2	13.3

Sales growth (%)	7.9
PBT growth (%)	10.0
Market cap (₹ cr)	2,17,836
Share price (₹)	177.2
1-month return (%)	-17.0





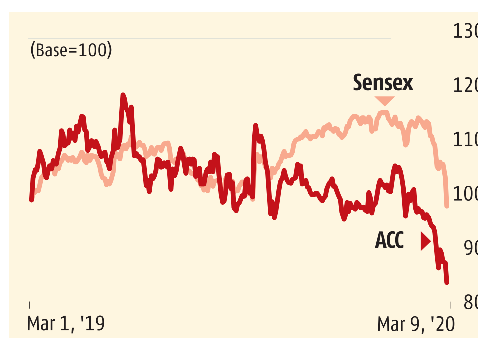
- Amongst the cheapest stocks in a richly-valued FMCG sector
- Increased focus coupled with improving margins of consumer business (processed foods, personal care, biscuits; brands like Aashirvaad, Sunfeast, Bingo, Fiama) offers support
- While stiff competition in the mass cigarette segment has been a concern, analysts believe that the relatively higher increase in tax in the mass segment could augur well for ITC's premium category
- A likely increase in legal age limit for tobacco consumption could have a negative impact, but good free-cash flows and an over 3 per cent dividend yield are positives

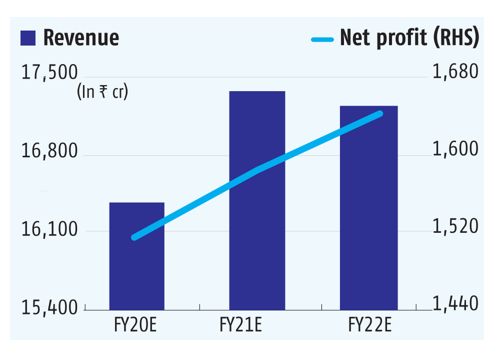
ACC

37%

P/E (Current)	P/E (FY20E)
17.0	14.8

Sales growth (%)	6.0
PBT growth (%)	35.9
Market cap (₹ cr)	23,395
Share price (₹)	1,245.8
1-month return (%)	-17.0





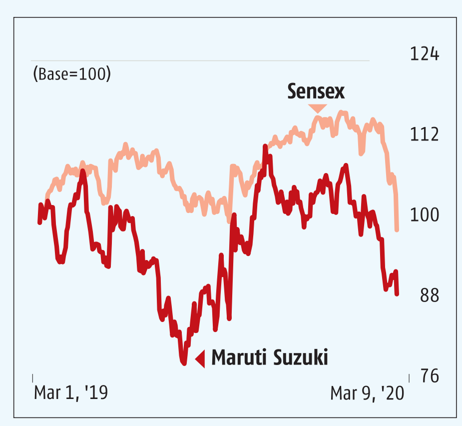
- Demand weakness had lead to price corrections till the end of 2019, which impacted Street sentiment
- The all-India average cement realisations have improved since the start of 2020. This should help pan-Indian players, given the rising demand
- Higher prices in eastern India is a positive for the company as it has adequate capacities in the region
- Input prices such as that of pet coke and diesel to remain soft in the near term and help control logistics and energy costs
- Cost controls and rising realisations will lead to higher per tonne profit
- Fresh capacities in eastern India should come online by the end of 2020 driving volume growth and market share gains for ACC
- The ACC stock is trading at a per tonne replacement cost of $104, which is significantly lower than UltraTech's $180 and Shree Cements' $283

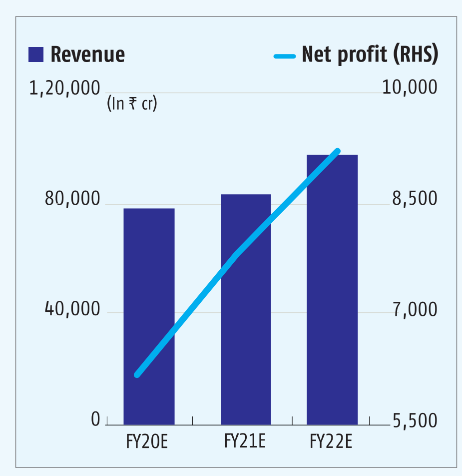
MARUTI SUZUKI

19%

P/E (Current)	P/E (FY20E)
24.5	25.1

Sales growth (%)	-9.2
PBT growth (%)	-27.7
Market cap (₹ cr)	1,87,167
Share price (₹)	6,196.0
1-month return (%)	-11.1





