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Business Standard

How markets performed last week

	Index on Mar 13, '20	*One-week	% Chg over Dec 31, '19 local currency	in US $
Sensex	34,103	-9.2	-17.3	-20.2
Nifty	9,955	-9.4	-18.2	-21.0
Dow Jones	23,186	-10.4	-18.8	-18.8
Nasdaq	7,875	-8.2	-12.2	-12.2
Hang Seng	24,033	-8.1	-14.7	-14.5
Nikkei	17,431	-16.0	-26.3	-25.9
FTSE	5,366	-17.0	-28.9	-34.1
DAX	9,232	-20.0	-30.3	-31.0

*Change (%) over previous week Source: Bloomberg

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MODI MOOTS SAARC FUND TO TACKLE CORONAVIRUS

COMPANIES P3

REVENUES OF MULTIPLEXES MAY BE HIT BY UP TO 25%

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Sebi considers ban on short selling

Circuit filters, trading curbs being discussed in view of high volatility

SAMIE MODAK & SHRIMI CHOUDHARY
Mumbai/New Delhi, 15 March

The Securities and Exchange Board of India (Sebi) is working on a plan to arrest the deep market sell-off and reduce volatility, which has spiked to record levels owing to the damage caused by the coronavirus pandemic. A ban on short selling, mandatory delivery-based trading, and invoking the so-called additional surveillance mechanism (ASM) for highly volatile stocks are among the proposals being considered, said people in the know.

If the market continues to fall, Sebi would announce at least some of these measures to reduce excessive speculation and prevent traders from exacerbating the fall, they added.

Last week, the finance ministry hauled up the market regulator, seeking immediate action to curb the free fall in the market, sources said.

On Friday, the Nifty50 index plunged 10 per cent, triggering a halt in trading for the first time since the 2008 global financial crisis. However, after trading resumed, the index saw a dramatic 16 per cent rebound. The recovery happened on the back of measures announced by central banks and authorities around the world to stop the market slide.

If India introduces steps such as a short selling ban, it will join other countries, including South Korea, Spain, and Italy, which have announced measures to bring stability to the markets, which have undergone their worst rout since 2008 on fears that the spread of coronavirus would push the global economy into a recession.

Short selling is a trading strategy that bets on a decline in the share price. Either traders borrow shares for shorting or use the derivatives market, which allows shorting without having the underlying security.

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MARGIN CALLS, LEVERAGE LOWER THAN 2008

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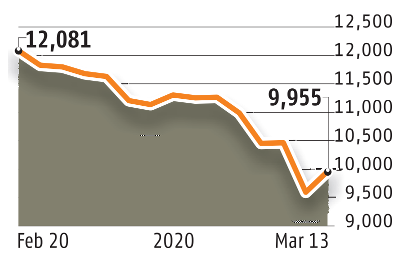
IN FREE FALL

The Nifty has plunged about 2,000 points in less than a month



ARRESTING THE SLIDE

- **Spain, Italy, and South Korea** are among countries that have banned short selling
- **Sebi plans similar action** if markets continue to fall
- **Coronavirus pandemic** has triggered one of the worst sell-offs in history
- **Pressure on Sebi** to rein in volatile market moves
- **Sebi says** "prepared to take suitable actions as may be required"

ED summons Anil Ambani in YES case

SHRIMI CHOUDHARY
New Delhi, 15 March

The Enforcement Directorate (ED) has summoned Reliance Group Chairman Anil Ambani in connection with the ongoing money-laundering probe against YES Bank co-founder and former chief executive officer Rana Kapoor. The Group is among the largest borrowers from the bank, with an exposure of around ₹14,000 crore.

Confirming the development, an ED official said the agency was examining all the big borrowers of the bank, and the stressed loans sanctioned during Kapoor's tenure. Ambani has been asked to join the probe on Monday (March 16). He will have to provide the details regarding the loans disbursed to his group, the terms and conditions and side agreements, if any, with the private lender, said the official.

The official said a significant portion of the bank's loans to the construction sector was accounted for by the Anil Ambani-led group and the investigative agency wanted to understand the process of disbursing the loans.

Turn to Page 6

Page 2 RANA KAPOOR'S FIRM EXPANDED AGGRESSIVELY THROUGH LOANS

Rate cut on small savings in the offing

ARUP ROYCHOUDHURY
New Delhi, 15 March

The finance ministry may cut interest rates on small savings schemes for the April-June quarter, *Business Standard* has learnt, as it looks at reducing the cost of credit and, hence, providing more liquidity for a financial system stung by a global slowdown owing to the coronavirus pandemic and another banking crisis at home.

The govenment last cut the small savings rates for the July-September 2019 quarter, except for one scheme. For the October-December 2019 and January-March 2020 quarters, the rates remained unchanged.

The government also hopes that the Reserve Bank of India's (RBI's) Monetary Policy Committee will go for a rate cut in its next meeting, helping reduce the cost of capital even more.

"Leaving aside the regulators, there are a few things that a government can do to improve lending activity in order to boost growth and ensure the transmission of rate cuts. Small savings is one of them," said a senior government official. The person confirmed that the possibility of a rate cut for small savings scheme was being discussed.

"There are steps being taken to clean up the financial sector, but a short-term impact of that is some avenues of credit are blocked," said a second official.

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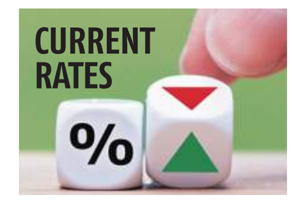
CURRENT RATES



4.0%	Savings deposit
6.9%	1-year time deposit 2-year time deposit 3-year time deposit
7.7%	5-year time deposit
7.2%	5-year recurring deposit
7.6%	Monthly Income Account Kisan Vikas Patra
7.9%	National Savings Certificate Public Provident Fund Scheme
8.4%	Sukanya Samriddhi Account Scheme
8.6%	Senior Citizen Savings Scheme

Note: Rates unchanged since July 2019
Source: dea.gov.in

CENTRE TO REWORK LONG-TERM POWER SALE AGREEMENTS

Long-term power purchase agreements (PPAs) between power generators and states could soon go. The power ministry is planning to rework the PPA regime to address issues of states not honouring the pacts and, at times, reneging on the contract. PPAs are typically of a 25- to 30-year duration. The ministry is designing a policy paper on the alternative. 6

ECONOMY & PUBLIC AFFAIRS P11

Aramco profit falls 21% on lower oil prices

Saudi Aramco posted a 21 per cent drop in full-year profit and cut planned 2020 capital expenditure. The oil giant cited lower crude oil prices and production for the decline in profit. It's the first time Aramco reported results as a listed firm since its $29 billion IPO in December. Capital expenditure will be between $25 billion and $30 billion in 2020.

BS SPECIALS ON MONDAY

Air India valuation set to take a knock

DEV CHATTERJEE
Mumbai, 15 March

The valuation of Air India may decline significantly due to the coronavirus pandemic, which is expected to hit the revenues and profits of all airlines in the coming months, according to bidders. Potential bidders for Air India said they were going back to the drawing-board and would submit a bid after taking into account the peer valuations in the stock markets in India and overseas.

The impact of the pandemic is showing in the share prices of top airlines worldwide, with the United Airlines and Lufthansa share prices falling by 58 per cent and 36 per cent, respectively, since January this year. "There are several airlines listed in India as well as overseas and that's a good indicator of Air India's valuation," said a bidder, asking not to be named.

The aviation industry is expected to make a loss of $67 billion in 2020 and several airlines are expected to file for bankruptcy in the coming months.

Citing an example, the bidder said both United Airlines Holdings and Deutsche Lufthansa AG were profit-making, with United flying to 369 destinations and having a fleet of more than 1,250 aircraft.

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TURBULENT TIMES

- Sharp fall in airline valuations across the world
- United Airlines and Lufthansa share prices are down 58% and 36%, respectively, since January
- Aviation industry could make a loss of $67 billion in 2020 owing to coronavirus impact
- Potential bidders for Air India may scale down their bids
- More airlines will seek investors at lower valuations

Busy office hubs fall silent as virus noise gets louder

BS REPORTERS
Gurugram/Bengaluru/Mumbai/Chennai/Kolkata, 15 March

Two security guards, wearing N95 medical masks, screen the temperature of every visitor with infrared thermometers. A placard announcing 'temperature scanning in progress, please cooperate' stands between them. A dozen more men, their faces covered with protective masks, clean the premises.

This is the scene that greets you as you enter One Horizon Centre tower in Gurugram's Golf Course Road, which, together with its sister tower, Two Horizon Centre, houses such large multinational corporations (MNCs) as Apple, Coca-Cola, Samsung, and GSK Consumer Healthcare. The usually bustling complex — it also has a number of showrooms and restaurants — is now deserted.

The coronavirus outbreak is exacting a heavy toll on businesses everywhere and this commercial complex is no exception. Over the past few days, it has witnessed a sharp decline in footfall. Popular restaurants like Delhi Club House have not seen their regular patrons in recent days. Sales have declined to about half in the past 10 days, the staff said.

At Cyber Hub, a popular hangout in Gurugram and home to an array of restaurants, most eateries are going empty, as *Business Standard* finds out while on a recce to assess the impact of the virus.

The offices of many MNCs are equally vacant these days. To protect their employees from the coronavirus pandemic, several have given their employees the option of working from home.

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PHOTO: SAGGERE RADHAKRISHNA

A security guard screens employees at the Brigade World Trade Centre in Bengaluru, which houses Amazon India headquarters as well as offices of several other MNCs

CASES ZOOM TO OVER 100; MUMBAI IN SEMI-LOCKDOWN

The number of coronavirus cases in the country rose to 107 on Sunday. With 12 new cases in Maharashtra, the state government put the city in a semi-lockdown mode. Executives at Inorbit Mall said their Malad and Vashi properties were closed and would remain shut for a few days.The Mumbai police issued an order to prohibit all group tours till March 31. Those flouting the order can face penal action.
VIVEAT SUSAN PINTO & ANEESH PHADNIS report 16

How Kapoor's firm expanded aggressively through loans


PHOTO: KAMLESH PEDNEKAR

SURAJEET DAS GUPTA
New Delhi, 15 March

Former YES Bank managing director Rana Kapoor and his family's labyrinth of firms, in particular DOIT Urban Ventures, are under close scrutiny by the Enforcement Directorate and the Central Bureau of Investigation.

The CBI has alleged that Dewan Housing Finance Corporation's (DHFL's) promoter Kapil Wadhawan gave kickbacks in the form of builder loans to DOIT Urban Ventures. The quid pro quo: YES Bank's investments in its ₹3,700 short-term debentures.

Business Standard has accessed the Registrar of Companies (RoC) documents on the firm and they tell an interesting story.

The RoC documents show that the company is into commodity trading with additional businesses in hospitality and infrastructure, both in India or abroad.

DOIT's fortunes changed dramatically in recent years. In 2018-19, the company incurred a net loss of ₹48.76 crore on revenues of ₹59 crore — a sharp contrast to 2017-18 when it had profits of ₹2.7 crore on revenues of ₹43 crore.

In the RoC filing, the company justified the loss like this: "The company has made strategic non-current investments through subsidiaries/step down subsidiaries in businesses across various sectors such as hospitality, infrastructure, tourism, co-working spaces and so on. Some of these businesses, which are in the early stages of their lifecycle, have a longer gestation period before they become profitable and hence their financial statements as on March 31, 2019, have significant accumulated losses."

To fund these aggressive investments into its subsidiaries in 2018-19, DOIT used debt which doubled to ₹600 crore in 2018-19 from the previous year. Investigating agencies say that DHFL gave a loan of ₹600 crore to DOIT which is under scrutiny.

DOIT's total liabilities, according to the RoC, rose from a mere ₹1.86 crore (as it had not taken any loans) in 2016-17 to ₹415 crore the next financial year and ₹602.57 crore in 2018-19. As a result, the debt servicing cost (finance cost) almost doubled from ₹34 crore to ₹63 crore during the same period.

DOIT URBAN VENTURES
(in ₹crore)

	FY17-18	FY18-19
Total turnover	43.55	59.36
Net loss/profit	2.7	-48.7
Total assets	715	853
Total liability	415.6	602.5
Borrowings, non-current	300	600

Source: Reports

Meanwhile, the total value of the assets also rose sharply from ₹224 crore in 2016-17 to ₹715 crore in 2017-18 and ₹853 crore in 2018-19.

A substantial portion of the increase from 2016-17 was due to the increase in non-current assets, which included investment in companies and others whose full value was not realised in the current year. These went up from a mere ₹92 crore in 2016-17 to a staggering ₹729 crore in 2018-19.

This money was invested in the equity as well as in acquiring shares in its 10-11 subsidiary and associate companies which included DOIT Smart Hospitality, Ambience Hospitality, and NCube Planning, among others.

DOIT Smart Hospitality, which is in the business of canteens, restaurants, and bars, received a huge infusion of over ₹512 crore — a large part of the total investments made by the company. The hospitality company also has the Kapoors as key directors.

That's not all. The Kapoor family, through its family office, the Three Sisters Institutional Office, have also put money into many start-ups. One such investment has been with US-returned Delhi based entrepreneur Amit Ramani who set up two companies: a co-working firm Awfis Space Solutions and NCube (formerly Nelson India), an interior designing and building solutions company.

Ramani is the vice-chairman of NCube. According to sources, the Kapoor companies invested around $10-11 million in Awfis but their shareholding got diluted as new investors came in.

The co-working business has grown in size, despite competition from US giant We Work and has over 35,000 seats in 63 centres and nine cities. It has also been able to rope in other private equity players, which include ChrysCapital and Innoven, to invest.

According to Ramani, it is planning an initial public offer in 2022. Through NCube, in which the Kapoor family companies invested under ₹10 crore, Ramani has executed over 200 projects across the country.

The RoC documents also say that key managerial persons and their relatives in DOIT exercise significant influence in Seven Rivers Capital Advisors. The company specialises in early-stage growth capital investments in small and medium-size companies.

IN BRIEF

DoT units seeking bulk call data record on routine basis

Some units of the telecom department are seeking huge call data records of people in some circles on a routine basis which is alleged to be in deviation from the standard operating procedure laid down by the government, according to sources. Industry players have raised concerns over such practices in a communication to the Telecom Secretary, the sources said. They claimed the DoT unit of Delhi demanded call data records (CDRs) of entire state for February 2, 3 and 4, 2020 and separately for specific routes in Delhi with residences of Ministers, Members of Parliament, Judge, important offices etc following which industry players gave representation before telecom secretary Anshu Prakash to raise concern on such practice. PTI

Ferns N Petals eyeing to double turnover to ₹1,000 crore in 3 years

Ferns N Petals is looking to double its turnover to ₹1,000 crore in the next three years from ₹500 crore in the current financial year, on the back of its innovative services and entry into more markets across the globe. Ferns N Petals completed 25 years of operations with an estimated top line of ₹500 crore in 2019–20. PTI

Rentals in Pune for coworking space is 33% lower: Study

Coworking spaces in Pune are available at 33 per cent lower rentals than traditional offices, while the cost advantage of flexible workspace is lowest in Gurugram at 6 per cent, according to consultant Anarock. In its report, the consultant said flexible workspaces in Pune offer the highest rental difference PTI

P R Jaishankar's name suggested for IIFCL MD post

The Banks Board Bureau (BBB) has been able to find a suitable candidate to head India Infrastructure Finance Company (IIFCL). The BBB, headed by former Secretary Department of Personnel and Training B P Sharma, has zeroed in on P R Jaishankar, the executive director at National Housing Bank, for the post of managing director of IIFCL. PTI

Telcos must disclose data used to arrive at AGR dues: Report

Bharti Airtel and Vodafone Idea must disclose workings highlighting areas of difference as minority shareholders deserve to know, a report by Kotak Institutional Equities said. "While we appreciate the matter is still sub judice, once the legal chapter is over, Bharti and Vodafone Idea could disclose... minority shareholders deserve to know," it said. PTI

Tata Motors asks staff to work from home

Tata Motors has asked its staff in office-based roles at headquarters and regional offices to work from home with effect from Monday, in the wake of the coronavirus pandemic, according to an internal message by the company's Managing Director and CEO Guenter Butschek. The company has constituted a team to monitor and initiate actions to reduce risk to employees and has developed a three tier response plan based on incidence of infection in cities it operates it or has manufacturing sites. PTI

Virus scare: IT firms draw business exigency plans

DEBASIS MOHAPATRA
Bengaluru, 15 March

In the wake of coronavirus outbreak, most IT services firms have invoked their exigency plans, which include adoption of practices like work from home, virtual meetings and preparing strategies to conserve cash.

As social distancing emerges as the most viable option to contain the spread of this virus, IT companies have started chalking out plans in case the fallout of this pandemic lingers beyond two quarters. "The current business continuity plans include providing means for extended work from home arrangements, conducting as many meetings online, and limiting travel. Measures are also being taken to protect existing cash reserves of the companies," said Hansa Iyengar, analyst at global consulting firm Omdia.

Conserving cash is one of the widely adopted ways by any companies during a demand slowdown. Experts are of the opinion that most IT services firm are preparing themselves for long haul, given the uncertainties arising from the global pandemic, coupled with upcoming US elections in the second half of this year.

"The timing of COVID-19 outbreak and its associated impact have stalled the first half catalysts and by the time it passes, we will be in the midst of pre-existing second half challenges, such as the US elections, post-Brexit trade negotiations among others," said Peter Bendor-Samuel, founder and chief executive officer of outsourcing advisory firm Everest Group. He also said IT firms would face severe pricing pressure this year even if situation arising from the outbreak was contained.

According to experts, given this year (2020) is likely to see both demand slowdown and pricing pressure, most IT firms are looking at cash conservation measures. Traditionally, the top four IT firms — Tata Consultancy Services, Infosys, HCL Technologies and Wipro — have well laid-out capital allocation policy, which includes giving back most free cash flow to investors. In the past two years, all four IT firms had conducted big buyback programmes, giving back excess cash reserve to their shareholders. Even after this payout, both TCS and Infosys have more than $3 billion of cash reserve each.

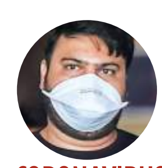
With uncertainties around growth outlook, most companies are likely to go slow on their payback plans to shareholders.

HOW IT AFFECTS THEM

- Buyback programmes from IT firms are likely to come down this year
- Most IT firms have started plans to conserve cash in the wake up likely demand slowdown
- Second half of the year may not give big boost to demand because of the US elections

Some of the large investment plans by the IT firms are expected to take a backseat in the near future.

