Industry, analysts decry GST rate hike on mobile phones

Xiaomi MD says move could weaken demand as smartphone makers will be forced to raise prices

ARNAB DUTTA
New Delhi, 14 March


Manufacturers are facing severe supply crunch and falling demand. Any price hike at the moment is set to further worsen the business prospects, analysts said

At a time when all major handset manufacturers are struggling to cope with disruptions caused by the coronavirus (COVID-19), the Goods and Services Tax (GST) Council has dealt a body blow to the mobile phone sector, industry players said.

Notwithstanding falling demand and severe crunch in supply of key mobile components, the council on Saturday announced that the rate of taxation had been raised on "mobile phones and specific parts presently attracting 12 per cent to 18 per cent".

Reacting to the move, Manu Kumar Jain, managing director of Xiaomi India, said the industry had heeded Prime Minister Narendra Modi's call to participate in the "Make in India" initiative. "But today's recommendation by the GST Council to raise GST rate on mobile phones from 12 per cent to 18 per cent will seriously harm the industry," he said.

He said the industry was already struggling with profitability because of the depreciating rupee. "Indian smartphone industry is facing supply chain disruption because of the current COVID-19 situation," he said.

"As a result of this GST increase, all smartphone makers will be forced to increase prices. This can weaken demand and mobile industry's Make in India program. This could also have long lasting impact on internet penetration and digital India program as majority of Indians access internet on smartphones," Jain said. He requested the prime minister and finance minister to reconsider the increase.

"At least for people who cannot afford to buy expensive phones, we suggest that GST on all phones under ₹15,000 should be brought back to 12 per cent (similar to differential GST structure for TVs smaller than 32")," he said.

Meanwhile, Nipun Marya, director of brand strategy at Vivo India, said: "We are still evaluating the impact of the new tax structure and will be taking a decision in the next few weeks."

Analysts said the rate hike could compound manufacturers' problems as factory shutdowns and production cuts in China have led to a surge in the prices of several components. The increase in Customs duty on imported components announced in the Union Budget has also put severe pressure on their margins.

According to Navkendar Singh, research director at IDC, the new burden in the form of higher GST has the potential to mute growth prospects of the India's smartphone market in 2020. "Amid an ongoing crisis, this hike defies any logic. The move has potential to dislodge plans for making India a digital economy as smartphones are set to get costlier. While we were anticipating a lower growth rate for the year already — at 5-6 per cent — the move may decrease the rate further," he said.

Faisal Kawoosa, chief analyst at TechArc, said though the government could earn an additional ₹12,000 crore in revenues in the form of GST collections, the move will be detrimental to the health of the telecommunication market that has so far performed better than other consumer facing sectors in India. However, the additional revenue estimates could be matched only if the market remains at 160 million units this year, as purchases are already in decline.

Confederation of All India Traders (CAIT) strongly opposed the move. Praveen Khandelwal, CAIT national secretary general, said, "The decision is highly unwarranted, deplorable and will destabilise mobile trade in India, which is already facing a battle for survival from online platforms. Instead of providing relief, the mobile sector is burdened with an unnecessary hike."

According to companies, as most leading players are already operating under wafer thin margins, they have no option but to pass on the additional burden. In 2018-19, all of the top four players — Xiaomi, Samsung, Vivo, and Oppo — reported poor performances. While, Xiaomi India's bottom line went into the red for the first time, Samsung's net profit plunged 59 per cent. Oppo's net losses widened by 93 per cent, and Vivo continued in red.

However, what is making analysts and manufacturers more uncomfortable is that after facing severe supply crunch they are now staring at falling demand. As public gatherings are being discouraged, malls and markets are witnessing steep decline in footfall. This has led to lower sale of most consumer good items including mobile handsets. Any price hike at the moment is set to further worsen the business prospects, the said.

YES Bank crisis: Govt notifies rescue plan

Three-year lock-in period for investors

SUBRATA PANDA
Mumbai, 14 March


Prashant Kumar, the current administrator, will be MD & CEO, while Sunil Mehta will be non-executive chairman

The Union government has notified the YES Bank reconstruction scheme according to which the moratorium on the private sector lender will be lifted on March 18.

The notification states that there shall be a lock-in period of three years to the extent of 75 per cent of equity shares for investors holding over 100 shares and those who have been allotted shares under the reconstruction plan. The lock-in is effective from March 13. Investors holding less than 100 shares of YES Bank are exempted from this rule.