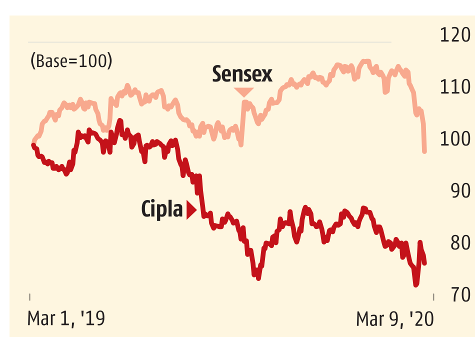
- Led by new launches, Maruti is expected to improve market share despite new competition
- Shift to an all-petrol portfolio is a positive, given the rising price gap with diesel and urban preference for petrol-powered vehicles, especially sports utility vehicles
- No supply chain disruption from China on account of coronavirus, given the high level of localisation
- Limited BSIV inventory and higher proportion of new launches to fetch better margins
- Expectations of a strong rabi crop should help improve rural economy aiding Maruti, which gets 38 per cent of sales from the hinterland

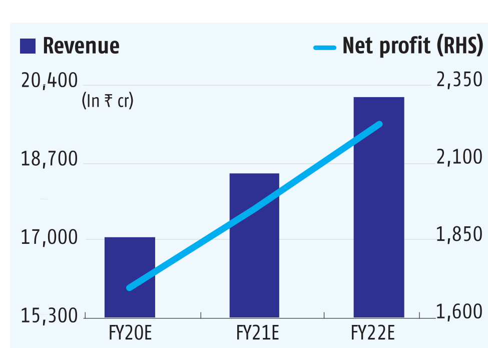
CIPLA

23%

P/E (Current)	P/E (FY20E)
22.4	17.6

Sales growth (%)	9.7
PBT growth (%)	32.3
Market cap (₹ cr)	34,309
Share price (₹)	425.6
1-month return (%)	-4.0





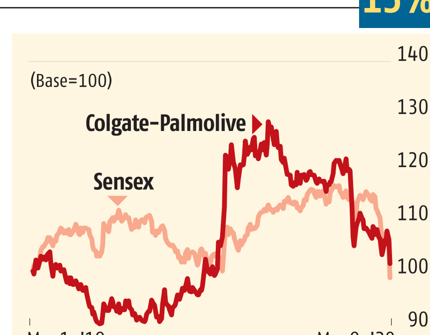
- Regulatory concerns and weaker-than-expected Q3 performance led to stock price correction
- The company continues to witness strong domestic growth and has stabilised its trade generic sales post restructuring
- Integration of branded, trade generics and consumer businesses to help unlock synergies
- Domestic sales (40 per cent of revenues) should outperform the overall market led by Cipla's strong respiratory franchise and leadership in other segments as well
- The company expects its US business to remain stable with new drug launches driving growth
- Africa remains a key geography with the company having its own front-end operations, which should help push up growth rates
- Analysts expect forward earnings to grow 10 per cent annually in coming years

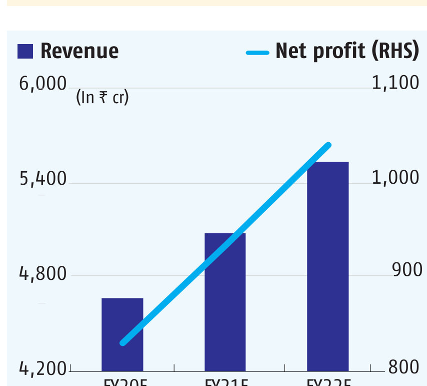
COLGATE-PALMOLIVE

15%

P/E (Current)	P/E (FY20E)
44.3	36.9

Sales growth (%)	4.6
PBT growth (%)	-3.9
Market cap (₹ cr)	34,391
Share price (₹)	1,264.5
1-month return (%)	-7.8