Amid all the gloom, some analysts also see a silver lining for the industry. "While mega deals will be less, secular business drivers (deals relating to modernisation in new technology areas) will make a comeback soon after the threat of COVID-19 subsides. A prepared service provider, with ample resources to handle irregular pent-up demand, will emerge as a big market share gainer this year," Bendor-Samuel added.


CORONAVIRUS PANDEMIC

Amid panic, Hyundai sees a silver lining

PRESS TRUST OF INDIA
New Delhi, 15 March

Amid the gloom surrounding coronavirus pandemic, South Korean auto major Hyundai sees a silver lining for the slowdown-hit auto industry in India as consumers seek isolated mode of transportation at a time when it is also preparing to ramp up online sales of vehicles, according to a senior company official.

The spread of coronavirus has heavily impacted travel, tourism and other manufacturing sectors, adding to the already low customer sentiment due to uncertainty of economic downturn, according to Hyundai Motor India Managing Director and CEO S S Kim.

"At the same time, there might be some positive, green area from automotive manufacturers' perspective. Everybody wants to have a safe place, some kind of social isolation. Home might be the first place and car might be the second," he said.

"What we heard from our colleagues is that people who didn't want to buy cars till recently, they have changed their mind because they want to have their own isolated space even on the road."

When asked how the company is looking to address concerns of those who do not wish to visit crowded showrooms to buy cars, he said Hyundai has issued advisories to its dealers over safety hygiene, including temperature checking, sanitisation and keeping physical distance of 5 metres to ensure its consumers feel secure.

Hyundai Motor India also plans a nationwide launch of its 'click to buy' programme, introduced as a pilot project for the National Capital Region at the Auto Expo last month.

"This might be a great alternative solution to the customers who want to buy a car but do not want to go to any crowded area. So how to handle the situation? We are ready for the situation," Kim said.

"EVERYBODY WANTS TO HAVE A SAFE PLACE, SOME KIND OF SOCIAL ISOLATION. HOME MIGHT BE THE FIRST PLACE AND CAR MIGHT BE THE SECOND"
S S KIM
Managing Director and CEO, Hyundai Motor India

When asked how soon the programme will be ready, he said, "It is being pilot tested in Delhi area and it will be introduced in the coming few weeks period. We are preparing something, but considering the coronavirus situation we think we should hurry up implementing those plans."

In terms of impact on component supplies due to coronavirus, he said that at the company level, it has not had such a problem. However, some tier-I component suppliers which have supply chains spread across countries like China, Vietnam or Thailand have some impact, but that hasn't affected the company's production.

He said the company has made up for any constraint on supply of parts for any one particular model by ramping up others which do not have such issues.

Poultry firms, farmers hit due to culling

VIVEAT SUSAN PINTO & DILIP KUMAR JHA
Mumbai, 15 March

India's $14-billion (or ₹1-trillion) poultry market has begun a massive culling exercise as consumers keep off chicken products for fear of catching coronavirus. While the Food Safety and Standards Authority of India (FSSAI) has said there is no scientific evidence to prove the virus spreads through consumption of non-vegetarian food, this has had no impact on people, executives at some of the top poultry firms said.

"It is difficult to change people's minds. Consumption of chicken has fallen a lot. When I last checked, the price of chicken was down to half of its cost of production. It could be lower now," Nadir Godrej, chairman, Godrej Agrovet said. The latter has a joint venture with the US-based Tyson Foods, which markets brands such as Real Good Chicken and Real Good Yummiez.

Weak demand from the poultry sector has resulted in a sharp decline in feed prices too, with both soybean and maize prices falling by nearly 25 per cent in the past two months. The poultry market consumes around half of soybean and maize production in India.

Industry estimates peg the loss to the market at ₹1,000 crore. Losses could mount though as chicken prices hit rock bottom and sale of chicken products come to a standstill, experts said.

"There are absolutely no sales happening for the past one month," said K G Anand, general manager, Venkateshwara Hatcheries, which markets the Venky's chicken. "Many farmers have shut operations. As long as the coronavirus scare remains, demand will be muted, impacting business," he said.

The cost of production of chicken in India is pegged at ₹75-80 per kg. The average price at which chicken is selling stands at ₹15 per kg.

"Poultry farmers with around 1,500 birds will vanish from the market," said Ramesh Khatri, president, Poultry Federation of India. "The bigger worry is that we could now see job losses in the market. Some companies could also see a sharp erosion in working capital," he said.

Sanjeeb Chintawar, business manager, National Egg Coordination Committee, said culling had also been undertaken by farmers since it is impossible for them to continue feeding birds indefinitely.

MakeMyTrip works on app upgrades, wider positioning

NEHA ALAWADHI
New Delhi, 15 March

Gurugram-based MakeMyTrip is planning a host of changes and features to its existing app, including a landing page redesign and a section on new vacation destinations.

From being a primarily flight and hotel booking app, MakeMyTrip is rethinking its positioning in all types of travel — whether by road, train or air. It is also going to expand focus on the type of properties it lists on the platform.

In its alternative accommodation space, said Rajesh Magow, co-founder and group chief executive, MakeMyTrip, is looking at villas, service apartments and hostels, especially those based in pilgrimage sites, such as Varanasi. As of now, it has 17,000 such properties.

Group chief says they wish to graduate from being only a booking site to handling every other issue a traveller could face

It is also going to raise the focus on premium and ultra-luxury properties, apart from the five-star hotels it already has on the platform. "Our sweet spot was the mid-segment and premium. The five stars will be there but the ultra-luxury kind of properties...we're working on it," said Magow.

According to Magow, MakeMyTrip site has been a transaction site but now wishes to cater for the customer even before the latter begins planning a destination. "With the 'Trip Ideas' section, we are going one step before the funnel. The idea there is, when you start planning your trip, and we've come to transact on us, this is the guidance you need to start from. If you want to explore the destination, you can see recent trending destinations... You will have all the curated content and all the information (such as) points of interest, well presented, which will help you take a call on the destination," he added. The firm is working on adding user-generated pictures and video content as well.

Another feature being worked on is Trip Assist. This will be like a chatbot, to help with various types of travel issues After a customer makes a booking. "If you've done a flight booking, we will remind you just before your travel, through a push notification. We will start giving all the information, including the departure gate, if there is any change in the flight schedule, which means delays, etc, baggage details, giving you an opportunity to book a cab, your e-ticket. Then, as you reach there, we are trying to get the data on which belt you have your luggage on, and then airport transfer," Magow said.

MakeMyTrip is also trying to tie up with airports, shopping centres and food joints to offer a deal on a food and beverage section. It already offers a visa-at-your-doorstep facility for Malaysia and Singapore and plans to expand that to other destinations. To ensure these changes reach the customers, it is going to change the design of its home page.

AIMING FOR A NEW LOOK

- Expanding focus on trains, including Hyderabad and Mumbai metros
- Offers visa-at-your-doorstep facility for Malaysia and Singapore
- To tie up with airports, shopping centres and food joints
- On path to break even unless there is a major impact from the COVID-19 situation

Coronavirus effect

Due to the ongoing COVID-19 pandemic effect, the company is on wait-and-watch but work is on to upgrade the app with better features. For now, MakeMyTrip app has widgets on safe travel, including protective measures against COVID-19, government updates on travel issues, and information on date changes and cancellations.

Last week, the company in a statement said: "We are seeing a demand slowdown for the coming summer holiday season, especially for international travel. The situation remains dynamic, making it hard to quantify the actual impact on our business and industry at large."

FROM PAGE 1

Busy office hubs fall silent as virus noise gets louder

A security guard screens employees at the Brigade World Trade Centre in Bengaluru, which houses Amazon India headquarters as well as offices of several other MNCs SAGGERE RADHAKRISHNA

Coca-Cola India, which has its offices on the 16th and 17th floor of One Horizon, is one such. At the office's reception on the 17th floor, another round of temperature scanning takes place, followed by hand sanitisation. The office is almost 25 per cent empty.

A few kilometres down National Highway 8, Nestle India is closely tracking employees with any recent health issues and those who have recently returned to the country from abroad. It is also conducting hygiene-related awareness drives in its offices across India.

Facebook has asked its employees to compulsorily work from home, as has TikTok parent, Bytedance. Starting Monday, work-from-home will also be in operation at two prominent public relations agencies in Gurugram, Weber Shandwick and Genesis BCW.

But everyone realises that working from home is not fail-safe either. "No matter how much you distance yourself socially, our houses are porous. The domestic help, delivery people and others, come in contact with so many people. There is only so much you can do," said an employee of a technology major in Gurugram.

Masks all over in Bengaluru

More than 2000 km away, in the Silicon City of India, the mood is similar. With most of its employees working from home, Amazon India's headquarters in the 32-storeyed World Trade Center (WTC) in Bengaluru, wears a deserted look. At the building's entry point, four people wearing masks check the temperature of every person who wants to come in.

"If the temperature exceeds 37 degrees celsius, the person is immediately taken to the neighbouring Columbia Asia Hospital for a check-up," an Amazon employee told this newspaper.

The office's lobby, which normally swarms with employees, is vacant as no one is being allowed to gather in the common areas.

Almost 90 per cent of Amazon's employees operating out of the WTC tower are now working from home on Amazon Chime, the company's communications service that lets employees meet, chat, and place business calls inside and outside the organisation, on a single application. The same communication infrastructure is also being used for audio calls, video calls, and screen-sharing capabilities.

Apart from regularly sanitising its offices, the company is also working with medical experts to "ensure that we take the right precautions as the situation evolves," said an Amazon India spokesperson.

Walmart-owned e-commerce major, Flipkart, which has extended the work-from-home facility for all 10,000 employees at its Bellandur office in Bengaluru till March 20, fumigated its premises over Thursday and Friday.

Flipkart's internal communications teams are sending regular mailers about the ethics related to working from home. "Heads are advising teams to be active on WhatsApp groups while internal meetings are happening on Google Hang-outs," said a Flipkart employee. "Functions where physical meetings are key, such as vendors and supplier meetings, are the only ones that are getting affected," he added.

Facebook has asked its employees to compulsorily work from home, as has TikTok parent, Bytedance

At B2B unicorn Udaan, all employees will be working from home till March 20. Meetings are taking place on Google hang-outs. Employees who need to attend office have to wear a mask. They also have to give a declaration that they do not have any flu symptoms. Udaan's office canteen has been shut and those who are attending office have been asked to get home-cooked food.

Uber India, which has advised work-from-home till April 6, has also shut down the office canteen.

Travel history check in Mumbai

In the financial capital of Mumbai, absence of crowd in local trains is the biggest giveaway of things gone terribly wrong. "You are safe, Sir," declares the receptionist at Embassy 247, a complex belonging to Embassy Office Parks in the Vikhroli area of Mumbai, after doing a body temperature check with a thermal gun thermometer. Questions on whether one has visited China, Italy and Korea in recent weeks follow.

Embassy Office Parks, which has complexes in Bengaluru, Mumbai and Pune, has taken a number of precautionary measures. "Isolation rooms have been created across all our parks, ambulance facilities are available, and a list of hospitals affiliated for treating Covid-19 has been prepared," a company spokesperson said.

The company is creating awareness about the disease through educative messages via video, social media, WhatsApp, posters, and so on. It has also trained over 2200 vendor-employees on personal hygine and protection, symptoms and response requirements, the spokesperson added.

Co-working space provider, WeWork, has asked any employee who has recently returned from a high-risk country to mandatorily work from home for at least 14 days. The same goes for anyone who exhibits flu-like symptoms.

"We have also introduced mandatory temperature screenings at our locations," a WeWork spokesperson said.

It will also temporarily suspend all events in the common areas across all locations until further notice, the spokesperson said.

Chennai IT corridor buzzing still

But, the IT corridor in the Old Mahabalipuram Road (OMR) is buzzing as usual. While most companies in Chennai are watching the virus outbreak closely, not many have asked their employees to work from home. The exception is Software as a Software (SaaS) major Zoho.

The 8500 employees at its facility in Chennai have been advised to work from home unless it's absolutely necessary for them to be present in office.

Zoho has, in fact, adopted work-from-home at all its offices worldwide as a precautionary measure. This policy will be in operation till the threat of the virus has passed or reduced substantially, said Rajendran Dandapani, director of technology, Zoho.

IT firm Cognizant has suspended non-essential business travel. Employees are being directed to seek medical attention and stay home if they feel ill or experience flu-like symptoms.

"Cognizant's facilities in India and elsewhere are fully operational and it is business as usual. A dedicated, cross-functional team is engaged in daily contingency planning with various stakeholders to ensure continued services for our clients around the world. These plans include preparations to enable some associates to work remotely if necessary and appropriate," said a Cognizant spokesperson.

It has enhanced cleaning processes at its offices in India and around the world, and have increased the number of hand sanitisers in high-traffic and common areas.

However, another Chennai-based IT products company said that the infection was currently at the first level on their distress scale, since no coronavirus-positive case had been reported from the city's companies so far. But those who have returned from other countries are being asked to work from home for the stipulated quarantine period.

An official from Intellect Design Arena, another IT products company, said that it is monitoring the situation and has designated flu managers in offices, who will be the go-to persons if an employee has some health issues. Meetings and discussions are being done via video conferencing.

Vinod AJ, general secretary of the Forum for IT Employees (FITE), however, said there seemed to be little awareness about the pandemic and not many companies were allowing employees to work from home. Tamil Nadu has not reported many cases so far.

Kolkata on guard

At Kolkata's IT hub in Salt Lake Sector V, it's mostly business as usual. Of course, the area's roughly 100 IT and ITeS companies are following precautionary protocols.

"My office has instructed us to avoid any gathering or public meetings as well as public places," an employee at Cognizant said. However, the area's cafes and eateries continue to be full.

Like Cognizant, most of the IT biggies, like Wipro and TCS and other large office complexes have kept hand sanitisers on every floor, including the washrooms, and have instructed employees to maintain personal hygiene. Those with cough and cold or with flu symptoms are being discouraged from attending office.

Most of those who work at the city's IT hub feel West Bengal is a relatively safe place as far as the coronavirus outbreak is concerned. Not a single positive case has been reported here so far, although the state government has directed all schools, colleges and universities to remain closed till March 31.

(With inputs from Arnab Dutta, Samreen Ahmad, Raghavendra Kamath, Gireesh Babu, Avishek Rakshit, Yuvraj Malik and Neha Alawadhi)

CORONAVIRUS IMPACT

Multiplexes' revenue likely to be hit by up to 25%

SOHINI DAS
Mumbai, 15 March

The COVID-19 virus outbreak has caught the country's entertainment industry off guard with multiplexes shutting down across several states and big releases like *Sooryavanshi* getting postponed.

Analysts expect the revenues to dip by 20-25 per cent in the March quarter compared to the previous one.

One of the most awaited releases, *Angrezi Medium*, which featured the return of ailing actor Irrfan Khan, managed to collect only ₹4.03 crore on its opening day last Friday.

Trade analysts like Taran Adarsh said the film's business had been severely affected because of the closure of cinema halls in several states

According to sources, the box office collections of *Angrezi Medium* dropped by 25 per cent on Saturday. The film has done business mostly in Uttar Pradesh, Haryana. Tiger Shroff starrer *Baaghi 3*, too, has seen a similar drop in numbers on Saturday.

Theatres have been asked to shut down in major cities such as Delhi and Mumbai. Karnataka, Odisha, Jammu & Kashmir, Kerala, Goa are also following the same.

A multiplex chain owner said there were around 3,000 screens in India. At present, more than 50 per cent of multiplexes are closed and he expected more to follow suit.

Theatres have been asked to shut down in major cities such as Delhi and Mumbai PHOTO: SAGGERE RADHAKRISHNA

There are around 6,600 single screens in the country. SBICAP Securities had noted in a recent report highlighting that single scre-ens had seen a negative CAGR of 4 per cent in the past nine years. These are also shutting down, making it unviable for production houses to release their movies.

Sources said Reliance Entertainment and Phantom Films' upcoming biopic on Kapil Dev, *83* is also getting postponed. "At least 20-days of March would see no business for the multiplex owners. This would mean 20-25 per cent loss on a sequential basis," said a Mumbai-based media analyst. Box office revenues in Q3 were around ₹453 crore for PVR, while its total revenues were at ₹924 crore. Inox had posted revenues of ₹518 crore for the same.

While the listed firms did not wish to comment on revenue loss, they admitted business was seriously impacted.

Inox Group Director Siddhath Jain said, "We are optimistic that big releases will bring people back to cinema halls. It is not just *Sooryavanshi*, but movies like *Gulabo Sitabo* and *Gunjan Saxena* will also play an important role in bringing the cinema routine to normalcy, whenever they get released."

Multiplexes are expecting the government to help the industry after the scare is over, he said. "I am hopeful that we will come out with some plan sooner or later to alleviate the sector. This is a very important sector of the economy," he said.

Cine bodies to halt productions from Mar 19

PRESS TRUST OF INDIA
Mumbai, 15 March

To contain the spread of novel coronavirus, film bodies in India including Federation of Western Indian Cine Employees (FWICE), Indian Film & Television Directors' Association (IFTDA) and Producers Guild of India on Sunday decided to put shootings of films, TV shows and web series on hold from March 19 to March 31.

The meeting of the film bodies was also attended by the representatives of Indian Motion Pictures Producers' Association (IMPPA), Western India Film Producers' Association (WIFPA) and Indian Film and TV Producers Council (IFTPC). "The health and safety of our colleagues is of paramount importance to the Producers Guild of India. The industry's united decision to suspend shooting between the period March 19 to 31 is the need of the hour and we fully support it," Kulmeet Makkar, Chief Executive Officer, Producers Guild of India, said in a statement here.

"In the coming days, we will discuss the details with our members on the modalities of postponing our production plans, keeping in mind the on-going threat of COVID-19. We will continue to monitor the situation and take further decisions accordingly," Makkar said.

Various events, award functions, interviews, shooting schedules have been called off in view of the novel coronavirus outbreak. "Important bodies of film and entertainment industry met today to deal with the issue of coronavirus. After a lot of discussion, we came to this conclusion that from this coming Thursday, all shootings will stop till March 31. After that, we will take a call," Ashoke Pandit, president of IFTDA, told reporters here.

"We have given a gap till Thursday so that people get ready accordingly, pack up and return from outstation. Our TV industry is an important one and even they will get time to organise things," he added.

Pandit said the move comes at a time when there are rising health concerns over novel coronavirus and the associations collectively decided that the health of workers is paramount. "We have also decided that all our sets, despite not being used, will be sanitised, cleaned. Every production house, with their members, will constantly take care of the sets. The daily wages of the workers will be affected so we have decided that they will be taken care of by all the producers associations and federations. We will take care of them," he added.