Earlier, Finance Minister Nirmala Sitharaman had said there would be a lock-in of three years of a part of the investments made by private lenders in YES Bank. As much as 26 per cent of State Bank of India's (SBI's) equity investment and 75 per cent of the equity pumped in by other players will be retained in YES Bank for three years.

LENDING HELP

- Lock-in period won't apply to shareholders with less than 100 shares
- Moratorium to be lifted on March 18
- Bandhan, Federal Bank to invest ₹300 cr each

The government vide the notification has constituted a four-member board wherein Prashant Kumar, the current administrator of the bank, has been appointed managing director (MD) and chief executive officer (CEO), and Sunil Mehta, former non-executive chairman of Punjab National Bank, non-executive chairman of the bank. The other members of the board are Mahesh Krishnamurthy and Atul Bheda as non-executive directors. SBI will nominate two members to the board as directors and the Reserve Bank of India (RBI) may choose to appoint one or more persons as additional director.

Moreover, the government has exempted SBI from complying with the norms of promoter holding for a period of four years under the Sub section (2) of Section 19 of the Banking Regulation Act.

According to the regulations, no banking company shall hold shares in any company, whether as pledge, mortgagee or absolute owner, of an amount exceeding 30 per cent of the paid-up share capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less.

Bandhan, Federal Bank to invest ₹300 cr each

Kolkata-based private sector lender Bandhan Bank has said it will invest ₹300 crore in YES Bank under the reconstruction scheme of the RBI and acquire 300 million equity shares at ₹10 each. Similarly, Federal Bank has informed the exchanges that it will invest ₹300 crore in YES Bank for 300 million shares.

Bandhan and Federal Bank have thus joined a slew of private sector lenders that are investing in the troubled lender. While HDFC and ICICI Bank will invest ₹1,000 crore each, Axis Bank will chip in with ₹600 crore, and Kotak Mahindra Bank will put in ₹500 crore, according to the decisions taken by the respective boards on Friday. SBI has already committed to investing ₹7,250 crore.

According to information made public, YES Bank has got investment commitments of ₹10,950 crore so far.

The government has also raised authorised capital of the bank over five times, from ₹1,100 crore to ₹6,200 crore.

If IPL-13 happens, it will be a truncated one: Ganguly

PRESS TRUST OF INDIA
Mumbai, 14 March

Suspended till April 15 owing to COVID-19, the 13th edition of the Indian Premier League (IPL) can only be a truncated one provided the situation improves, BCCI president Sourav Ganguly said on Saturday.

The Board of Control for Cricket in India (BCCI) on Friday postponed the start of this year's IPL from March 29 to April 15 in wake of the pandemic, which has caused massive upheaval across the globe.

Asked if IPL could be curtailed, Ganguly said, "It will happen, because if it is April 15, then, in any case 15 days are gone, it has to be truncated. How truncated, how many games, I can't say at the moment." Ganguly was speaking to reporters after the end of the IPL Governing Council meeting. The BCCI's top boss reiterated that safety is their top priority.

"We will monitor further. Safety is most important and with the current situation with what is going around the world and in India, with government directives, we have even postponed the remaining domestic matches." The decisions to postpone the cash-rich league and the ODI rubber were taken hours after the Delhi government suspended all sporting activity in the national capital due to the ever-growing health crisis. Delhi is home to the Delhi Capitals IPL franchise.

In the meeting between the franchise owners and the BCCI brass, six to seven options were discussed, including a curtailed IPL. "We met with the owners, to tell them how it can happen and where do we stand at the moment. At the moment, it is just postponed. We will assess the situation," Ganguly said.

"It will be reassessed every week. I can't say at the moment (about any deadline). I has to be worked around. As much as we want to host the IPL, we also need to be careful about the security." So far, India has recorded more than 80 positive cases and two deaths due to the pandemic which has claimed more than 5,000 lives globally while infecting close to 1,50,000.

The COVID-19 has led to either cancellation or postponement of top sports events across the world, and the IPL was no different. Asked if there is any backup plans, Ganguly said, "I can't say anything at the moment, allow us a week, let's see how it goes around the world." There is a possibility that the tournament could feature more double-headers than previously planned and at least five optional venues are being kept ready after state governments of Maharashtra, Karnataka and Delhi refused permission for the games. After the Saturday's meeting between BCCI and the eight IPL franchise owners in wake of the COVID-19 pandemic even as Kings XI Punjab's Ness Wadia said that he doesn't know when the T20 event will commence.