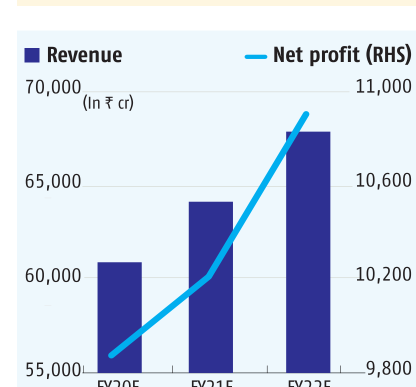
- New CEO is focusing on volume growth with higher brand investments, pick up in product development and expansion in direct distribution to regain market share
- Improvement in premium segment would support market share recovery along with operating profit margins
- Strong moats in the form of brand, global expertise, distribution and premium-category focus should augur well for market share gains
- Significant expenditure on capacity over FY14-FY17, which remained under-utilised due to market share pressure, should help grow business faster once volumes recover
- Colgate is expanding its range in body and hand wash category by launching new variants and exploring new segments
- Analysts expect its return on equity to rise sharply and cross the 90 per cent mark in FY22 from 56 per cent estimated for the current financial year

WIPRO

19%

P/E (Current)	P/E (FY20E)
12.8	12.0

Sales growth (%)	5.2
PBT growth (%)	17.7
Market cap (₹ cr)	1,22,404
Share price (₹)	214.3
1-month return (%)	-12.2



- The stock has been an underperformer, shedding over 16 per cent in the last six months against a 5 per cent fall in the Nifty IT index during the same period
- Given a 24–25 per cent valuation discount to top IT players, the stock is unlikely to see further correction. Thus, it could be a better bet for medium to long term investors even as the near-term growth outlook appears soft
- Strong deal pipeline should improve growth of the manufacturing and consumer segments over the medium to long term
- The pressure in the key banking, financial services and insurance (BFSI) segment is expected to be offset by the relatively better growth in consumer, healthcare and manufacturing segments
- While near-term demand challenges persist across the IT sector, rupee depreciation would provide some margin cushion
- Strong cash-to-market capitalisation ratio also offers comfort

In the chart and table, sales growth (year-on-year), profit before tax (PBT) growth (year-on-year) is for trailing 12 months ended Dec 2019; Market cap, share price (rounded off) and current PE (price-earnings) are as on March 09; Figures in arrow indicate potential upside in next 12 months based on target price of analysts; E: Estimates;

Source: Capitaline/Bloomberg; Compiled by BS Research Bureau

Expressions to take wing

How Indian Hotels is unlocking the potential of its non-hotel brands

BRANDS

- Jiva (Spas): 72
- Khazana(Boutiques): 13
- niu & nau (Salons): 37
- Food & Beverages: 380+ restaurants and bars
- The Chambers (Club): 7
- Ama Stays & Trails (homestay): 20 properties
- TajSATS (air catering): 65,000 meals served daily

COMING UP IN 2020

- Brew PUB with AB InBev
- Paper Moon: Italian fine dining restraunt
- New restaurant concept: GTR
- The Chambers: West End, Bangalore, Taj 51 Buckingham Gate, London.
- Ama Stays & Trails: 7 Bungalows in pipeline

SHALLY SETH MOHILE

After being cocooned for several years in the havens of the Taj at select locations, the Indian Hotel Company's non-hotel brands in the retail, lifestyle, volume catering and food and beverage (F&B) segments are finally getting their wings. To lend a sharper focus to the non-hotel brands, six months ago, the hospitality arm of the Tata group that owns and operates the Taj, Vivanta and Ginger brand of hotels, regrouped them under an umbrella brand called Expressions.

As part of a larger strategy crafted by Puneet Chhatwal, managing director and chief executive, Indian Hotels Company Limited (IHCL) has adopted a two-prong strategy to unlock the potential of its existing brands by taking them to new destinations and introducing new formats in the food and beverages (F&B) space where it already boasts of 380 brands. "There is no one size that fits everything. We have to do a combination of things," Chhatwal told reporters at company's annual event last month. There is a lot more to IHCL than the Taj, a brand that has got all the attention all these years. "Taj does not need the support. In the meantime, some of the brands have become mature and we have decided to let them grow on their own," he said.