JD Majethia, chairman, TV wing, IFTPC, said they are in talks with broadcasters and all have been sensitive in dealing with the pandemic.

"Precautions were duly taken and more precautions will be out in place till Wednesday. We have put up posters to spread awareness, have provided masks and even given the option of paid leaves for anyone who feels sick. All measures are in place."

YES BANK CRISIS

MFs to approach Sebi on lock-in

Nifty, Bank Nifty funds will have to sell stock after index exclusion

JASH KRIPLANI
Mumbai, 15 March

IN LIMBO

YES Bank lock-in could lock up ₹3,400 cr of non-promoter funds

Investor category	Stake (%)	₹ crore: Current value*	₹ crore: 75% locked in
Retail	43.66	2,840	2,130
FPIs	15.17	986	740
Mutual funds	5.09	492	369
HNIs	4.3	280	210

*Value for other categories based on current share price and December 31 holdings
Source: Exchanges, MF data as of February 29, 2020 from RupeeVest

Worried over the 75 per cent three-year lock-in for YES Bank shareholders, mutual funds (MFs), along with stock exchanges, will approach the Securities and Exchange Board of India (Sebi) on how the impact of government's notification can be mitigated on index funds and exchange-traded funds (ETFs).

From March 27, YES Bank will be excluded from both the Nifty and Bank Nifty indices. Index funds and ETFs need to exit from the bank shares once the lender is excluded from indices. According to the data from RupeeVest, MFs' equity exposure to YES Bank stood at ₹492 crore as of February 29, with 62 per cent of the exposure held in various index and ETFs, which track underlying index. As many as 50 index and ETFs held YES Bank into their schemes as of February 29.

"Some of the exposed schemes are large in size with assets of between ₹40,000 crore and ₹60,000 crore. For them, the issue can be much larger. We will be taking up the matter with Sebi," said senior executive of a fund house.

"We are in talks with exchanges and industry body Association of Mutual Funds in India. Both will seek clarity from the Sebi on this issue," said an industry official, part of the industry body's committee on ETFs and index funds.

On Friday, the government notified the YES Bank scheme. In section 8 of the gazetted notification, it has been stated that there shall be a lock-in period of three years from the commencement of scheme to extent of 75 per cent. Industry participants are worried, as this means both existing and investors coming in with fresh capital will not be able to sell more than 25 per cent of holdings for at least three years.

Lock-in is also expected to hurt investors' faith, who bought bank's shares on Thursday or Friday. Institutional investors that lent shares in stock lending and borrowing mechanism might not be able to get back all shares, hedged positions or cash-future arbitrage strategies can face losses.

To be sure, an index or ETF needs to have 95 per cent of assets replicated in-line with the underlying index. "However, typically index and ETFs use remaining 5 per cent room for cash holdings to deal with any redemption pressures. Also, holding YES Bank shares for three years, after it is out of indices, can lead to huge tracking error," a fund manager said, requesting anonymity.

While YES Bank is being excluded from Nifty and Bank Nifty, new stocks are being added to these indices. "Bank Nifty-linked funds could find it difficult to have enough room to include Bandhan Bank, which is a YES Bank replacement, while still holding YES Bank shares partially. Similarly, Shree Cement is replacing YES Bank in Nifty," said a fund manager. According to industry sources, MFs and exchanges can propose to Sebi that index rebalancing date be deferred from March 27 to another month so that government can clarify the issue in meantime.

Further, industry participants say creation of segregated portfolio to hold YES Bank exposure separately and giving separate units of the schemes to unitholders can be a workable solution.

"However, Sebi will have to allow exemptions for such an exercise as under current regulatory framework, side-pocket can only be created in a debt scheme when there is a rating downgrade to below-investment grade," said chief executive officer of a fund house.

Over ₹2,100 crore of retail money could be locked

Apart from MFs, other existing shareholders stand to see a significant share of their funds getting stuck in YES Bank, if the current government notification is not amended or clarified.

Retail investors (individuals up to ₹2 lakh of investment) hold ₹2,839 crore worth of shares in YES Bank; calculated based on current share price and shareholding as of December 31, 2019.

While it is difficult to gauge the impact on retail investors as the provision is applicable to only investors holding more than 100 shares, 75 per cent of retail investment getting locked-in could amount to ₹2,129 crore worth of shares. Overall, more than 1.6 million public shareholders have investments in bank, as of December 31, 2019.

Among other investor categories, foreign portfolio investors hold ₹986-crore investments in the bank, while high net-worth investors (HNIs) hold ₹280 crore worth of shares. A 75 per cent lock-in on investment would amount to ₹209 crore for HNIs. Similarly, the lock-in for FIIs could be ₹739 crore worth of investments.

YES Bank plans to cut slippages to 5% in FY21

ABHIJIT LELE
Mumbai, 15 March

After adding ₹23,000 crore to its gross non-performing assets (NPAs) in the December quarter, ailing YES Bank now says it hopes to contain this slippage to around ₹8,500 crore in the coming financial year (which begins April 1).

Its standard advances after subtracting net NPAs were about ₹1.75 trillion at end-December. Advances were ₹1.86 trillion and net NPAs at ₹11,114 crore.

The slippage ratio (standard advances becoming NPAs) will be brought to 5 per cent in 2020-21, from 11.98 per cent in the December quarter, according to a presentation for analysts. The vulnerable portfolio, loans that have high chance to slip into NPAs, is ₹13,911 crore at end of December 2019. These are special mention accounts (SMA) categorised in terms of duration. In the case of SMA -1, the overdue period is between 31 and 60 days. An overdue between 61 to 90 days will make an asset SMA -2.

Gross NPAs at end-December were ₹40,709 crore, up from ₹5,159 crore a year before (and ₹17,134 crore at end-September 2019). With the huge provisioning for bad loans, the bank posted a loss of ₹18,564 crore in the December quarter.

Provisioning for NPAs and write-offs rose about 10-fold to ₹22,238 crore in that quarter, from ₹2,214 crore in the earlier one. It had provided ₹507 crore on this account in the December quarter of 2018-19.

The Provision Coverage Ratio (PCR) increased to 72.7 per cent for the December quarter, from 43.1 per cent in the September quarter. The higher PCR would enhance the ability to offload these assets from the balance sheet, to further release capital, YES Bank stated in the presentation.

While determining NPAs and related provisioning requirements for October-December, it considered slippage in NPAs after this date till that of the publication of financial results (March 2020), it said. This change resulted in recognition of additional loans of ₹5,150 crore as NPAs and related provisioning requirement of ₹772 crore for the quarter.

IDFC First to invest ₹250 cr in YES Bank

IDFC First Bank on Sunday said it would make an equity investment of ₹250 crore in beleaguered YES Bank, to acquire 250 million equity shares.

"...duly authorised committee of the Board of Directors of IDFC FIRST Bank had at its meeting held on March 14 accorded approval for an equity investment of up to ₹250 crore comprising up to 250 million equity shares at a price of ₹10 each and face value of ₹2 each, under the proposed Scheme of Reconstruction of YES Bank under the Banking Regulation Act, 1949, subject to regulatory and government approval(s), if any," the bank said in a BSE filing.

The Centre on Saturday notified the YES Bank Reconstruction Scheme, 2020, a day after the Cabinet approved a reconstruction plan proposed by the Reserve Bank of India for bailing it out. PTI

Outstanding term loan is zero: IHFL

Indiabulls Housing Finance (IHFL) on Sunday said the company as well as its promoters did not have any outstanding term loan from YES Bank. The company was clarifying on "some rumours" in social media in this regard.

"Outstanding terms loans from YES Bank to IHFL are zero," it said.

It also said that the outstanding term loans from YES Bank to the promoter of Indiabulls Housing Finance or any of his promoter companies / family members companies are Zero. In a separate filing, Karnataka Bank also rejected some news reports that had raised doubts on the safety of some banks using an "absurd and flawed so called m-cap to deposit ratio". PTI

Fresh blows to investors of crisis-hit bank

Auditors cast doubts on bank's ability to remain a going concern, investors holding more than 100 shares barred from selling stock

HAMSINI KARTHIK
Mumbai, 15 March

NEWS ANALYSIS

It was an unprecedented weekend, filled with many disappointments, for investors of YES Bank.

As the first blow to shareholders, both retail and institutional, the reconstruction scheme has imposed a three-year lock-in for 75 per cent of shares held by all those with more than 100 shares.

The second blow crushed the hopes of additional tier-1 (AT-1) bondholders, whose exposure to YES Bank was ₹8,415 crore. The bank's administrator indicated these instruments had been fully written down and were extinguished.

The bondholders were confident these would be converted into shares even if they should take an 80 per cent haircut.

While the matter is being litigated, the AT-1 bonds, meanwhile, become valueless.

The biggest blow came in the form of its disastrous December quarter (Q3) results. While the net loss of ₹18,564 crore on the back of the ₹24,766 crore provisioning cost was something investors saw coming, the magnitude of these numbers took them by surprise.

It doesn't stop at that. Deposits have shrunk by 21 per cent since Q2 to ₹1.65 trillion, hinting at a likely rundown. While on expected lines the loan book has reduced to ₹1.86 trillion, down 17 per cent sequentially.

The worst, though, is the subsequent impairment to its capital position. Common equity tier-1 (CET-1) fell to 0.6 per cent in Q3, way below the statutory mark of 7.375 per cent, while ₹86 crore of penalty was levied in Q3 for breaching the minimum statutory liquidity ratio and liquidity coverage ratio.

"These conditions, along with other matters as stated in the said note, indicate that a material uncertainty exists and it may cast significant doubts on the bank's ability to continue as a going concern," stated the bank's auditors in their Q3 report.

These numbers are even worse than Lakshmi Vilas Bank's, another small-sized, capital-starved bank.

Save for State Bank of India (SBI) and a clutch of private lenders agreeing to infuse ₹10,000 crore into the reconstructed bank, bringing the CET-1 and capital adequacy ratio numbers to 7.6 per cent and 13.6 per cent, respectively, would have been next to impossible.

While ₹29,594 crore of provisioning or ₹40,709 crore of gross non-performing assets (NPA), including gross slippages (loans turned bad) of ₹24,587 crore, isn't a small number, analysts say it might not entirely capture the extent of asset quality mess in the bank. Brokerages such as UBS, JP Morgan, and Macquarie were factoring in ₹60,000 crore of stressed loans, while YES Bank itself in the past had classified ₹30,000 crore as stressed. To that extent, ₹40,709 crore of NPAs in Q3 seems a smaller number.

"Perhaps the capital constraint was a barrier to recognise the full extent of pain," said an analyst with a foreign brokerage. While the provisioning coverage ratio improved from 43.1 per cent in Q2 to 72.7 per cent in Q3, analysts were expecting a higher number. "To that extent, investors need to brace themselves for another round of capital infusion, elevated NPAs and probable losses," the analyst added.

"The bank will need further capital infusion to grow, strip off assets to release capital and mop liquidity to meet liabilities," analysts at Emkay Global Financial noted.

The auditors also said the assumption of YES Bank being a going concern was dependent on the degree of success of the final reconstruction scheme, the amount of capital infused into it, and its ability to stabilise deposit balances after withdrawal of the moratorium.

For investors, while the fresh infusion of capital is positive for now, the Q3 results have added to their woes. What the bank would do to prevent a further meltdown in deposits and lower costs, whether after the Q3 clean-up it remains attractive to foreign investors for another round of capital raise, and how the new management revives YES Bank's business are some unanswered questions.

HOW ASSET QUALITY WORSENED

(%)

	Q2	Q3
Gross NPA	7.39	18.87
Retail	1.03	1.36
MSME	1.29	1.63
Corporate	11.07	29.3
Net NPA	4.35	5.97
PCR	43.05	72.70
Slippages*	2.58	11.98

*Not annualised; Slippages guidance at 5% for FY21
Source: Investor presentation

TMB to seek shareholders' approval for IPO again

T E NARASIMHAN
Chennai, 15 March

Ninety-nine-year old Tamilnad Mercantile Bank (TMB) is to again seek shareholders' approval to become a public listed entity. It had done so in 2016, too, at its 93rd annual general meeting (AGM). However, the shareholders, largely from the Nadar community, rejected the proposal for an Initial Public Offer (IPO) of equity by a majority.

The bank has since not held any AGM and is now scheduled, on April 9, to hold its 94th to 97th AGMS all together, for years 2015-16 to 2018-19. This is a sequel to last month's high court order, which allowed the conduct of all the pending AGMs, subject to specified conditions.

TMB has 20,600 shareholders. A majority reportedly voted against an IPO last time, so that the door is not opened to "outsiders" (non-Nadars). Their argument is TMB was meant for Nadars and should be owned by Nadars. Its earlier name was Nadar Bank.

The community has made significant strides through an emphasis on both education and entrepreneurship. The existing top management is from the same community. It had earlier said it was educating the shareholders on the need for additional funds, for both faster growth and for the benefit of all shareholders. If share value rises (with an IPO), exit routes will be available; it is currently not easy to sell the shares, it had said.

STATSGURU

The global sell-off

LAST WEEK, stock markets around the world saw significant volatility with benchmark indices dropping to multi-year lows. The coronavirus (COVID-19) outbreak and a sharp plunge in global crude oil prices triggered the fall.

On February 20, there were about 1,000 reported coronavirus cases in 26 countries outside of China with only eight deaths. The number has now soared to over 44,000 cases with 1,440 deaths across 117 countries, according to the World Health Organization (Chart 1). Fears that the spread of COVID-19 would push the global economy into recession have led to extreme risk aversion among investors.

This, coupled with the rift between Saudi Arabia and Russia to gain market share by keeping oil prices low, has further exacerbated these worries. In just 15 trading sessions, Brent crude has declined 42 per cent (Chart 2). The slump in oil prices has been accompanied by downward revisions in global economic growth estimates due to the spread of COVID-19.

As a result, since February 20, the benchmark Nifty has dropped 17.5 per cent (Chart 3), while the rupee has weakened by 3 per cent against the US dollar (Chart 4). Volatility in the financial markets has been amplified by selling pressure from foreign investors (Chart 5).

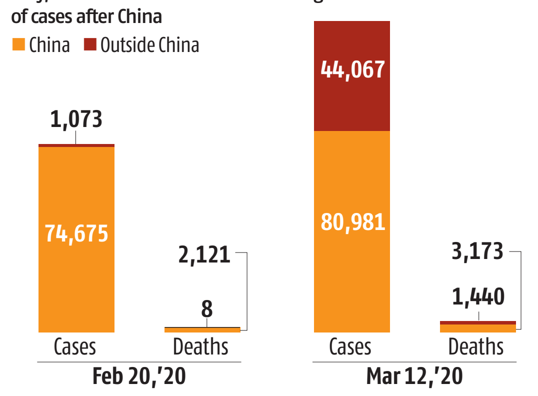
Until a month ago, the Indian markets were hovering close to their record highs, belying weakness in the economy and poor earnings growth. Many analysts had turned sceptical about the markets prospects due to lack of fundamental support. The spread of COVID-19 and oil price slump proved to be perfect storm for the market, wiping out over ₹29 trillion of Market capitalisation (Chart 6).

The fall in the Indian markets has been in line other global markets (Chart 7).

SAMIE MODAK

1: CORONAVIRUS TRAVELS OUTSIDE CHINA

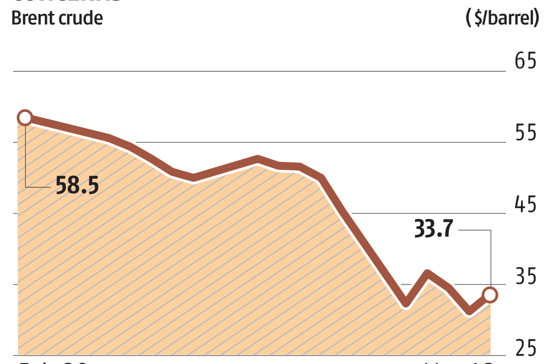
Italy, Iran and South Korea have the highest number of cases after China



Source: WHO

2: OIL PRICE FALL TRIGGERS GLOBAL GROWTH CONCERNS

Brent crude

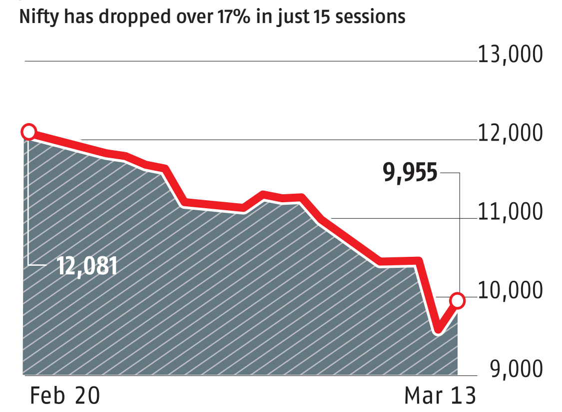


Source: Bloomberg

IMAGING: AJAY MOHANTY

3: MASSIVE STOCK SELL-OFF

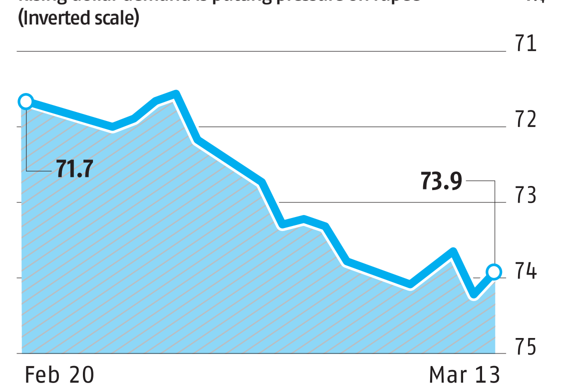
Nifty has dropped over 17% in just 15 sessions



Source: Bloomberg

4: LOSING CURRENCY

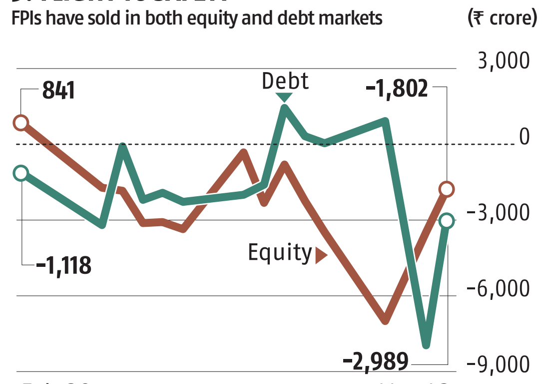
Rising dollar demand is putting pressure on rupee (Inverted scale)



Source: Bloomberg

5: FLIGHT TO SAFETY

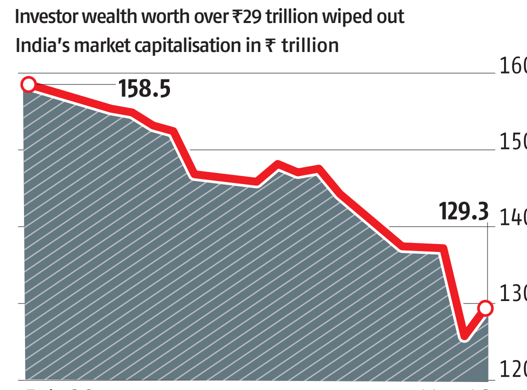
FPIs have sold in both equity and debt markets



Source: Bloomberg

6: THE VALUE DESTRUCTION

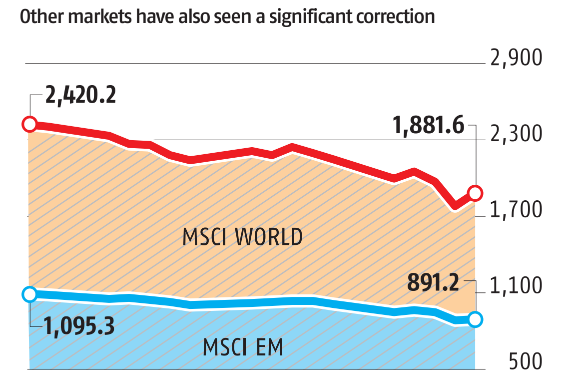
Investor wealth worth over ₹29 trillion wiped out
India's market capitalisation in ₹ trillion



Source: Bloomberg

7: INDIA IS NOT ALONE

Other markets have also seen a significant correction



Source: Bloomberg

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau

Margin calls, leverage lower than 2008

Regulatory tightening helps avert mishaps

ASHLEY COUTINHO
Mumbai, 15 March

The steep market crash over the past few sessions has triggered margin calls, albeit on a far lower scale than seen during the financial crisis of 2008.