As part of re-imagining the F&B segment, IHCL has tied up with AB InBev, the world's leading brewery, for an industry first on-site chain of microbreweries. It has also partnered with globally acclaimed Italian restaurant chain, Paper Moon, and will open the first Paper Moon in India at Taj Fort Aguada Resort & Spa, Goa.

To be sure, there is a growing appetite for food business in India. According to CARE Ratings, the restaurant and food service industry is set to register growth of about 10.4 per cent CAGR for the next five years between 2018 and 2022 to reach ₹5.5 trillion by 2022. It will be fed by a higher disposable income, favourable rising aspirations of the burgeoning middle class and growing urbanisation.

Jain says while most five star luxury brands excel in managing hotels, they lack competitiveness when it comes to running restaurant chains. The revenue per square foot of a fine dining, high-end restaurant is double that of a restaurant in a five-star hotel, says Jain. ITC Hotel's Peshawari is a rare example of a hotel restaurant doing exceedingly well and that shows earning high revenue and margins is very much doable, says Jain.

It is the same with the spas and salons or any other retail outlet the hotels might have. Their margins are very thin and far from their real potential. "These businesses can do much better, if the hotel companies start treating them separately as separate profit centres, have dedicated teams for marketing, distribution and other key functions," suggests Jain.

Existing F&B brands that enjoy iconic status across the world are also being scaled up. For instance, Shamiana opened at Taj Jumeirah Lakes Towers in Dubai. The House of Ming will soon open at St James Court in London. Bombay Brasserie will be coming up at Vivanta Heathrow in London.

At present, F&B accounts for over 40 per cent in IHCL's revenue. Of this, only 12 per cent comes from branded restaurants. This is set to grow under the new plan.

Meanwhile, The Chambers — Taj's exclusive business club has also got a new look and relaunched with enhanced features and benefits, including global membership and additional exclusive services and experiences. The Chambers at Taj Mahal Hotel, New Delhi, is being renovated extensively to become the flagship Chambers of IHCL. A new Chambers is coming up at Taj West End, Bangalore, and another in London, later this year.

The company's in-flight volume catering business under the TajSats brand is also set to spread its wings with the management working at reducing dependence on the aviation business. It got a new visual identity for TajSats, which controls about 34 per cent of the airline catering business in India. Over the next couple of years, the IHCL is looking to have a presence in 15 airports in India and launch a new brand called Anuka under TajSats. It will also invest in a central kitchen-based production model.

The strategy of paying greater emphasis on brands other than hotels will help IHCL company shield itself from the seasonality of the hotel business and beef up the overall margins, says an analyst at an equity firm. The success of Chhatwal's plan will hinge largely on execution, he says.

GUEST COLUMN

No shortcuts in a dynamic world

In the first part of a series, the writer talks about the prerequisites to starting up

In this part, I explore two questions: What is a "business institution"? And what is the mindset, behaviour and action of the "shaper" of a business institution?

Start-ups can develop the business-institutional mindset early on. This subject has been debated and researched by talented academics at Bhavan's SPJIMR (SP Jain Institute of Management and Research). As an experienced practitioner, I have been enriched by co-authoring with the professors. We navigated a rewarding path in applied management research, set in the unique cultural and economic environment of India. Each book is positioned at the intersection of practice and theory, but experience before theory.

R GOPALAKRISHNAN

Each book carries an appendix on the research methodology and what we term as the "Shapers' MBA grid" — mindset, behaviour and action grid. We define "institution" as an organisation that has, at its core, at least three characteristics: First, it has high values and norms for which it is greatly admired; second, it has withstood pressures of finance, business and regulation, thus developed innate resilience; third, its economic and stakeholder returns are at the upper end, though not necessarily the very top compared to peers. To define the Shapers' MBA grid, we iteratively honed an 8x3 matrix. The three vertical columns are mindset, behaviour and actions. The eight horizontal rows represent dimensions based on purpose, people, policies and processes. Of the eight dimensions, the three essential ones are people relations, short-term and long-term focus and critical thinking. The five optional ones are orbit shifting, breaking barriers, levers of change, cyclical learning and stakeholder orientation.