Market participants attribute this to regulatory tightening and standardisation of margin requirements, stringent reporting for brokers, and segregation of client funds. Wealthy investors hold far fewer concentrated and leveraged portfolios like they used to. The lacklustre performance of midcap stocks over the past two years has also reduced leverage in the system.

The recent fall led several brokers to reduce or block leverage products for intraday trading over the past week even though it was not mandated by the regulator. The funding for SBI Cards & Payment Services has also locked up sizeable liquidity, as the amount bid in IPOs stays blocked for seven to nine days.

"Sebi now levies a short margin penalty where brokers can't allow customers to hold positions overnight without the minimum stipulated margin. Back in 2008, there was no such restriction. The margin requirement as a percentage of the F&O contracts has gone up as well, bringing down overall risk in the system," said Nithin Kamath, founder, Zerodha.

Leverage is typically employed by high networth investors. Brokers allow clients to leverage 15-20x based on their collateral and relationship with them.

In 2018, Sebi had asked exchanges to collect initial margin, exposure margin or extreme loss margin, mark-to-market settlements, and calendar spread margin from trading members in the F&O segment. Additional surveillance margin was later introduced in addition to SPAN (standard portfolio analysis of risk) and exposure margins.

Derivatives trades require a mandatory cover for volatility over two days. So, one lot of Nifty futures, which needed about ₹50,000 of SPAN to hold the position overnight, now requires ₹1 lakh in the form of SPAN and exposure margins.

Earlier this year, stock exchanges asked stockbrokers to collect margins from their clients upfront even for intraday trades. The regulator, however, has put the proposal on hold.

"The list of stocks where lending is allowed has been brought down drastically by the regulator. Clients are now required to pay margin based on exchange calculations," said Prasanth Prabhakaran, chief executive officer, YES Securities.

He said brokers had adopted a conservative approach during the current crash and refrained from lending against stocks outside the A category because of the steep VAR margins defined by the exchanges.

For a stock like Reliance Industries (RIL), for instance, a broker would offer 10 times leverage until a few years back. So, for buying ₹1 crore worth of shares, an investor had to pay ₹10 lakh. That has risen to about ₹23 lakh today. Brokers further increased the margin requirement last week to as high as 50 per cent, implying the same investor would have to shell out ₹50 lakh to purchase ₹1 crore worth of RIL shares.

The froth in the market is lower than in 2008. "During the five-year bull run between 2003 and 2008, the Nifty 500 index delivered 48 per cent compound annual growth rate (CAGR) returns. During 2015-2020, the same index delivered 8 per cent CAGR. Similarly, midcaps delivered lower than the broader index returns from 2015-2020, highlighting lack of euphoria," said Vinay Paharia, CIO, Union MF.

He said the Nifty 500 total market cap to nominal GDP ratio had increased to 83 per cent as on March 31, 2008. It is currently around 60 per cent.

To be sure, brokers that lent through their NBFC arms would still have suffered some losses in the recent carnage, said experts. Some want the regulator to impose a ban on short-selling to reduce speculative activity, akin to China.

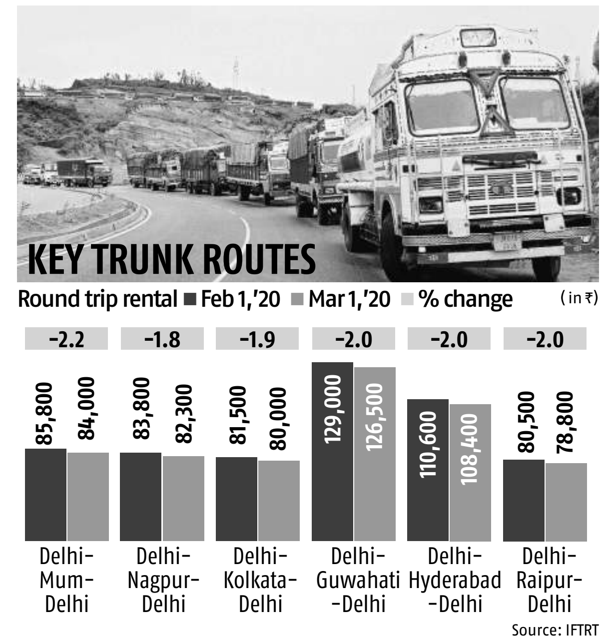
MARGIN ON NIFTY STOCKS

	Price*	Traded value**	Total margin#
RIL	1,116.95	111,695	22,808
TCS	1,820	182,000	31,285
HDFC	2,072.65	207,265	38,572
Tata Motors	90.5	9,050	2,394
SBI	244.25	24,425	8,578

Figures in ₹; *Friday's last traded price, **for quantity of 100, #includes VAR, ELM Source: NSE

Fuel sales tax hike double whammy for transporters

Only hope is bumper rabi crop output



SHALLY SETH MOHILE
Mumbai, 15 March

The road transport sector, reeling from poor demand amid COVID-19, and shrinking output in the manufacturing sector and the capital goods industry, will be hit further with the hike on fuel sales tax.

Owing to reduced demand and a drop in global crude oil prices, freight rates on key trunk routes came down 2-3 per cent in February, according to the Indian Foundation of Transport Research & Training (IFTRT), based in New Delhi.

The only reprieve for transporters in the near to medium term is a bumper rabi crop, the harvesting of which has begun.

The government raised fuel taxes by ₹3 per litre on Saturday though global crude oil prices dropped 30 per cent, dashing hopes of fuel prices falling rapidly over the next few days.

"Whatever price reduction happened in the past fortnight has been more than neutralised. We were expecting prices to come down by ₹10-12 (per litre)," said S P Singh, senior fellow, IFTRT.

Transporters are struggling because everything is in disarray, he said, adding that the government should have been compassionate. What worries him more is the inability of transporters to pass on the hike to their customers, owning to weak demand.

Bal Malkit Singh of Bal Roadlines agrees. "Prices of all the other inputs— be it insurance, toll, registration, or tyres — have gone up sharply. Lack of demand is a handicap in passing on the increase. Close to 40 per cent of the trucks in the market are idling. The only silver lining is the procurement of rabi crops, which has started." He said cargo volumes, under pressure due to slowdown, would go up by 25-30 per cent in the next 15 days.

Forty per cent of trucks are dependent on agri-produce. Bumper production will help in keeping their head above water, he said. According to the second Advance Estimates of production of major crops for 2019-20, released by the Department of Agriculture, grain production is estimated at a record 291.95 million tonnes, up by 6.74 mt over 285.21 million last year.

A record production of agri-commodities will help operators that are in the retail segment and whose vehicles run on routes that do not require national permits. "Unless manufacturing and other core sectors pick up and demand starts improving, there's no respite for our sector," he said.

Centre to rework long-term power sale pacts

The ministry is designing policy paper to dwell on alternative for long-term PPAs

SHREYA JAI
New Delhi, 15 March

Long-term power purchase agreements (PPAs) between generators and states could soon go away. The power ministry is planning to rework the PPA regime to address issues of states not honouring the pacts and, at times, reneging on the contract.

PPAs are typically of 25-30 years duration. The ministry is designing a policy paper to dwell on the alternative for long-term PPAs. The policy will also address the issue of cost escalation within the contractual clauses laid down by PPAs.

In his submission to the parliamentary standing committee on energy, the power ministry secretary said: "PPAs are a big issue. Generators enter long-term PPAs because no bank or financial institution will finance the projects if there is no long-term commitment for sale of power. But the issue is that prices get fixed but cost escalation keep happening, and technology gets depreciated."

He said most of the state-owned power distribution companies (discoms) faced the conundrum of cost revisions due to market forces or technological changes but were tied within the terms of the PPA.

"Discoms can't be held responsible for cost escalation in power. If tariff increases, then it's up to the discom whether it wants to buy that power or not. If cost of power increases, why the discom should suffer?" said the secretary.

The move comes at a time when thermal power sector is facing stress due to non-payment by discoms. At the same time, a lot of states lately have reneged on their contracts with renewable power companies, including seeking reduction in tariff.

Many states have gone back on their contracts with renewable power companies and have sought reduction in tariff

During this decade, no state except Kerala has issued any new long-term PPA for procuring from private thermal power generators. The existing PPAs of private power generators is also under a cloud. Of the 40,000 Mw of stressed power assets in the country, close to 11,000 Mw are the ones with no or inadequate PPA. This has also caused build-up of non-performing assets for lenders.

Senior sector executives said policymakers were looking into 'market-based economic dispatch' of power. The approach suggests dispatch of power based in demand available in the market.

The Central Electricity Regulatory Commission (CERC) has studied several models across the globe to support a market-driven electricity supply model.

"States should be willing to take up such an initiative. A market-based approach would lead to overhaul in the tariff design. Coal supply allocation would also need to change accordingly," said the executive.

Given the increasing share of renewable energy in the energy mix and reducing operating ratio of thermal power plants, several experts believe a dynamic market supports a vibrant energy mix.

The average plant load factor (PLF) of thermal power generation units is on the decline in the country. At 57.61 per cent, PLF in January touched a five-year low. PLF during 2019 witnessed double-digit slump during most months of 2019, *Business Standard* reported recently.

The PLF decline of thermal units over the years corresponds to the increasing share of renewable energy sources in the overall energy mix during the same period. However, the current fall in PLF is also due to a drop in electricity demand in the country. During January-December 2019, the growth in electricity demand was meagre 0.28 per cent, the lowest since 2014.

The standing committee report stated: "When the committee pointed out the shortages (power demand), the ministry had stated that it has been observed that despite availability of adequate power in the country, there is a marginal mismatch in demand and supply of power in various states/Union Territories. The ministry stated that this demand-supply gap is constraints in sub-transmission and distribution network, commercial reasons, financial constraints of the state utilities (discoms), etc."

Cong, BJP head for showdown in MP as Guv directs floor test today

PRESS TRUST OF INDIA
Bhopal, 15 March

The political drama in Madhya Pradesh is set to shift to the Assembly after the governor directed Chief Minister Kamal Nath to seek a trust vote on Monday. Speaker N P Prajapati said he would first give a ruling on whether to hold the floor test.

As the rebellion led by Jyotiraditya Scindia threatened survival of its government, the Congress appeared keen on putting off the vote and asserted it was the Speaker's prerogative to decide about the proceedings of the House, but a buoyed BJP maintained that he was bound by the governor's direction.

The Kamal Nath-led Congress government is fighting for survival after Jyotiraditya Scindia joined the BJP, and 22 of his MLAs resigned

After the Speaker accepted the resignation of six Congress MLAs on Saturday, the party now has 108 legislators. These include 16 rebel MLAs whose resignations are yet to be accepted. The BJP has 107 seats in the House, which now has an effective strength of 222, with the majority mark being 112. To add to the Congress' woes, it is yet uncertain whether it will continue getting the support of four Independents, two BSP MLAs, and MLA from the SP.

The week-long political drama saw both the Congress and the BJP herding their MLAs to resorts outside the state due to fears of poaching. While the Congress MLAs returned on Sunday from Jaipur, the BJP was bringing back its members from Haryana to attend the session. Both parties have issued whips to their MLAs.

On Saturday night, Governor Lalji Tandon wrote to the CM to seek a trust vote soon after the governor address on Monday. He has directed that the vote be held by division of votes and the process be recorded on video by independent persons. The Speaker on Sunday remained non committal over the trust vote: "This will be known tomorrow..."

There were indications that the Congress might seek to buy time from the Speaker to win back some of its 16 rebels MLAs. Amid suspense on vote, sources said both the were mulling legal recourse in case the proceedings do not go their way.

4 Guj Cong MLAs resign ahead of Rajya Sabha polls

Four Congress MLAs in Gujarat have tendered their resignation to Assembly Speaker Rajendra Trivedi ahead of the election to the four Rajya Sabha seats in the state to be held on March 26, prompting the opposition party to shift at least 24 MLAs to Jaipur on Sunday.

While the Congress said not a single "honest" MLA had resigned, state BJP president Jitu Vaghani said if the four legislators had indeed quit, the saffron party would win three seats in the RS elections.

Speaker Rajendra Trivedi confirmed said he would disclose the names of the four MLAs on Monday.

J&K statehood to be restored, no demographic changes: Shah

PRESS TRUST OF INDIA
New Delhi, 15 March

Assurances of restoration of statehood at "early opportunity", no demographic change and release of all political prisoners in "due course" were the takeaways from Union Home Minister Amit Shah's meeting with a political delegation of the Jammu and Kashmir Apni Party on Sunday.

Expressing confidence that "visible changes will be seen on the ground in the next few months, the home minister also assured the delegation that the NDA government under Prime Minister Narendra Modi will take all steps for the overall development of Jammu and Kashmir". The political delegation, which is the first one after the abrogation of special status on August 5 last year by the Centre, had called on the prime minister on Saturday.

Engaging with the delegation on about 40-odd issues raised by them, the home minister emphasised that there is no intention of the government for demographic change in the region and "all such talks have no basis at all".

In a similar assurance as given by the prime minister to the delegation, Shah said the government will work with all sections of the society to realise the hopes of statehood for Jammu and Kashmir at an early opportunity, an official statement said.

He referred to the prime minister's address to the nation after the abrogation of Article 370 and said that and even he, himself in his speech in Lok Sabha on August 6, 2019 expressed the same.

The home minister said this is also good for India's interest, as the region is a border area, the statement said.

FROM PAGE 1

Sebi considers...

"As other countries have announced measures to stem the market fall, there is pressure on Sebi to follow suit. Based on the structure of the domestic market, Sebi could use the tools at its disposal to ensure there is no panic among investors," said an exchange official.

However, some say such measures could do more harm than good to the market. "A ban on short selling should be used only in extreme situations. It often distorts the process of fair price discovery. Also, it provide only short-term relief and cannot alter the direction of the market," said an industry expert. Instead of a blanket ban on short selling, Sebi might ban naked shorting in the derivatives segment, said experts. This means it will allow investors to go short only to hedge their cash positions. A similar move is in place for overseas investors taking the participatory notes route. A ban on intraday trading and extending the scope of the ASM, which is currently used only on small-cap stocks, are other tools that can be used by the regulator, said people in the know. Also, Sebi has asked the stock exchanges to increase monitoring of algorithmic trading (algo) and high-frequency trades (HFT), whose influence in the domestic market has increased exponentially. Many believe the 10 per cent drop in the market on Friday was caused by algo and HFT as stock prices fell on very low volumes. The finance ministry has directed Sebi to report regularly all the developments taking place in the financial markets and measures taken to control market volatility. An email sent to Sebi on the issue went unanswered.

Rate cut ...

"There is also coronavirus and the impact it has had on the global economy. We want to improve credit activity at this time and hope that the RBI will also emulate action by central banks elsewhere," said the official.

Officials admit that the latest episode in the financial sector — that of YES Bank — may have eroded trust in the financial sector and that lowering the cost of capital was one of the ways to get that trust back. They hope that a cut in small savings interest rates will prompt banks to cut their rates as well. Central banks of various nations, including the United States Federal Reserve and the Bank Of England, have announced surprise interest rate cuts to deal with the economic impact of coronavirus amid concerns that the slowdown from the outbreak could tip countries into recession. The next meeting of the MPC is scheduled during March 31-April 3. The notification of the small savings interest rates for April-June, which is reviewed quarterly, is expected on March 31 as well.

Air India...

Lufthansa is flying to 220 destinations and has 400-plus aircraft. The share price of Delta Air Lines is down from $58 on January 1 this year to $38.36 on Friday closing. The US-based airline has a fleet of 909 aircraft and flies to 325 destinations.

Air India, a loss-making airline, has 103 destinations and, along with Air India Express, around 146 aircraft. The airline has not made money since the merger of Air India and Indian Airlines in 2007.

Apart from Air India, the government is also looking to sell Air India subsidiary Air India Express and 50 per cent in Air India SATS Airport Services.

Apart from the Hindujas, the Adani group, and US-based fund Interups, the Tata group is expected to make a bid. The government has extended the last date for submitting expressions of interest to April 30 after some entities cited the visa ban till April 15 by the Indian government. This, according to them, is preventing their travel to India for valuation. Another prospective bidder said it might opt out of the process because of the crisis.

"We will take a final call in the last week of April on submitting the EoI," it said.

The decline in Air India's valuation is bad news for the government, which is trying its best to sell the airline after it had to pump ₹30,000 crore of taxpayers' money into the airline since 2012.