After two years of collective effort by each team, three books have recently been published: How TCS built an industry for India, co-authored with Dr Tulsi Jayakumar, How Kiran Mazumdar-Shaw fermented Biocon, co-authored with Dr Sushmita Srivastava, and How Anil Naik built L&T's remarkable growth trajectory, co-authored with Dr Pallavi Mody.

Every startup today is caught up in the maelstrom of uncertainties, so it may be consoling for them to learn about the beginnings of today's grown-ups, not so long ago. Tata Consultancy Services (TCS) began in 1968 in a nation, which suffered from scarcity of food, electricity and infrastructure. The TCS book describes its rise as a "black swan" event, characterised by rarity, extreme impact and retrospective predictability.

Of the eight mindsets, behaviours and actions listed above, the first three were adopted by every shaper; we deem these three as essential. Like an archer chooses an arrow from a range of quivers, each shaper whom we studied chose some of the five other MBAs. More on the "3 plus 5" MBAs in the next article in this series.

More on www.business-standard.com
The writer is a distinguished professor of IIT Kharagpur. He was a director of Tata Sons and a vice-chairman of Hindustan Unilever
(Three co-authored books in a series called 'Shapers of Business Institutions' — on TCS, Biocon and L&T — have just been published by Rupa

SNIPPETS

Bridging gaps

The findings of what is being called the first-ever pan-IIM survey titled *Women in the Workplace* pose some questions to India Inc's claims of reducing the gender gap over the years. It reveals that women still do not have a level-playing field is a view held by many respondents, women alumni and students from across 20 IIMs. A staggering 49 per cent of the respondents said they did not have equal opportunities for career growth as the men in their organisations. The survey received over 400 responses from alumni and current students across the 20 IIMs, with the majority of respondents working at mid- to senior-management levels across industries. "The survey results demonstrate that…organisations need a renewed focus on eliminating unconscious bias, strengthening mentoring and sponsorship initiatives and creating a level-playing field for women," says Uma Kasoji, co-founder of The Star in me. The report was released last week, ahead of the International Women's Day 2020.

Saving up

A new report reveals that while customers a expect a hyper-personalised, effortless, brand experience, only 12 per cent of organisations globally say that its customers are fully satisfied with their experience or CX. Additionally, only 8 per cent currently deliver a fully functioning experience. The report *Global Customer Experience (CX) Benchmarking Report 2020* suggests that while CX remains a top boardroom indicator of strategic performance, only 10 per cent say customers rate their experiences at promoter level. A high number, 86.4 per cent, agree that CX gives a competitive edge and 74.6 per cent believe that CX is the primary differentiator. However, from a data standpoint, 55.5 per cent of the organisations operate without enterprise wide CX analytics and 37.9 per cent aren't aligning data capture needs with outcomes. Lastly, the report also highlights the perceived benefits of having a successful CX strategy — such as an improvement in customer engagement, brand engagement and commercial performance.

STATSPEAK

MACHINE AGE

In industrial practices, Internet of Things (IoT), big data and predictive analytics continue to capture the attention of companies. But a lot of ground has to be covered on the application part for these to contribute more in the manufacturing processes. This is one of the key insights in an EY study titled *Will the next transformation in manufacturing be led by digital?*

(All figures in %)

Does your company have a digital manufacturing strategy?

17	60	20	3
We have not started thinking about digital manufacturing	We have some idea but not a clear cut strategy	We have a clear cut strategy and a defined budget	We have a clear cut strategy, budgetary allocation and implementation is in progress

Where will they benefit the most after adopting digital manufacturing

Overall monitoring and visualisation of KPIs*	62
Track and trace the product across the value chain	54
Improving the quality reduce rejection and rework	53
Optimisation in the process using additional sensors	40
Preventive and predictive maintenance	26

Identify the key challenges and risks associated in adopting digital manufacturing

Unclear economic benefits from digital investments	66
Deficiency in people's skills on technologies, analytics, cybersecurity, etc.	43
Lack of understanding of the impact of digital manufacturing	43
Insufficient technology infrastructure in terms of hardware and software	31
Risks associated with data privacy and information security	20

*Key performance indicators

Source: EY

MY FAVOURITE CAMPAIGN

Showcasing diversity

MY TAKE

It was relevant then, it is relevant now

CLIENT: Ministry of Information and Broadcasting
YEAR OF LAUNCH: 1988
AGENCY: Ogilvy India

SHUBHOMOY SIKDAR

Which is your favourite campaign and why?
Back in the Doordarshan days, when I was a kid, there used to be one ad that I always looked forward to catching on TV and no matter how many times I saw it, it never got boring. It was the "Mile sur mera tumhara" ad. Even after over 30 years, I still remember every scene of the video, I know the song word for word, I can even tell you the sequence in which the celebrities appear in the video and it still manages to give me goosebumps. I am certain that there would be many like me who would feel exactly the same way about Mile sur mera tumhara..

On what parameters did you base your decision?
To be honest, my answer was instinctive, but if you think about it the campaign is timeless, it was relevant then and it can be relevant now, maybe now more than ever. So, for me a campaign that is timeless is an important criterion in itself. In this case it is clubbed with an extremely memorable song and a powerful message and hence it has always been my favourite.

What are the highlights of the campaign?
It was a national integration campaign so it was intended to promote unity and pride amongst Indians. The campaign highlighted India's unity in diversity by showcasing different communities, societies and culture of India, and what better way to drive the message home than using celebrities from various industries like film stars, cricketers, athletes and musicians.

KUNAL VORA
Founder, ABND

Did this campaign inspire any of your work? What are your takeaways from the campaign?
I was in school when this campaign came out, as a child it made me feel proud about India, it showed me the diversity and potential of what we have at home. I believe some of the best work happens when talented people from different walks of life with different expertise collaborate together, "Mile sur mera tumhara" was one such example, for me this was an important take-away and it is still an example I use to encourage collaboration. As a brand practitioner speaking from a branding point-of-view, campaigns like these help sensitising people towards diversity, it encourages empathy, both of which are necessary for creating brands.

Do you remember some of the names who worked on the campaign?
Yes. Piyush Pandey was the one who wrote the song. Ashok Patki and Louis Banks were involved in the music.

What could have been done to make the campaign better?
The campaign was perfect for its day. I am sure with time one may feel a few things here and there could have been different, and in fact, as a kid I wanted to see more cricketers in the video. I wish this campaign was updated every few years to make it relevant to every generation without diluting its core essence and the message. I know a decade back they had recreated "Mile sur mera tumhara", but it wasn't the same, the essence was lost, it lacked diversity and banked hugely on popular Bollywood stars.

Dow cracks 2,000 points in intra-day trade

The drop triggered trading curbs that NYSE put in place after the 1987 Black Monday crash

REUTERS
Bengaluru, 9 March

Wall Street's main stock indexes plummeted and the Dow Jones Industrials crashed 2,000 points on Monday as a slump in oil prices and the rapid spread of the coronavirus amplified fears of a global recession.

Trading on US stock exchanges was halted immediately after opening, as the benchmark S&P 500 fell 7 per cent to its lowest since June 2019, triggering an automatic 15-minute cutout put in place after the 2008-2009 financial crisis.

CORONAVIRUS OUTBREAK

The energy index slumped 15.3 per cent to its lowest level since August 2004 and crude prices were on track for their worst day in three decades as Saudi Arabia moved to significantly raise oil production after Opec's supply cut agreement with Russia collapsed.

"The lower it does go, the more people are likely to panic even further," said Rick Meckler a partner at Cherry Lane Investments in New Vernon, New Jersey.

"Given the circuit breaker program, it's more likely than not that selling won't continue at this pace throughout the day, but the psychology of things is very much a herd mentality."

Wall Street's fear gauge, halted for the first half hour after opening, jumped to its highest level since the 2008 crisis, while the Nasdaq Composite was on track for its biggest one-day percentage fall since 2011.

Declines on the blue-chip Dow were led by oil majors Chevron and Exxon Mobil, which fell more than 7 per cent.

Declining issues outnumbered advancers by more than 21-to-1 on the NYSE and 19-to-1 on the Nasdaq.

The S&P index recorded 211 new lows, while the Nasdaq recorded 867 new lows.