In order to attract bids, the government has transferred ₹29,500 crore of Air India's debt to a special purpose vehicle — Air India Asset Holding, with real estate assets. With this, Air India is left with ₹23,000 crore of debt. The government is selling its 100 per cent equity in the airline, unlike its offer of 76 per cent in the previous round of sale in May last year.

ED summons...

An email sent to the Reliance Group spokesperson on Saturday went unanswered. Sources said the federal agency had prepared a list of the top five borrowers, which were extended large credit facilities by the bank under Kapoor.

"Most of these borrowers have defaulted and the loans have turned into bad debts. So, each of these accounts is under the radar. Their management and promoters will be examined and questioned in the coming weeks," said the official.

Last week, Reliance Group had said it had no direct or indirect exposure to the Kapoor family or any entities controlled by them. "The entire exposure to YES Bank is fully secured and is transacted in the ordinary course of business, and we are committed to honour our repayments to YES Bank," the statement said. Some of the other defaulters to whom YES Bank had advanced funds include Vodafone Idea, DHFL, IL&FS, Essel Group, CG Power, and Cox & Kings. IL&FS, DHFL, and CG Power are already facing probe from various agencies for alleged irregularities. The ED is probing Kapoor's role in YES Bank's bad debts of ₹30,000 crore and whether the money was siphoned off and laundered to the 78 entities controlled by the co-founder.

Problematic revision of data

There is an urgent need to reduce the number of estimates on economic growth and the time taken to release them

RAISINA HILL

A K BHATTACHARYA

When the Central Statistics Office (CSO) declared India's gross domestic product (GDP) growth figure for 2016-17 on January 6, 2017, economic policy makers in the Narendra Modi government were disappointed. The GDP growth figure was only 7.1 per cent, less than what the government had hoped for and lower than what it was in 2015-16. Critics had noted that the figure was an early signal of the feared consequences of demonetisation. Demonetisation had nullified 86 per cent of the Indian currency notes in circulation and had replaced them with new currency notes over the next few months causing huge disruptions to the economy and giving rise to fears of a decline in the growth rate.

The narrative on India's economic growth during 2016-17, however, changed quite completely after about two years. The GDP growth number for that year was revised upwards to 8.2 per cent. Economic policy makers in the government bounced back with their narrative on how growth had not only remained intact, but was even higher than the 8 per cent growth recorded in 2015-16. As if to address the doubts of the critics who were still complaining, the economic growth figure for 2016-17 was further revised upwards, a year later on January 31, 2020, to 8.3 per cent.

What really happened?

Welcome to the world of frequent revisions of economic data in India! The CSO releases as many as six estimates of the country's annual economic output growth. Believe it or not, these estimates for the same year's economic output are released over a period of three years!

Thus, the GDP growth figure for 2016-17 was first released in January 2017 as the First Advance Estimate. The Second Advance Estimate was released a month later by the end of February 2017. The third estimate is called Provisional Estimate and was released in May 2017. And then there is a long gap of about eight months and the fourth estimate, the First Revised Estimate, was released by the end of January 2018. Two more estimates for 2016-17 GDP were released — after a gap of one year each. The Second Revised Estimate for 2016-17 was released on January 31, 2019, and the Third Revised Estimate for 2016-17 was released exactly a year later on January 31, 2020.

Note that there were no changes in the first four estimates for GDP growth in 2016-17, all of which placed it at 7.1 per cent. The sharp variation began with the Second Revised Estimate released in January 2019 (8.2 per cent), followed by a further change in the Third Revised Estimate released in January 2020 (8.3 per cent).

The trend of sharp variations in the GDP growth was maintained in 2017-18 as well as in 2018-19, although the trajectories were a little different. For 2017-18, the First Advance Estimate put GDP growth at 6.5 per cent, which was revised upwards just a month later to 6.6 per cent as the Second Advance Estimate. The Provisional Estimate raised it again to 6.7 per cent, when it was released in May 2018. And the First Revised Estimate, released in January 2019, revised it further to 7.2 per cent. The Second Revised Estimate, released in January 2020, scaled it down a bit to 7 per cent. The Third Revised Estimate will be out next January. And a new number may well be released then.

For 2018-19, only the first four estimates have been released so far. In a space of one year, the GDP growth figure has already seen four different versions — starting with 7.2 per cent in January 2019, it has gone down to 7 per cent in February 2019, 6.8 per cent in May 2019 and further down to 6.1 per cent in January 2020. Unlike in the previous two years, the different estimates for 2018-19 have successively brought down the growth rates. For the 2019-20 growth number, the first two estimates are out, both placing it at 5 per cent and without any variation.

It is not just the GDP growth numbers that have seen such variations in different estimates, but also other parameters like the gross value added at basic prices, private final consumption expenditure, government final consumption expenditure and gross fixed capital formation.

Economic output growth numbers are an important tool for policy makers to assess the economy and recommend necessary policy measures. If these numbers are changed significantly in six different estimates, the efficacy of such policy intervention will naturally suffer. The problem arises not just from the revisions, but also from the inordinately long period of three years over which such changes take place. And every time one of these six estimates undergoes a change, either way, the estimates for the following years are also necessarily revised.

Of course, the CSO explains every time there is a variation in a fresh estimate. But that does not help tackle the challenges for policy makers. Questions on data reliability or integrity are also not addressed. Additionally, such changes make the data release system vulnerable to political pressures to modify or tinker with numbers to suit a specific political narrative. While the CSO must look into the methodologies of arriving at its various estimates and examine necessary remedial steps to make the system more robust, it must also evaluate the need for as many as six different estimates of the same output growth numbers and, that too, over a period of three years. Surely, reducing the number of estimates and the span of time over which they are released would go a long way in addressing the growing concerns over data reliability and its vulnerability to political pressure.

Dear governor, why save the bullet? Use it now

Beyond perking up the economy, the RBI needs to ensure proper functioning of the bond market, the credit market and the larger financial system

BANKERS' TRUST

TAMAL BANDYOPADHYAY

On March 8, Uday Kotak, executive vice-chairman and managing director of Kotak Mahindra Bank Ltd, tweeted: "Coronavirus roils global financial markets, sparking chatter of coordinated monetary easing by central banks. Reminds me of Mark Twain's quote, 'To a man with a hammer every problem looks like a nail'."

It got a huge response — 15,700 likes and 3,800 retweets.

Clearly, there are many takers for Kotak's belief. But central banks globally don't seem to care much about Mark Twain. In March, at least 15 central banks have cut their policy rates, starting with the Reserve Bank of Australia. The list includes the US Federal Reserve (US Fed) and the Bank of England (BoE) besides the central banks of Canada, Malaysia, Hong Kong, Argentina, Saudi Arabia, Bahrain, Moldova, Macao, Jordan, Kuwait, Mauritius and Iceland. The central bank of China has cut the commercial banks' cash reserve ratio to release $78 billion.

At least two of them have gone for out-of-turn rate cuts — the US Fed and the BoE.

On March 3, the US Fed was the first central bank to take the emergency step of half a percentage point cut to limit the economic and financial fallout from the coronavirus — its first such out-of-turn action since late 2008, in the aftermath of the collapse of Lehman Brothers Holdings Inc.

At a special meeting that ended on March 10, the Monetary Policy Committee of the BoE unanimously voted for policy rate cut by half a percentage point. It also announced a new term-funding scheme to support small and medium companies and measures to help commercial banks lend more on a day the government presented the budget, raising public borrowing.

The only central bank that has met recently but left its rate untouched is the European Central Bank (ECB). Last week, it decided against a rate cut but announced measures to support bank lending and expanded its asset purchase programme by $135.28 billion. Anyway, the ECB's main rate remains in the negative zone (-0.5 per cent).

After a half a percentage point cut earlier this month, the benchmark Fed-funds rate is now in the range of 1-1.25 per cent. The Fed will surely cut rate again when its rate-setting committee meets on March 17-18. Many say it may not wait till then and go for an emergency cut before the meeting. They don't rule out the benchmark rate dropping to zero over the next few months.

Meanwhile, the Fed has launched a series of massive cash injections into the funding markets and begun buying government bonds even as the 10-year treasury yield has plunged to its historic low.

The Fed is known to supply steroid to the stock market. What should the Reserve Bank of India (RBI) do? I don't doubt that there will be a rate cut when its Monetary Policy Committee (MPC) ends its three-day meeting on April 3 but shouldn't governor Shaktikanta Das roll up his sleeves and call the meeting now?

He can do so. Under Section 45ZI of the RBI Act, there must be at least four MPC meetings a year; the schedule needs to be published at least a week ahead of the first meeting. The dates can be changed and the governor can decide to have additional meetings for "administrative exigencies".

Why should there be a rate cut? Like most other nations, Asia's third-largest economy too is being affected by COVID-19. The service sector is bearing the brunt and exports are being hit. There has been no demand for investments and no signs of any pick up in credit demand. On top of that, the financial sector is not in the pink of health.

India's retail inflation dropped to 6.58 per cent in February, below the consensus estimates, and against the 68-month high of 7.59 per cent in January. The drop has been driven by a sharp fall in food inflation; the so-called core inflation too moved southwards. The dramatic fall in crude prices will put pressure on inflation further in the coming months and the average retail inflation in 2021 could be 5 per cent or even less. In its February policy, the RBI estimated 5.4-5 per cent inflation for the first half and 3.2 per cent for the third quarter of 2021.

The latest set of data on inflation and industrial production was released last week. The MPC won't have any fresh data on its table before the April policy. Why wait then? Let it go for a 0.40 per cent cut and bring the policy rate down to 4.75 per cent for now, the level of April 2009 — when we saw the last of a series of rate cuts that had started in July 2008 to contain the impact of Lehman collapse in India.

A rate cut is on the cards. The RBI's first ₹25,000 crore long-term repo auction drew ₹1.94 trillion bids on February 17; for the next, on February 24, the bids dropped to ₹1.23 trillion and for the fourth and last auction on March 9, the bids were for ₹48,000 crore. The swap rates are also coming down, making it unattractive for banks to borrow from the RBI at 5.15 per cent, its policy rate.

Incidentally, in 2008, India was far better off — the economy was growing at over 9 per cent, bank credit growth was almost three times the GDP growth and the financial sector was rock solid. Now, we have problems on all three fronts. And, both the fiscal and the monetary space is too limited to support the economy.

Last week, the RBI announced six-month US dollar sell/buy swaps to provide liquidity to the foreign exchange market. The central bank also said it is ready to take all necessary measures to mitigate the effects of the coronavirus pandemic on the Indian economy and ensure normal functioning of the financial markets and institutions.

It's time to walk the talk. An out-of-turn policy rate cut should accompany assurance of RBI's bond buying from both the primary and the secondary markets and the reopening of a short-term repo window from where banks can borrow money from the central bank. There is about ₹3 trillion excess liquidity in the system but banks are cutting down risks; there could be serious dislocations unless the RBI acts. Beyond perking up the economy, RBI needs to make sure proper functioning of the bond market, the credit market and the larger financial system. Why save the bullet, Mr Das? Use it now.

The writer, a consulting editor with Business Standard, is an author and senior adviser to Jana Small Finance Bank Ltd. Twitter: TamalBandyo

CHINESE WHISPERS

Poster war in UP

Posters put up by Congress workers in Uttar Pradesh two days ago have intensified the political storm in the state. They show Chief Minister (CM) Adityanath, Deputy CM Keshav Prasad Maurya, and other Bharatiya Janata Party (BJP) leaders, and the criminal cases against them. These posters appeared right next to the hoardings, put up by the Lucknow district administration outside the UP BJP office in the Hazratganj area of the city, showing anti-citizenship law protesters. A day before the Congress posters were put up, the Samajwadi Party (SP) had emblazoned banners showing the rape accused ex-Union minister Chinmayanand and the Unnao rape convict Kuldeep Singh Sengar, both former BJP leaders. The district administration had, however, removed the SP banners and beefed up security in the area.

Virus unites brothers

The two, somewhat estranged, sons of Lalu Prasad put up a united front over the weekend to drive home the message of personal hygiene with the threat of COVID-19 looming. Elder brother Tej Pratap Yadav (*pictured left*) tied a face mask on his mercurial younger brother Tejashwi Yadav and handed him a bottle of hand sanitiser, a gesture aimed at spreading awareness of the pandemic and ways to prevent/avoid it. The brothers, who have not seen eye to eye on many issues, posed for pictures with their face masks on outside their mother and former Bihar chief minister Rabri Devi's residence. Tejashwi, the politically weightier of the two Yadav brothers, then urged the people of the state to remain vigilant, avoid crowded places, and follow the guidelines issued by the government.

Everyone's invited

Ever since the Rashtriya Janata Dal (RJD) gave a Rajya Sabha ticket to political greenhorn Amarendra Dhari Singh, party leaders have been on the back foot, trying to explain the move to its main constituency, the Muslim-Yadav cohort. While many were surprised by the announcement initially, it appears to be a calculated move by party chief Lalu Prasad to woo the upper castes, especially the Bhumihars, who are powerful and have been National Democratic Alliance loyalists. Lalu's younger son and the party's chief ministerial candidate, Tejashwi Yadav, termed the nomination of Singh as a befitting reply to critics who had been accusing the RJD of pandering to the Muslim-Yadav interests alone. He, however, added that this was in no way a dilution of the party's commitment to social justice and the uplift of the backward castes, economically backward classes, and Dalits.

INSIGHT

The coming turmoil in the capital markets

In part one of a series, the author says the capital markets and the securities ecosystem have remained broadly untouched by the progress in India's payment infrastructure

RAJIV SHASTRI

No, this isn't an article about where the equity or debt markets are headed in term of valuation and returns. It's about a bigger turmoil which will render many market institutions and participants redundant.

Recent years have seen fantastic progress in India's payment ecosystem. First with the real time gross settlement (RTGS) and then with the national electronic funds transfer (NEFT), transferring money from one bank account to another became a breeze during market hours. The role of instruments issued by one's bank, indeed that of the bank itself, reduced sharply in managing payments when compared to the earlier cheque and draft era. But this was just the beginning.

With the immediate payment service (IMPS) and unified payment interface (UPI), the bank itself has become irrelevant in payments. Even if one's bank doesn't have an app or a net banking facility, one can still transfer money from one's account to any other in the country round the clock without any involvement of the bank itself. While such transfers have a daily limit of ₹1 lakh per account, this limit is in excess of that needed in an overwhelming majority of transactions. More recently, with NEFT available round the clock for transfers of up to ₹2 lakh, banks have tried to claw back some of their lost relevance.

However, if one looks at the capital markets and the securities ecosystem, it has remained broadly untouched through the years. Taking the equity markets as an example, we still have the daily rolling T + 2 settlement system introduced in 2003. The access that one investor has to other investors is only through the exchange-clearing corporation-broker-depository participant framework and very few investors even have an app- or web-based direct access to their own demat accounts in the depository. This makes the transaction flow quite convoluted.

When investors wish to buy securities, they place an order with their broker who executes the transaction on the exchange. The investor then transfers money to the broker, who in turn pays it to the clearing corporation. An even more complicated sequence is followed on the selling side of the transaction. Sellers instruct their depository participant (DP) to transfer the shares sold to the broker's demat account through the broker's DP. The broker then instructs its DP to transfer them to the clearing corporation.

The reason this is more complicated is that, unlike the payment of money which is now possible without the involvement of the bank, the movement of securities still needs the full involvement of the DP and its processes. And the transaction isn't yet complete.

The clearing corporation then gives the securities received from the selling broker's DP to the buying broker's DP who, in turn, transfers it to the buyer's DP and then to the buyer's demat account. The clearing corporation also gives the money received by the buyer's broker to the seller's broker, who, in turn, transfers it to the seller.

The reason exchanges need clearing corporations is to prevent any settlement failures that may happen at any stage during this transaction process. It enters each transaction as a central counterparty, guaranteeing settlement irrespective of what happens at the other end of the transaction. For example, if the buying broker fails to deposit the money required to buy the securities, the clearing corporation will still pay the selling broker. Clearing corporations and exchanges further manage the risk of settlement failures by only allowing brokers to transact on their platform, thus restricting the number of entities they deal with. In addition, as a condition for this access, these brokers comply with various financial and regulatory requirements designed to impart further protection to the exchanges and clearing corporation. Needless to say, the existence of powerful intermediaries who control market access comes with its own set of complications, as was evident recently.

Also, there is a cost associated with maintaining this elaborate ecosystem which is borne by investors. And while this elaborate structure was needed at a time when neither current technology nor the current payment ecosystem existed, it has now clearly outlived its usefulness. As things stand, there is no reason why investors should not have a direct app or web-based access to their demat account.

But most importantly, there is no reason why investors cannot link their bank and demat accounts to a trading account with an exchange, such that when they transact directly on the exchange, the settlement of both securities and funds happens seamlessly on a real time basis.

In this transaction model there is no difference between transaction and settlement. A purchase transaction is only possible if the buyer has the funds available for transfer. A sale transaction is only possible if the seller has the securities available or, as is the case with derivatives, the ability and the funds needed to create these securities.

Since no settlement failure is possible, the need for a clearing corporation and brokers disappears. Depositories acquire the nature of banks by allowing investors direct access to their accounts, eliminating the need for DPs. Exchanges provide an electronic platform directly to investors and continue to manage listing, ensuring that listed companies comply with all the rules and regulations designed to protect investors.

All of this is within the reach of existing technology. So the question isn't whether this will happen. The question is when.

(Concluding part, "Capital market disruption", will appear on March 18)

The author is an economist, capital markets expert and the former CEO of Essel Mutual Fund

LETTERS

Read the writing on the wall

Jyotiraditya Scindia on March 9 tendered his resignation from the primary membership of the Congress party blaming the high command's negligence of his capabilities and contribution to the party, which, he said, helped the party to form the government in his home state of Madhya Pradesh. The writing, however, was on the wall long before the Scindia scion had actually made his move. It was evident from the beginning that the Maharaja would not take the fact that he was kept away from power roles of the party lightly.

Unfortunately, this is a pattern and not an isolated incident for the Congress party. It has already seen players like YSR Jaganmohan Reddy in the south to Himanta Biswa Sarma in the northeast making a switch and being voted to power thereafter. The egotism of the party's high command seems to be its undoing.

The time is ripe for the Opposition to free itself from the clutches of a system that prioritises loyalists over young talent. But if the party chooses to put its dynastic ambition over the need to repair the fractures within, India might soon find itself without a strong Opposition capable of enforcing checks and balances on the government.

Gaurav Agarwal via email

Superstar's reluctance

Whether actor Rajinikanth's unequivocal message to his fans that he never aspired to be a chief minister and only intends to head his yet-to-be-born political party is a sagacious decision or not, it has only strengthened the perception of him being reluctant to take the plunge into politics with all the conviction and fortitude it demands. The actor's exhortation to his fans to usher in a change in the existing political system and preference for youngsters in the party's hierarchy and committee of experts to guide the government is nothing but a reflection of his political thinking. What needs to be understood here is that the electoral battle in Tamil Nadu primarily hinges and revolves around chief ministerial candidates of every political alliance. Rajinikanth's decision of not being in the race for chief ministership will, in all likelihood, affect the electoral prospects of his political party whenever it is launched.

M Jeyaram Tamil Nadu

Litmus test

This refers to the editorial "Coping with coronavirus" (March 13). Our country has a pathetic record in disaster management. It is imperative that the government handles the coronavirus outbreak as effectively as possible. Though this virus has mainly spread in four countries — China, South Korea, Iran and Italy — in the last few days, the patient count in India has increased, and cases are being reported from different parts of the country. The government's blanket ban on tourist visas from all countries is a very sensible move. The Delhi government has closed down schools, colleges and cinemas till March 31 as a precautionary measure. The government's priority should be to restrict the mortality rate.

I second your concern that in a month, the number of cases has increased from three to 73. We also need to realise that it was bound to increase as people were coming to India from these locations without being aware they were carrying the virus. The government must do a few things without delay. First and foremost, it must try to stop panic as deaths due to other reasons could also be construed as death due to coronavirus. Clear communication is key and as far as wearing masks, it should be clearly communicated through all outlets whether they serve any purpose or not.

Bal Govind Noida

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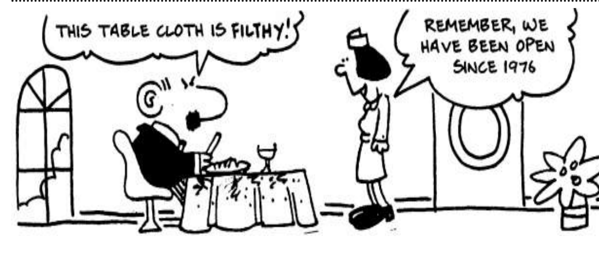
HAMBONE



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Policy after COVID-19

Globally, economic policy could soon be in uncharted territory

The spread of COVID-19 across the world, apart from being a severe health crisis, can have wider economic consequences. This was reflected last week in the heightened level of volatility in financial markets and the flight to safety, which pushed US government bond yields to record lows. The Indian markets also witnessed significant volatility. While the main focus at present should be on checking the spread of COVID-19, it is also vital that the economic impact of the crisis is contained to the extent possible. The present situation is being compared with the 2008 financial crisis. This isn't strictly correct. It's not only the nature of the problem that is fundamentally different, the available policy space to deal with the economic and financial dislocation is also far more limited.

Along with a number of other central banks, the US Federal Reserve (Fed) has reduced policy rates, and is expected to do more. But it would soon hit the zero lower bound. Other central banks such as the European Central Bank and Bank of Japan already have their policy rates in negative territory. Given the nature of the crisis, while monetary easing by the Fed and other central banks will not push up economic activity, it would help ease credit conditions and contain the damage. The Fed is also providing short-term liquidity support to the market. However, if the problem persists and results in a deeper global recession, which is a real possibility, the effectiveness of the monetary policy will be tested. It is possible that large fiscal interventions would be required despite higher public debt. According to the International Monetary Fund, public debt in 90 per cent of the advanced economies is higher than the level before 2008. Economic policy could potentially move to an uncharted zone with ineffectual monetary policy, rapidly rising public debt, and uncertain outcomes. Therefore, it is vital that the available policy space is used carefully. Globally, ensuring smooth functioning of financial markets should be the top priority. Risk aversion could tighten credit conditions significantly with wider economic implications. Further, fiscal space should be used in a targeted manner.

In India, while the government doesn't have the fiscal room to support the economy, the central bank has done well to proactively intervene in the currency market. Apart from announcing sell/buy swaps to provide liquidity in the foreign exchange market, it is reported to have intervened in the offshore market as well. Although currency depreciation will help the tradable sectors, it is important to avoid excess volatility. A number of market participants also expect the Reserve Bank of India to cut policy rates. While the inflation rate is projected to come down in the coming months, disruption in supply chains could induce uncertainty on this account. Also, the state of the financial system would limit the benefit. The decision of the rate-setting committee, to an extent, will be influenced by global developments between now and April 3. Meanwhile, the government has done well to increase tax on petrol and diesel. This would help contain the fiscal deficit. A number of precautionary steps to contain the virus have also been prudent. The government should continue to build capacity to treat infected people. This will help limit the economic downside.

Riot and riposte

The govt's explanation in Parliament was disingenuous

Indians seeking clarity from the government on the causes, responses, and aftermath of the riots in north-east Delhi, in which 53 people died and over 500 injured, would have been confused by Home Minister Amit Shah's explanations in the Lok Sabha on March 11. Mr Shah's 50-minute speech can be best described as a model of mendacity. It apportioned the blame on everyone but his ministry and the Delhi police, which report to him. According to his version, the riots were pre-planned, financed, and mobilised externally (by implication the Muslim community) and the police were exemplars of law enforcement by restoring order in 36 hours. He presented detailed data on first information reports filed, arrests, and other investigations. The gaping contradictions and omissions in his speech were hard to miss. For instance, Mr Shah said he had been so fully engaged with the police during those two fateful days that he missed US President Donald Trump's visit. This apart, he said the Uttar Pradesh border, through which alleged rioters were infiltrating, were closed on February 24. He added the police limited their operations to 4 per cent of the affected area and 35 paramilitary companies were deployed in riot-hit areas, which is why there was no trouble after February 25.

All of this raises more questions. With such intensive effort, why did it take the police 36 hours to restore order? If the presence of the paramilitary forces ended the trouble after February 25, why weren't they deployed when the rioting began? Why do victim and eyewitness accounts from both religious persuasions speak of the conspicuous absence of the police? Why did the police records show that thousands of emergency calls went untended? Why did the police prevent ambulances and other transport to access better-equipped hospitals until ordered to do so by the Delhi High Court? How do videos showing the police participating in the violence, destroying CCTV cameras, beating up injured men, and forcing them to sing the national anthem square with Mr Shah's picture of model law enforcement? Why did the Press Information Bureau on February 25 refer to riots as spontaneous when he says they were pre-planned? Why do two BJP worthies, whose inflammatory speeches must be considered equal offenders as the acts of the scheming rioters, remain at large even as an offending councillor from the Aam Aadmi Party has been arrested?

Though Mr Shah did not deign to address the many doubts raised by opposition MPs, he added another layer of ambiguity to the contentious National Population Register (NPR) exercise, due to begin next month. Anxious perhaps by the unwillingness of allies in states to implement it — including, most recently, Tamil Nadu — he announced that no one would be marked a Doubtful Citizen under the exercise. This, too, is misleading. The NPR does not designate "D-Citizens"; it is the National Register of Citizens (NRC) that does so. Under the Citizenship Act, the NPR is the precursor to the NRC. Prime Minister Narendra Modi had stated that there had been no discussion on the NRC, but did not rule it out. As a means to quell national misgivings on the troubling trinity of Citizenship Amendment Act-NPR-NCR, the proximate cause of the February riots, Mr Shah has failed. His government has much to answer for still.

ILLUSTRATION: AJAYA MOHANTY

Stresses, known and unknown

Global financial market stress driving market volatility; economic impact of coronavirus and drop in oil prices remain uncertain

TESSELLATUM

NEELKANTH MISHRA

Global markets are in turmoil. Some volatility is normal: Existential issues generally crop up every year or two, causing the "buy on dips" philosophy to be questioned for long enough, to cause a sell-off in risky assets. But the speed and quantum of price changes seen over the past month remind many of the turbulent months a decade back. There appear to be three big questions financial markets are struggling to answer, and, as always, it is the uncertainty in quantifying their impact that is more troubling than the problems themselves. The first is the impact of coronavirus on global economic output, the second is the effect of the sharp drop in oil prices, and the third is the stress in global financial markets driven by the first two.

Credit Suisse global economists and money market strategists have flagged funding pressures created by disruptions caused by coronavirus, first in China, and then in the rest of the world. As activity levels drop, the velocity of money slows: Customers stay home, or production slows because of some parts being in short supply; some can take credit, but for many informal sector workers, income and thence consumption drop immediately. Other households and some firms have higher cash balances, as they stay at home (no movies, eating out) and generally spend less than normal (e.g. travel bans, cancellation of conferences). This happens at a global level. While within countries the respective central banks can address this, when it comes to global payments, which are primarily in US dollars, the US Federal Reserve (Fed) needs to act. Before it acted on Wednesday last week, providing effectively unlimited liquidity, there were tell-tale signs of stress reminiscent of the early days of the 2008 crisis, and last seen during the Greek crisis in 2011. For example, the gap between the price that a seller of US government bonds (USTs) asked for and the price that the buyer was willing to pay (called the bid-ask spread) rose to record highs. For "liquid" (that is, heavily traded) securities, this gap is generally low, and USTs are the most liquid securities in the world. But the Fed's action so far does not help non-US firms: For that, the swap lines used during the 2008 crisis may need to be opened up again.

This lack of liquidity has been the primary driver of the record high outflows from emerging-market equity funds: The last 30 days have seen $36 billion go out, significantly higher than that seen even during the 2008 crisis. For markets like Brazil and Turkey, which have historically been susceptible to fund outflows, these are the worst on record. For India, $4 billion stampeding out over the past month ($2 billion over the past week) is close to the worst seen in 2008, though as a share of market capitalisation the ratio is a bit better.

There is a natural mean-reverting trend about short-term flows — after one burst, sellers balk at the sharply lower prices, and some new buyers begin to get interested. Some regulatory actions like the short-selling ban imposed by markets like Korea also help in the near term. But these do not last long: Even as the markets rebound from the sharp correction over the past month, one must remember that the key risks remain unchanged.

There is no easy antidote to the income lost due to travel bans and cancellation of public events that are necessary to slow down the initial spread of the virus. It may be several weeks, if not months, before it becomes possible to quantify the loss of income. Unlike delayed purchases of items like cars and televisions, most of the income lost from services not consumed is income lost forever. Just lower interest rates may not suffice to counter this. Very few countries would have the logistical ability to deliver the type of stimulus that Hong Kong gave (10,000 Hong Kong dollars to every adult), even if they were to arrive at political consensus to consider it.

The rising gap between the yields on Italian and German sovereign bonds in the last few weeks also points to markets fearing renewed debates on how higher fiscal deficits in Italy, which may be inevitable, given the scale of the epidemic, would be perceived by other nations in the European Union. The fact that past epidemics have driven political change would not be lost on investors.

The sharp drop in oil prices adds another layer of uncertainty. At a global level, the oil price is just a transfer price from the producer to the consumer, and though producers get hurt by lower prices, consumers gain. A $30 drop in the price of Brent crude, for example, can mean $42 billion of annual savings for India, which is nearly 1.4 per cent of gross domestic product (GDP). More than half could flow directly to consumers if taxes were not raised, becoming the consumption stimulus that is needed to stem the downward spiral triggered by slowing credit growth in India; once sequestered as taxes, it becomes challenging for the government to distribute it as widely.

However, for several oil-exporting economies, the drop in income could be debilitating. The cuts in capital expenditure in further exploration and extraction of oil, and the potential risk to lenders exposed to oil producers or service providers, is perhaps easier to quantify. The bigger risk is that several of the smaller producers (but where oil revenues are a very large part of national income) could see the government losing its ability to provide even basic services like law and order and health, running the risk of a descent into anarchy. The larger producers have built up buffers over the past two decades, and may not have this risk unless low prices sustain for several years.

It may be a few months before the markets are able to "draw a circle around these problems", meaning that the costs are quantified, and the allocation of these costs is broadly understood. In all this global turmoil, the India-specific problems of a financial system short of capacity, effective interest rates that are still ahead of the nominal GDP growth, and poor consumer and investment sentiment, have slipped from headlines, but still need to be addressed. The coming weeks and months will require cohesive and speedy action by policymakers: The challenges could very well be turned into opportunities.

The writer is co-head of Asia Pacific Strategy and India Strategist for Credit Suisse

What kind of bear market is this?

IRRATIONAL CHOICE

DEBASHIS BASU

The Sensex on February 13 hit a high of 41,709, and was set to cruise higher on the back of a continued inflow of foreign and domestic investment. Institutional investors, market commentators, and, of course, retail investors were apparently unworried. Economic growth hitting 2.5 per cent (yes, it would be 2.5 per cent in accordance with the old series even it is 4.5 per cent in accordance with the new) seems to be a non-issue. The political leadership, (market players continue to think it is visionary), is now focused on social engineering and not economic development; but that too appears to be irrelevant. Record unemployment doesn't seem to matter. The decline in growth in sector after sector — auto, capital goods, exports, textiles — is considered temporary. An uninspiring Budget and the subsequent fall in stock prices were reasons to buy, not sell. According to analysts, the market is cheap, based on some fantasy earnings growth figure of FY21, never mind that the consensus earnings forecasts of analysts have never been right.

Then came coronavirus and this cosy complacency was shattered. Last Friday the Indian markets crashed to hit the lower circuit breaker as panic gripped markets around the world initially. From the high of February 13, till the lowest index intraday print of March 13, the Sensex has fallen 29.5 per cent. This is surprising and even shocking to many, but not unprecedented. From an intraday high of 12,671 on May 11, 2006, the Sensex had crashed to an intraday low of 8,799 on June 14 in the same year, a crash of 30 per cent in one month. I can bet that many seasoned market players may not remember that 30 per cent crash over one month, let alone what caused it.

Along with the equity markets, crude oil prices also crashed this time. Financial experts immediately chorused that falling oil prices will benefit India immensely. This is silly for two reasons. One, falling oil prices are turned to good account by the government through higher taxes. They are rarely passed on to the consumers. The Modi government did this in 2015, in 2018, and again this time. Two, to say that an oil crash will benefit India is a selective and self-serving argument because it only looked at one part of the equation. Oil prices crashed because of fears of a severe global contraction and demand recession. Surely, you cannot look at the fall in oil prices as a positive, without reckoning on the fact that entire businesses may shut down and many others get severely maimed due to demand contraction. Businesses don't care about input cost as long as there is demand. If there is a demand slowdown, lower input costs are irrelevant.

The real issue is whether the coronavirus contagion will be stopped or effectively contained. Cities and countries are shutting themselves off one after another. Schools, colleges, and leisure and entertainment centres are closing, conferences are being cancelled, and international travel has collapsed. Simultaneous global containment is the need, but in a globalised economy it also means a simultaneous global contraction in trade, transport, and tourism — a sure recipe for recession. The US government has tried to ease the pain by cutting interest rates and taxes, and loosening monetary policy. But, of what help are fiscal and monetary policies when there is no incentive to do more business and there are enforced hindrances?

Are the markets overreacting? On Friday, the Indian markets were locked in the lower circuit on opening and leading to a mandatory halt in trading for 45 minutes. Just before they reopened, US index futures shot up on some flimsy government announcement, which reverberated across global markets. So the Indian market reopened to a massive rally. It seemed like a bipolar market, depressed one hour and euphoric the next. This perfectly sums up human reactions to known unknowns, when we overreact. We know that the epidemic will affect us all but don't know how much. When we think it will affect us severely (fear), we sell out of panic and when we think it will be contained (euphoria), we perceive a buying opportunity. People hate uncertainty and react strongly to it. The greater the uncertainty, the stronger is the reaction.

There are three types of bear markets, according to Goldman Sachs — one driven by a specific episode or event, like war, an oil price shock, or an emerging-market crisis. It could also be events like demonetisation in India or 9/11 in the US. The second is cyclical, caused by a changed economic cycle, due to factors such as rising interest rates, impending recession, and fall in profits. This kind of bear market can lop 30 per cent off the index value (already happened). The third is a structural bear market, created by huge imbalances in the economy and financial bubbles, very often followed by a price shock and deflation. The decline in such bear markets is around 57 per cent. Which kind is the current one? I am guessing that institutional investors think it is event-driven or cyclical. The fact is, we don't know. If the epidemic is sharply contained in a month or two, we have a huge buying opportunity. If not, we are staring at a serious economic crisis, the contours of which we are totally unaware of.

The writer is the editor of www.moneylife.in
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Big Pharma's addiction to profit

BOOK REVIEW

NATASHA SINGER

In 1900, Bayer, the German pharmaceutical company that had developed aspirin, introduced a much stronger brand of pain killer in the United States. The new drug was called heroin, a name derived from the German word for "heroic." The company promoted it as a treatment for an array of ills: colds, coughs, asthma, epilepsy, multiple sclerosis, stomach cancer, schizophrenia. It also advertised heroin as safe for children. And anyone over 18 could buy it, Gerald Posner notes in a new book, *Pharma: Greed, Lies, and the Poisoning of America*.

Bayer was hardly the only company at the time touting risky products as panaceas. Mr Posner describes how the makers of Kopp's Baby Friend, a popular potion for quieting colicky infants, scoured newspapers for birth announcements and then sent mothers free samples. The giveaway aimed at mothers was an early precursor of a consumer-influence technique known today as "targeted marketing". The mothers who received the "Baby Friend" freebies, however, did not know that the formula contained alcohol and morphine sulphate, ingredients that could be poisonous to babies. Dozens of infants died.

Mr Posner draws on these incidents to introduce the idea that, in the early days of the pharmaceutical industry at least, it could be difficult to distinguish drug-makers from snake oil purveyors.

The focus on drug industry profiteering marks this book as the latest entry in a growing canon of Big Bad Pharma books. What distinguishes *Pharma* from these earlier efforts is that the author sets himself the task of writing a bigger, more ambitious tome.

Mr Posner envisions the book as a definitive history of the pharmaceutical industry "in its entirety" in a single volume. After all, he argues, people cannot really understand how firms like Bayer, Merck and Pfizer evolved into "sprawling pharma conglomerates that sell a trillion dollars of drugs annually" without understanding their early histories as pioneer peddlers of then-legal heroin and cocaine.

The result is a withering and encyclopaedic indictment of a drug industry. Over 550 densely packed pages, Mr Posner tells a tireless and occasionally tiring tale that reads like a pharmaceutical version of cops and robbers. First, the author exposes how drug companies pushed medical, ethical and legal boundaries, often causing more public harm than health benefit. Then he describes lawmakers and regulators scrambling to catch up and rein in the drug-makers. And repeat.