4 NEW CASES REPORTED IN INDIA; GLOBAL INFECTIONS 110,000

India now has 43 COVID-19 patients

- **India denies entry to cruise ships** on virus fears
- **Jammu & Kashmir reports** first confirmed case
- **Moody's again slashes India's growth** projection for 2020 to 5.3%
- **Marshall Islands bars all air travellers** for two weeks to prevent coronavirus
- **IndiGo cancels flights** to Doha till 17 March
- **Qatar bans entry of travellers from India,** 13 other nations
- **US Fed to step up liquidity injections** to guard against market pressure
- **Air India Express to offer free** rescheduling of tickets
- **West Bengal man who died in isolation** found not infected with virus
- **Passengers arriving** from China, South Korea, Japan, Italy, Iran, Singapore, Thailand, Malaysia, Hong Kong, Vietnam, Nepal and Indonesia would be segregated from other arriving passengers
- **India has sent a C-17 Globemaster military aircraft** to coronavirus-hit Iran tonight to evacuate stranded Indians
- **UAE reports 14 new coronavirus** cases, tally reaches 59
- **Iran announces 43 new coronavirus** deaths, raising toll to 237
- **Iran releases about 70,000 prisoners** because of coronavirus
- **Etihad Airways suspends** flights to Saudi Arabia
- **Cases almost doubled** overnight to 999 in Spain
- **Italy to hike spending** in 'massive shock therapy' against coronavirus

Trump blames oil fight, 'fake news' for stock market drop

REUTERS
Washington, 9 March

US President Donald Trump blamed a fight for oil market share between Saudi Arabia and Russia, as well as unspecified "Fake News," for a precipitous drop in US stock prices on Monday, amid sliding demand for crude due to the coronavirus. In a series of tweets, Trump also said the associated plunge in oil prices would benefit Americans: "Good for the consumer, gasoline prices coming down!"

In referring to "Fake News," Trump appeared to be referring to coverage of the coronavirus. The spread of the virus around the world - and a mounting death toll from COVID-19, the disease it causes - has rattled global markets.

Throughout his presidency, Trump, who faces re-election in November, has frequently pointed to rising stock prices and record-high market indexes as a signal of the American economy's health.

"Saudi Arabia and Russia are arguing over the price and flow of oil. That, and the Fake News, is the reason for the market drop," Trump wrote on Twitter.

In a separate tweet, he downplayed the impact of the coronavirus, comparing the number of American lives it has taken to the greater number of deaths from seasonal influenza.

Aramco drops 10% in an all-out crude war

REUTERS
Dubai, 9 March

Aramco shares closed at $7.55, 11.4 per cent below its IPO price

Saudi Aramco shares fell by as much as 10 per cent on Monday, dropping below their December listing price after Saudi Arabia and Russia said they would raise oil production in a battle for market share, sending crude prices down by a third.

Government bonds from Saudi Arabia and other Gulf oil producing countries were also pummeled after the collapse of the deal between Opec, Russia and other oil producers that had propped up oil prices since 2016.

Aramco shares fell below their 32 riyals initial public offering price on Sunday for the first time since trading began in December. The Aramco listing was considered the culmination of Crown Prince Mohammed bin Salman's efforts to diversify the Saudi economy. The December IPO valued the company at $1.7 trillion in the world's biggest share offering.

Since then oil prices and oil companies' shares have come under pressure from fears over the impact of the coronavirus on oil demand and Russia's refusal to support deeper output cuts to bolster prices. As a result, the Organization of the Petroleum Exporting Countries has removed all limits on its own production.

Aramco shares closed at 28.35 riyals ($7.55), 11.4 per cent below its IPO price. The shares closed 5.5 per cent lower. Benchmark Brent crude fell by up to a third on Monday after Saudi Arabia, the world's lowest cost producer, said it would increase output to gain market share.

"The Saudi reaction to the breakdown (with Russia) was to revert to the 2014 playbook. By precipitating an oil price collapse, they are looking to end their subsidy of higher cost producers," Akber Khan, head of asset management at Al Rayan Investment, said.

"This is a painful strategy that requires time to play out and failed on the previous attempt."