One of the most telling episodes involves antibiotics. The mass production of penicillin during World War II helped pharmaceutical companies throw off their reputations as addictive drug pushers and rebrand themselves as producers of innovative, lifesaving products. The drug-makers also reaped massive profits from penicillin. And they were eager to earn even more, *Pharma* explains, by patenting broad-spectrum antibiotics that might be used for all kinds of health conditions.

Mr Posner recounts how many doctors came to view super antibiotics as their drugs of choice — not only for proven uses like treating bacterial infections, but "even prophylactically at the first signs of a fever, earache, scratchy throat or runny nose". That over-eagerness drowned out troubling reports of allergic reactions to the drugs, fungal infections and the risks of antibiotic resistance. But the Food and Drug Administration, established in 1906 to oversee product safety, did not intervene, Mr Posner notes, because its commissioner at the time did not want to be seen as an obstacle to lifesaving medications.

PHARMA
Greed, Lies, and the Poisoning of America
Author: Gerald Posner
Publisher: Avid Reader
Price: $35

By 1950, pharmaceuticals had become the most profitable industry in the United States. But the mass adoption of antibiotic "wonder drugs" had opened a schism. Industry veterans, including the chief executive of Merck, insisted that medicines should be developed for people first, not for profit. Upstarts like John McKeen, the chairman of Pfizer, Mr Posner writes, took the opposite view, arguing that it was not worth investing in drugs that would not generate substantial revenue.

In 1951, McKeen decided to use the launch of Terramycin, the company's new broad-spectrum antibiotic, to develop a playbook for creating a blockbuster drug. For that he turned to Arthur M Sackler, a hard-charging advertising executive who had trained as a doctor — and who decades later would become known as one of the three brothers behind Purdue Pharma, the developer of OxyContin, the painkiller at the centre of the current opioid abuse epidemic.

McKeen allotted $7.5 million for the Terramycin campaign, an unheard-of sum for medical marketing at the time. Sackler used the funds for a novel saturation-marketing campaign, adapting Madison Avenue's techniques for selling consumer goods for his own "Medicine Avenue" advertising methods.

Sacklers's aggressive, and often transgressive, marketing techniques would radically remake the drug industry, contributing over the decades to the overprescription of drugs like Valium, menopause treatments, painkillers and antidepressants, ultimately resulting in untold health harms. Indeed, Purdue Pharma, the drug company owned by the Sackler brothers, adapted those influence techniques in the 1990s to deceptively market OxyContin, an opioid with a slow-release mechanism, Mr Posner writes. He blames the ensuing opioid abuse epidemic, which has led to the deaths of tens of thousands of Americans, in part on "the addictive drugs that 150 years earlier were the core DNA of the pharmaceutical industry."

That is ultimately a reductive argument. If Big Pharma is still addicted to the century-old idea of producing "staggering profits from their highly addictive products," it's difficult to imagine a viable rehab for the industry. Perhaps that's why *Pharma* devotes so many words to industry malfeasance and only one sentence at the end to a possible "multidisciplinary solution."

VALUE OF ₹1 LAKH INVESTED IN VARIOUS ASSET CLASSES

*Note: Cumulative equity gains up to ₹1,00,000 in a financial year are tax-free. All post-tax returns are calculated for an individual in the 30 per cent tax bracket, without considering the indexation benefit

	SENSEX	GOLD	SILVER	FD (SBI)	PPF
1-YEAR	90,335	1,29,764	1,11,778	1,06,800	1,08,000
1-YEAR POST-TAX RETURNS	90,335*	1,20,835	1,08,245	1,04,760	1,08,000
5-YEAR	1,19,648	1,61,579	1,19,003	1,48,641	1,51,757
5-YEAR POST-TAX RETURNS	1,19,648*	1,55,421	1,17,103	1,32,408	1,51,757

As on March 13, 2020, in ₹; compiled by BS Research Bureau

Cryptocurrency is back, but be cautious

It faces regulatory risks and is highly volatile. Limit your exposure to this asset class

SANJAY KUMAR SINGH

With the Supreme Court overturning the Reserve Bank of India's (RBI) April 6, 2018 circular on cryptocurrencies, investors in this asset class would be quite thrilled. Through the circular, the central bank had banned banks from providing services to cryptocurrency exchanges. Since investors could not transfer money from their bank accounts to a cryptocurrency exchange or get their money back from them, the decision had sounded the death knell of the industry. No wonder, there is significant enrhusiasm after the judgment and players are once again preparing to launch exchanges and peer-to-peer (P2P) platforms.

Aftermath of the ban: Some exchanges relocated to other countries. Some switched to offering crypto-to-crypto trading. But C-2-C volumes were thin on the Indian exchanges. Investors who wanted to engage in such trading preferred international platforms that offer greater liquidity and better pricing.

Some exchanges, like WazirX, shifted to the P2P model, which operates as follows. Suppose A wants to sell cryptocurrencies and B wants to buy them. Both register on a P2P platform. A transfers his cryptos to the exchange, which provides the escrow facility. B transfers money to A's bank account. As soon as the latter receives the money, the P2P platform transfers the cryptocurrencies to B's wallet. This model obviated the need for the exchange to have access to banking channels.

After the RBI ban, many people believed that the government had declared cryptocurrencies to be illegal. This was not true. But this misconception caused many prospective investors to shy away from this asset class altogether.

Regulatory risks remain: Banking services to cryptocurrency service providers will resume at the SC's behest. But one more risk hangs over the industry. A Draft Banning of Cryptocurrency and Regulation of Official Digital Currency Bill, 2019, exists that seeks to ban cryptocurrencies altogether. Even the RBI could come out with further regulations.

Experts are hopeful the government will not take the draconian step of banning them completely. "Cryptocurrencies are here to stay. The bigger issue is, what should sovereign governments do to benefit from their advantages, rather than completely turning their faces away?" says Pavan Duggal, cyber law expert and advocate, Supreme Court. He informs that Belarus, Malta, Estonia and Switzerland have come up with new legislation on cryptocurrencies and blockchain. "India has an opportunity to learn from their experiences and see how best we can harness the positive potential of crypto assets," he adds.

Banning cryptocurrencies altogether could be counter-productive. "Banning them will drive these activities underground. Instead, the government should allow trading but with proper KYC (know your customer) and anti-money laundering provisions in place," says Nischal Shetty, founder and chief executive officer, WazirX.

Exchanges going live again: Despite the regulatory risks, many players are getting ready to launch their services again. "If you wait, you will give a head start to your competition," says Ashish Agarwal, CEO, BitBuddy, which plans to launch a mobile app for P2P transactions in Bitcoin. "We have already gone live," says Rahul Pagidipati, CEO, ZebPay, which was the largest cryptocurrency exchange in India at the time of the banking ban with about 70 per cent market share. Shetty of WazirX says he is in discussions with payment gateways and these will get enabled within a couple of weeks.

Bear in mind that the number of cryptocurrency investors in India is not small — estimates say it could be 1.7 million or above.

A high-risk asset class: There is a lot of concern among the authorities that cryptocurrencies are used for money laundering. Whenever Indian authorities crackdown on such activities, that could have an effect on prices. Investors in India will also be affected by how global, and not just Indian, regulations on cryptocurrencies shape up.

This is also a very volatile asset class. On March 12, bitcoin had plunged 48 per cent in 24 hours, wiping out $ 93.5 billion in value, according to media reports.

Moreover, cryptocurrencies may not provide diversification benefit. "Assets that are perceived to be risky tend to have a high correlation. As the equity markets were melting down last week, bitcoin too saw a very sharp correction," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

No clear methodologies exist for determining the fundamental or intrinsic value of this asset class. "In the case of stocks, you can do discounted cash flow analysis or use valuation multiples to decide whether it is under- or overvalued. No such method exists for valuing cryptocurrencies," says Dhawan. Deciding when to enter or exit then becomes a matter of guesswork or speculation.

Despite the above-mentioned risks, if you still decide to invest in cryptocurrencies, make them a part of that portion of your portfolio where you engage in high-risk activities, like day trading. And limit the exposure to, say, 5 per cent of your total portfolio. "Invest only that portion of your wealth which you can afford to lose," says Shetty. If gains in cryptocurrencies drive the weight of this speculative portion higher, sell and rebalance.

To counter valuation risk, Pagidipati suggests that you use the rupee-cost averaging strategy. Also, have a long-term investment horizon. "The total number of bitcoins that can be mined is limited to 21 million. Demand will grow over time, so anyone who enters with a three-five-year horizon should earn good returns," says Shetty. Investors should also limit themselves to the most reputed crypto currencies like Bitcoin and Ethereum. More than 5,000 of them exist today. Some are akin to Ponzi schemes, hence avoid the less established ones.

When selecting an exchange, compare the cost of trading. Go with those that are well capitalised and have robust KYC mechanisms in place.

SHARP PRICE FLUCTUATIONS ARE THE NORM

	Bitcoin (price in $)	Return (%)	Ethereum (price in $)	Return (%)	XRP (price in $)	Return (%)
Current	5,403.59		128.02		0.152	
1 month	10,257.64	-47.32	265.63	-51.81	0.325	-53.16
3 months	7,112.73	-24.03	142.06	-9.88	0.216	-29.71
6 months	10,302.19	-47.55	187.5	-31.72	NA	
1 year	3,892.05	38.84	131.37	-2.55	0.310	-50.81

Figures are for the three biggest cryptocurrencies by market cap. Source: Coindesk.com

Don't increase your equity allocation

Better bargains may be available in the next few months

MARKET INSIGHT

DEVANGSHU DATTA

Amid the panic caused by COVID-19, crude wars and the YES Bank crisis, one thing is certain: Q4 (January — March 2020) will be worse than Q3 (October-December 2019). Corporate earnings will take a hit across the board. It's safe to assume that Q1, 2020-21 will also be pretty bad.

Even if the pandemic is contained soon, it has already done enough damage to knock the global economy into a lower medium-term trajectory. The impact of China's lockdown was felt across global manufacturing. Now, with the EU badly affected, cases in the US and other advance economies, and visa cancellations everywhere, global services will be impacted. Demand will surely be hit as well.

A few good quarters in the future may compensate for the lost manufacturing output. For example, fewer mobiles and cars are being manufactured this quarter. But, as and when demand rebounds, and the virus threat recedes, production may increase and make up for the current production cuts.

But quite a lot of the lost services activity will not be compensated. If someone has missed out on haircuts due to quarantine for example, he will not take multiple haircuts later! In the Indian context, given the vast army of day-labourers, there will be a lot of economic hardship for lower income groups, somewhat like there was during demonetisation.

The pandemic will also change the functioning of the global economy. MNCs will diversify supply chains to avoid being caught in a single-nation lockdown. Businesses will learn how to efficiently manage work-from-home paradigms. Travel, hospitality, entertainment, sports, conferencing, etc., will all take a hit along with labour-intensive industries like manufacturing, construction, and public transport. These changes will force investors to study new business models too.

Figuring out what valuations are reasonable will be hard in the volatile situation that will prevail until the post-COVID-19 economy settles down. The Nifty was trading at a price-to-earnings ratio (PE) of about 28.6 in late January 2020, when it hit an all-time high of 12,430. On last Thursday, it closed at 9,590, where the PE was 21.8 and on Friday, it hit a low of 8,550 before rebounding to just above 10,000. (The NSE calculates standalone earning per share (EPS) for the past four quarters, weighted by the market capitalisation).

The Q3, 2019-20 EPS growth was 7 per cent year-on-year for the Nifty. It's reasonable to assume Q4 EPS growth will be even lower. The rush to safety has pulled down treasury yields to about 6 per cent as investors have moved into government paper.

Investors use PE, the PE to EPS growth ratio or PEG, and comparisons with available risk-free yields as valuation tools. At a PE of 23, the index still looks over-valued if we assume an EPS growth rate that's around 7-8 per cent. The PEG would be roughly three – that is, thrice the "safe limit" of one.

A treasury yield of 6 per cent is also roughly equivalent to the earnings yield of a PE of 17. That's well below current discount. If we assume a Q4 slowdown in earnings growth, the PE would rise, even if the Nifty held static at around current levels. The treasury yield could come down if the RBI cuts rates, and a yield of 5.5 per cent might justify a PE of 18-19.

History never repeats exactly. But there will eventually be rewards for patient investors. Valuations, though, aren't compelling, yet

Obviously, many individual companies are available a lot cheaper in valuation terms. So value investors will find decent picks at these index levels. But the index could fall a lot further. This crash is being compared to the 2008 financial crisis in terms of severity. The Nifty fell from a high of 6,357 in January 2008, to a low of 2,252 in October 2008. If we see a similar situation playing out in 2020, the Nifty could slide till the 6,000-zone. The index quickly recouped much of its losses, rising to 5,200 by December 2009.

History never repeats exactly. But there will eventually be rewards for patient investors. The valuations aren't compelling yet. There's a lack of clarity about the immediate future that makes it hard to recommend a buying spree. The post-COVID-19 world may be different in many ways.

Equity investors need to follow a holding pattern. Continue systematic investment plans. If you fancy valuations of individual businesses, buy. But don't increase your equity allocation yet. Better bargains may be available in the next few months.

PAY ADDITIONAL MARGIN MONEY IN FALLING MARKETS

Delay in repayment carries a stiff penalty

BINDISHA SARANG

- Investors looking to raise money by pledging their shares should know that banks give loans of up to 50 per cent of their value. Since stock prices fluctuate, the amount of loan you are eligible for will also fluctuate.
- Those between 21 and 75 years of age are eligible for this loan.
- When markets fall and the value of the pledged shares declines, borrowers are required to put up additional margin money in order to maintain the loan-to-value ratio.
- In case of some lenders, if you delay repayment, the penalty charged can be as high as 2 per cent per month or 24 per cent per annum.
- Most loans against securities are given as overdraft facility. There is a risk that when the markets are falling, the limit up to which you can withdraw can be reduced.
- Mid- and small-cap stocks tend to be more volatile, so the percentage of loan approved could be less if you pledge them.

LOAN AGAINST SECURITIES: RATES & CHARGES

Lender	Interest rate (%)	Processing fee*
Axis Bank	10.5%-12.75%	0.15%
UCO Bank	11.45%	₹250
Federal Bank	12.5%-13%	Up to 0.25%
IIFL	12%-18%	0.25%-1%
Tata Capital	10.5% onwards	Up to 1%
Indian Bank	10.95%	0.308%
State Bank of India	9.75%-12.4%	Up to 0.75%
Kotak Mahindra Bank	9.25%-13%	Up to 2%
Citi Bank	10.75%-13.25%	Up to 1%
Canara Bank	14.60%	0.10%

*Figures are percentage of loan amount, except where given in ₹. Data as on March 11, 2020. Source: Paisabazaar.com

Buy an AC that also acts as a purifier

Go for a unit with higher star rating

NAMRATA KOHLI

With the summer season just around the corner, it is time to think of buying an air-conditioner for your house if you need one. Currently, with some hard bargaining, you may be able to get a discount at a nearby showroom. As temperatures soar, not only do discounts disappear, even the mechanics who install these machines become harder to find.

Energy-efficiency rising: The government has introduced a series of stringent standards of efficiency and labelling. Says Chirag Baijal, managing director, Carrier: "The norms have had the effect of creating awareness on the demand side. A consumer today knows that a five-star AC is more energy-efficient than a three-star machine."

Today's consumer typically looks for an air-conditioner that not only takes care of cooling but also works as a purifier and humidifier. "ACs are already serving the critical function of humidity control. The high-end models now also come with purification technologies," says Vishal Kapur, managing director, MEHO-HCP Air Systems. Various models today are equipped with filters that can handle PM 1-2.5.

Most good ones use a green refrigerant, HFC 32. Some, such as Hitachi's, have twin-motor technology, which has ducts on both sides, allowing for better circulation from both the left and the right side of the window AC. Some, like Daikin, have an intelligent eye sensor that identifies a human body within 20 metres and adjusts the cooling requirement automatically.

Inverter technology: An inverter AC technology uses a variable speed compressor to save energy and power up to 50 per cent more than a non-inverter AC. It runs at full capacity until the optimal temperature is achieved and then runs at part load to maintain it. According to Croma salesperson Harveer Singh, "Normally a non-inverter AC consumes six-seven units of electricity in 10 hours. An inverter AC consumes 1-1.5 units less per day, which can translate into a monthly saving of around 35 units."

Some of the newer models have built-in 'self-diagnosis' codes to identify potential problems. These codes are useful for self-repair.

Take into account room size: The capacity of AC you choose should depend on a variety of factors. Says Kapur of MEHO-HCP Air Systems: "Capacity selection for residences should depend on room size, height, occupancy, exposed windows and walls, and whether it is the top floor." Most air conditioners mention the area they can cool. For instance, the Hitachi (1.5-ton, 5-star, Inverter) cools 15 sq m or 170 sq ft while the Bluestar brand cools 16 sq m or 180 sq ft. Says Singh of Croma: "A basic thumb rule is that a one-ton AC is good for a 10x10 room, a 1.5-ton for 150 sq ft, and a 2-ton for 225 sq ft."

Window ACs are easier to install or dismantle and hence are preferred by people living on rent. However, the market is mostly moving towards split ACs as they do not block the window. They are also aesthetically more appealing and less noisy.

The choice of machine should also depend on the number of hours for which the unit is likely to be used. If you plan to run the AC for five-eight hours daily, go for a five-star unit to save on power cost. If the unit will operate for just a few hours every week, go for a three-star unit. Prices range from ₹25,000-70,000. Five-star models usually come for above ₹35,000.

Check whether the coil is made entirely of copper or is a mix of copper and aluminium. Most people prefer copper as the ambient air in India is quite corrosive.

Indoor air quality is crucial: It is believed that apart from cooling, an AC also circulates bad air that spreads diseases. Says Barun Aggarwal, CEO, BreatheEasy Consultants, a full-service Indoor Air Quality (IAQ) solution provider: "The AC itself does not produce bad air. With the older window air-conditioners, one had the option of a toggle switch to bring in fresh air. This allowed the air in the room to be conditioned and it kept the carbon dioxide level down. However, the newer wall-type ACs do not have the option of bringing in fresh air and that is where the problems start. The air in the room will get conditioned, but it will be stale, with high levels of CO2 and volatile organic compounds (VOCs). With a high wall AC, open a door or window at certain intervals to bring in some outdoor air, though this will increase the load on the AC during peak summer." A more sophisticated solution is to bring in controlled air from outside, after filtering and cleaning it from the harmful outdoor pollutants.