Arqaam Capital cut its Aramco rating to "hold" on Monday, citing the company's exposure to the oil price cut and the impact on its 2020 earnings. It also lowered its target price to 30.80 riyals a share from a previous 39.20 riyals.

Saudi stocks also fell by 7.8 per cent, while international bonds issued by Saudi Arabia, Aramco and other Gulf sovereigns also sank. The cost of insuring against a potential debt default by Saudi Arabia also spiked by nearly 70 per cent on Monday, IHS Markit data showed after oil prices plunged.

Aramco bonds due in 2049 were nearly 9 cents lower and the state oil giant's bonds due in 2029 fell 4.5 cents.

Saudi government bonds maturing in 2049 dropped by more than 9 cents, while 2029 bonds dropped 3.5 cents.

One-year dollar/riyal forwards, which are trades scheduled to take place a year from now, were at 85 points, up from Friday's close of 10 points. They were as high as 182.5 points on Monday, surpassing a peak of 181.3 at the end of 2018.

Fresh MP crisis: 17 Cong MLAs fly to Bengaluru

SANDEEP KUMAR
Bhopal, 9 March

Fresh trouble broke out for the Kamal Nath-led Congress government in Madhya Pradesh on Monday, when 17 legislators who are believed to swear allegiance to senior party leader Jyotiraditya Scindia flew out of Bhopal to Bengaluru.

Scindia and the legislators, including six ministers, were incommunicado.

The Nath government has a thin majority in the Assembly. However, sources are of the view the government is safe and this 'escapade' was a fallout of the struggle between the party's warring camps over nominations for Rajya Sabha elections.

Nath met Congress interim President Sonia Gandhi after meeting Scindia. However, that meeting could not break the ice and by evening 17 legislators who support Scindia flew to Bengaluru and their phones were switched off.

These included Health Minister Tulsi Silavat, Labour Minister Mahendra Singh Sisodia, Transport Minister Govind Singh Rajput, Women and Child Development Minister Imarti Devi, Food and Civil Supplies Minister Pradyumna Singh Tomar, and School Education Minister Prabhura Choudhary.

The Rajya Sabha polls to fill 55 vacancies, including three from Madhya Pradesh, are on March 26. The last day for filing nominations is March 13. While the Congress and Bharatiya Janata Party (BJP) are assured of one seat each of the three from Madhya Pradesh, there will be a contest for the third seat between the two parties.

Given its current strength in the Assembly, the Congress can win the third seat as well. But events over the last week with several legislators becoming 'untraceable' have put a question mark on this.

Senior Congress leader Digvijaya Singh and Scindia are both in the race for the two seats. Nath is keen to give a seat to former Chhindwara legislator Deepak Saxena. He had recently quit the Chhindwara Assembly seat to pave the way for Nath's election to the Assembly in a bypoll.

Scindia is upset that the party might nominate Digvijaya Singh and Saxena and wants to contest from the assured seat.

Congress legislator Bisahulal Singh, who had been "untraceable" for the past five days, was seen with Nath in Bhopal on Sunday. He rejected speculation that he was kidnapped and said he had gone on a pilgrimage. Another legislator Surendra Singh Shera demanded that he be made the state's home minister.

According to political analyst Saji Thomas, this struggle within the Congress would last until the Rajya Sabha polls on March 26, and several independent legislators, as also those of the Congress who were feeling left out, will demand their pound of flesh. The chief minister has cancelled several of his official events, and is busy reaching out to legislators.

The three seats from Madhya Pradesh are falling vacant with the terms of Digvijaya Singh and BJP leaders Prabhat Jha and Satyanarayan Jatiya getting over on April 9. In the Madhya Pradesh Assembly, the Congress has 114 MLAs, and the opposition BJP has 107.

Ministers hand in resignations to Kamal Nath

All ministers present in a cabinet meeting chaired by Madhya Pradesh Chief Minister Kamal Nath on Monday night submitted their resignations to him, a senior minister said.

"We have expressed our solidarity with the chief minister and submitted resignations to him in the cabinet meeting," the senior minister told PTI. Many of these legislators had flown to Bengaluru earlier in the day.

"I will not allow (anyone) to destabilise my government with the help of mafia," the chief minister said in a statement in the cabinet meeting. PTI