COST OF AN AIR-CONDITIONER

Brand	Type	Features	Price (₹)
Daikin	Split AC	Inverter	56,990
Hitachi	Split AC	Inverter	49,490
LG	Split AC	Inverter/ copper condenser	47,990
Panasonic	Split AC	Inverter/ Nano G filter	47,990
Haier	Split AC	Inverter	44,990
Samsung	Split AC	Inverter	43,990
Lloyd	Split AC	4-star/Inverter	40,990

Costs are for 1.5-tonne ACs. All are five-star except Llyod's. Source: Croma

Saudi Aramco to cut capital spending

Profit slumped 21% in 2019 on lower oil prices and production

REUTERS
Riyadh, 15 March

Saudi Aramco on Sunday said it had planned to cut capital spending in the wake of the coronavirus outbreak, and also posted a plunge in profit for last year, missing forecasts in its first earnings announcement as a listed company.

CORONAVIRUS PANDEMIC

Saudi Arabia's decision last year to float shares in its state oil company — the most profitable company in the world — was one of the central elements in Crown Prince Mohammed bin Salman's program for economic and political reform.

The record-setting IPO was touted as making the world's biggest energy exporter more professional and transparent.

The 21 per cent decline in net profit for last year means it fell short of analysts' forecasts for the period that culminated in the share sale, months before the coronavirus pandemic became a factor for oil prices.

In recent weeks, Riyadh has announced that it is ramping up production in an oil price war with Russia that has sent global prices plunging and contributed to the coronavirus rout on international financial markets. The company said it expects capital spending for 2020 to be between $25 billion and $30 billion in light of current market conditions and recent commodity price volatility, compared to $32.8 billion in 2019.

Aramco has already taken steps to "rationalise" its planned 2020 capital spending, Chief Executive Officer Amin Nasser said in a statement. "The recent COVID-19 outbreak and its rapid spread illustrate the importance of agility and adaptability in an ever-changing global landscape," he said.

Aramco listed its shares in Riyadh in December in a record $29.4 billion initial public offering that valued it at $1.7 trillion. Its shares fell below the IPO price last week for the first time, as oil prices crashed after the collapse of an output deal between Opec and non-Opec members. Oil prices have fallen nearly 50 per cent from highs reached in January and had their biggest one-day decline on March 9 since the 1991 Gulf War.

The oil company expects capital spending for 2020 to be between $25 billion and $30 billion, compared to $32.8 billion in 2019

Brent crude futures last traded at $33.85 per barrel on Friday, down from about $64 when Aramco listed its shares.

Cash flow

Saudi Arabia's strategy to gain market share by flooding the markets with cheap oil has revived investor concerns that the profitability of the company would come second to government-led strategies to influence oil markets.

"Foreign investors may view recent events as confirmation that the strategic direction of Aramco is driven by its majority shareholder, driven by national development and geopolitics, not simply value maximisation of this company's returns," said Hasnain Malik, head of equity strategy at Tellimer.

Despite a drop in income, Aramco said it paid a dividend of $73.2 billion in 2019 and intends to declare a cash dividend of $75 billion in 2020, paid quarterly.

Aramco, which is 98 per cent owned by the Gulf kingdom, reported a net profit of $88.2 billion in 2019, down from $111.1 in 2018.

Analysts had expected Aramco to post a net profit of 346.6 billion riyals ($92.6 billion) in 2019, according to an estimate of 15 analysts polled by Refinitiv.

Aramco said the drop in earnings was mainly due "lower crude oil prices and production volumes, coupled with declining refining and chemical margins, and a $1.6 billion impairment associated with Sadara Chemical."

"Assuming the price of $35 per barrel, Aramco's revenue and Ebitda (earnings before interest, taxes, depreciation, and amortisation) could contract by 20-30 per cent compared to our previous forecasts and to the company's performance in 2018-2019," said energy analyst Dmitry Marinchenko at Fitch Ratings.

Coronavirus outspread hits Indian banks

UCO Bank and IDBI Bank, which enable the payment mechanism for Indo-Iran trade, set to lose on a pool of low-cost deposits

NAMRATA ACHARYA & AVISHEK RAKSHIT
Kolkata, 15 March

The coronavirus scare has led to a near-standstill of trade between India and Iran.

Apart from exporters, the two lending entities — UCO Bank and IDBI Bank — which enable the payment mechanism for this bilateral trade, will also be hit, since they will lose on a pool of low-cost deposits. A top official of UCO Bank said the deposits on account of the special mechanism put in place for trade with Iran had already substantially reduced — the bank would be able to extend the support till funds were available.

This is a double whammy for exporters, struggling with a drastic fall in trade with Iran over the past month due to acute shortage of containers, largely supplied from China (which accounts for nearly 30 per cent of container supply worldwide).

For the banks, if both export and import get halted, the payment mechanism will turn redundant. The two banks did not reveal the extent of deposits on account of the Iran trade. However, its utility can be gauged from the fact that in the final quarter of 2018-19, UCO Bank could trim its loss by 27 per cent since it got ₹13,000-14,000 crore of an interest-free floating fund from Indian oil refiners.

In the wake of US sanctions on Iran, India cannot engage in dollar-denominated trade there. Hence, a rupee-rial trade mechanism has been put in place. Under which, oil refineries from India deposit rupees in designated banks for import from Iran; the fund is used to clear dues to exporters from India to Iran.

For the banks, if both export and import get halted, the payment mechanism will turn redundant

However, for about six months, India has stopped importing oil from Iran. So, oil companies have stopped depositing money to the designated banks.

Although, export had not proportionally fallen.

According to government data, our import from Iran was nearly $13 billion in 2018-19; this had come down to $1.35 billion in the first 10 months (April 2019-January 2020) of the ongoing financial year. In contrast, the fall in export was much less. From $3.5 billion in 2018-19, it was $2.8 billion this financial year, in April-January.

Rice, tea, sugar and pharmaceutical products are key products exported from India to Iran. Rice has the largest share. Vinod Kaul, executive director of the All India Rice Exporters Association, says the segment's trade with Iran has nearly stopped with the acute shortage of containers. Last year, India exported about 1.4 million tonnes of rice to Iran. This financial year, says Kaul, it will not be more than a million tonnes.

Tea exporters to Iran also say shipment has frozen on account on unavailability of containers; also, due to shipping companies being unwilling to send consignments there. "More Iranians are not able to come here to place forward orders; neither can we go to Iran to sign a deal. This crucial market is expected to be hit severely this year," said a tea estate owner from Assam.

Usually February-April is a major season for tea companies, as forward contracts are signed during this period. Based on these contracts, where prices and export volume are negotiated, companies plan the season's harvest.

Coping during uncertain times

EXIM MATTERS

T N C RAJAGOPALAN

Last week, the World Health Organization designated the spread of Coronavirus (COVID-19) a global pandemic. Italy locked down the entire country, asking its people to avoid non-essential travel, even as other countries reported more cases. Many, including India and United States, restricted inbound travel from affected countries. The fear of a severe economic impact from the pandemic hit the financial markets that had ignored interest rate cuts by central banks in many major economies.

The better news included falling numbers of virus-affected people in Asia, especially in China and South Korea. More factories are returning to normal activity in China. The spat between Russia and Saudi Arabia resulted in falling crude oil prices that would help its major importing countries; India is one. And, officially confirmed cases of the virus are still only in double-digits here.

There is little doubt that global demand for goods and services will fall in the coming months, especially in developed countries, people being advised to avoid travel, quarantine oneself and stay at home. Oil producing countries, especially in West Asia, are also likely to buy less with their lower revenue. The falling demand is bound to negatively affect our export and, in turn, employment prospects. Even remittances from Indians abroad could go down. However, this need not necessarily adversely impact our balance of payments, as the import bill will also be lower due to falling crude oil prices.

On the public health front, our government has assured that all effort is on to contain spread of the virus. As of now, there are no credible reasons to doubt that. The Reserve Bank of India asked states not to pull out funds from private banks and offered dollars for six months through sell-buy swaps to ensure supply at a time of turmoil in global markets.

At a time of such great uncertainty and disruption, the government could let businesses cope with the evolving situation, rather than introduce changes. That is what the Goods and Services Tax (GST) Council did in its 39th meeting on Saturday — it decided to defer implementation of the e-invoice system and new returns till end-September. Remaining glitches in the GST Network could be fixed in the meantime and the trade encouraged to run trials for e-invoices and new returns, something few have done so far.

Last Friday, the Union Cabinet approved replacement of the Merchandise Exports from India Scheme (MEIS) with a Reimbursement of Duties and Taxes on Export Products (RoDTEP) scheme. Broad contours of the latter are known but rates of reimbursement have yet to be announced.

The current indication is that MEIS will be phased out gradually, as and when RoDTEP rates are finalised by an experts committee.

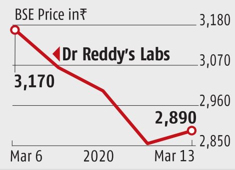
Taking advantage of the fall in crude oil prices, the government has raised excise duties on petroleum products. It would be better if some of the gain is passed on to consumers of petrol products by way of lower prices. That will put more money in their hands and help revive flagging demand.

Email: tncrajagopalan@gmail.com

BSE 200: TOP 5 GAINERS OF LAST WEEK

BSE price in ₹	Mar 06	Mar 13	% chg
Vodafone Idea	3.3	5.6	70.1
YES Bank	16.2	25.6	57.7
Bharti Infratel	204.0	227.3	11.4
Whirlpool of India	2,123.5	2,204.4	3.8
Mangalore Refinery & Petrochem	37.0	37.1	0.3

QUICK TAKE: STRONG DOMESTIC GROWTH BODES WELL FOR DR REDDY'S



Dr Reddy's continues to report strong growth in domestic business, which grew by 21.4% year-on-year in February, ahead of its large cap peers. The 18.9% growth during April'19-January'20 is also impressive. Efforts in domestic and other emerging markets bode well and so are its cost reduction moves despite challenges in the US. Analysts, thus, remain positive on the stock trading at 20x FY22 estimated earnings.

"MARKET REMAINS IN PERIL'S PATH. EVERYONE IS HUGELY SHORT OR WELL UNDER-POSITIONED AND INVESTORS ARE NOW TRYING TO CATCH UP WITH THE ALGORITHMS"

STEPHEN INNES,
Chief Asia market strategist, Axicorp

Europe slowdown to hit auto sector hard

Motherson Sumi, Apollo Tyres, and Tata Motors to be among the worst affected because of high exposure

RAM PRASAD SAHU
Mumbai, 15 March

The auto sector, which has been affected by the economic slowdown at home, is now facing a double whammy, given the demand concerns in key geographies, such as Europe. Companies with a significant presence in the European market have a seen a steeper fall in their stock prices, as compared to their peers who are largely confined to the domestic market.

Even as the Nifty Auto Index is down by a fifth over the last three weeks, stocks, such as Motherson Sumi, Tata Motors, Varroc Engineering, and Apollo Tyres, are down between 34 per cent and 48 per cent during this period. The sharper fall for these companies is largely because of demand worries in view of the coronavirus pandemic.

An analyst at a domestic brokerage says that fear factor on account of the outbreak would weigh on the demand front, leading to lower volumes and falling utilisation of facilities. Further, supply chain and sales disruption because of the emergency measures taken by Spain, Italy, Hungary, and France, the worst-affected countries in Europe, was a sentiment negative for investors.

The near-term outlook for some of the top European automakers, too, has been muted. Daimler, for example, expects an impact on the supply chain and demand. The company expects sales for Mercedes-Benz cars in 2020 to be below the 2019 level. Renault apprehends the supply chain to be affected given the share of components that come from China's Hubei province. Nissan Motor is looking at deep cost cuts in its recovery plan. Vehicle sales in China, its second-biggest market, dropped 80 per cent in February because of commuting bans and road closures.

These companies are among the largest clients for Indian auto component makers and Europe is a key market. About 37 per cent of Motherson Sumi's revenues come from Europe (Spain and Germany), with global operations of European automakers, such as Renault Nissan, Audi, Volkswagen, BMW, and Daimler accounting for about a half of its revenues. Varroc Engineering gets about 46 per cent of its revenues from the European market and counts Fiat Chrysler, Peugeot, Jaguar Land Rover (JLR), and Volkswagen as its customers.

Weak sentiment for Apollo Tyres was on account of the warning by the Hungarian premier about the dent to that economy because of the pandemic. Apollo's greenfield plant in Hungary was stabilising and analysts had expected it to contribute to mid-single-digit growth for the company's European operations going ahead. Growth could slow down instead of improving for the company. Another tyremaker, Balkrishna Tyres, would also be affected given that about half of its exports of off-the-road tyres come from the European market. Mahindra CIE, in which Spain's CIE Automotive has a 56 per cent stake, gets over half of its revenues from the European market and will be impacted as clients scale back on production.

For Tata Motors, the impact will be multifold, given that Europe accounts for over 40 per cent of JLR revenues. In view of the sharp 85 per cent decline in car retail sales in February in China, supply chain disruption, and demand drop in other markets, the company has cut its FY20 earnings before interest and taxes (Ebit) by a percentage point, as compared to the earlier guidance of 3 per cent. Given the debt on its balance sheet and investments in JLR, it would be difficult to sustain cash flows, if the demand situation deteriorates.

In addition to Tata Motors, most auto component players with plants in Europe are leveraged. These plants generate single-digit return on capital employed and muted Ebit margins worsened by higher levels of debt, says an analyst. Without new contracts and scaling back of existing orders, higher fixed costs could make the new plants unviable.

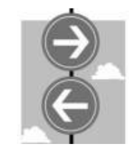
Besides the operational worries, valuations for these companies have been higher than long-term averages. This was above the street's zone of comfort and thus a derating was waiting to happen, he adds.

Given that there is demand destruction, especially for companies with significant overseas exposure, brokerages indicate that investors could look at India-focussed players, such as Hero MotoCorp, given the expected uptick in rural sales, cash on books, dividends, and prudent capital allocation.

THE EUROPEAN IMPACT

		Stock fall in % since		
	Price (₹)	one year	yearly highs	Feb 20, 2020
Motherson Sumi Systems	64.0	-61.3	-62.2	-47.9
Tata Motors	89.9	-50.5	-62.4	-43.3
Varroc Engineering	237.0	-62.6	-63.8	-41.1
Apollo Tyres	104.3	-53.7	-55.6	-34.0
Mahindra CIE	105.8	-56.2	58.7	31.4
Bharat Forge	378.2	-29.6	-31.0	-22.0
Balkrishna Industries	1,009.6	8.7	-22.2	-20.3
NSE Nifty Auto Index	6,168.2	-29.6	-31.9	-19.9
NSE Nifty50 Index	9,947.8	-12.3	-20.0	-17.7

Market price on March 13 '20; Compiled by *BS* Research Bureau Source: Exchanges



STREET SIGNS

Liquidity boost for markets

The market could get a shot in the arm with ₹2 trillion worth of liquidity entering the system, say market players. The gush of the money is on account of refunds to investors who applied in the ₹10,300-crore initial public offering (IPO) of SBI Cards, which saw 27 times more demand the shares on offer. The SBI Cards' IPO closed on March 5, and since then the market has come off 11 per cent. About ₹1.05 trillion worth of institutional money and another ₹90,000 crore worth of high net-worth individuals' bets were riding on the IPO. "The refund for SBI Cards issue has taken place on Friday. If markets stabilise, some of these funds will find their way into the market," said an analyst.

SAMIE MODAK

Trading curb a blessing for DMart

The move by stock exchanges to shift the scrip of Avenue Supermarts to the so-called trade-to-trade (T2T) category earlier this month surprised the Street. However, this was as a blessing for the company, which operates the highly successful DMart retail chain. Since March 2, shares of Avenue Supermarts are down 6 per cent, as against a 11 per cent decline in the benchmark Nifty. Under the T2T segment, a stock has to be compulsorily marked for delivery. Typically, stocks that see excessive speculative activity are moved to this segment. Though Avenue Supermarts has outperformed the market this month, it has come off 17 per cent from its peak — the same as the Nifty.

SUNDAR SETHURAMAN

MNC stocks seen as safe haven

Shares of multinational companies (MNCs) have emerged as safer bets in the current market selloff. Since February 20, the Nifty has corrected 17 per cent, while an index of MNC companies has fallen about 12 per cent. Analysts say investors can look at MNCs with less debt and those that have demonstrated good earnings growth in the past three years. "MNC stocks have done well even in challenging environments. Also, the drop in stock prices might prompt foreign parents to up their stakes in their domestic arm. Low interest rates globally makes buybacks or open offers a very attractive proposition to MNC promoters," said an analyst.

ASHOK DIVASE

Stocks that brought Sensex down

SAMIE MODAK

The benchmark Sensex has dropped 7,200 points, or 17.5 per cent, since February 20, 2020, the day when the global sell-off triggered by the spread of coronavirus started. During this period, all the 30 index components have seen an erosion in their stock price. However, 10 stocks have contributed to 70 per cent of the losses. Reliance Industries, HDFC Bank, and ICICI Bank have been the biggest drag on the index performance, given their high weightage. We analyse stocks which have made the biggest negative contribution and how their valuations compare now to their five-year average. Most of these 10 companies are now available cheaper to their historic valuations, but may not still be screaming "buy". "Unlike in 2008, quality and steady growth stocks are still far from being cheap," notes Sanjay Mookim, India Equity Strategist, Bank of America Merrill Lynch.

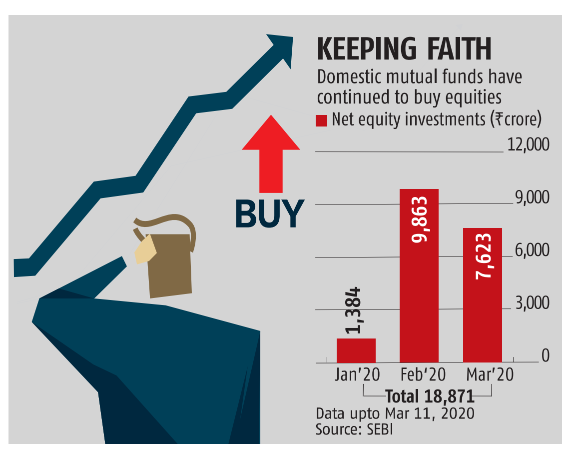
AT THE EPICENTRE

		Contribution in Sensex fall		P/E or P/B (x)**	
	Chg* (%)	in points	in %	Current	Average
Reliance Industries	-26	1,196	17	11.5	13.5
HDFC Bank	-13	624	9	2.9	3.6
ICICI Bank	-18	593	8	2.3	1.9
Infosys	-20	563	8	14.9	16.8
HDFC	-13	504	7	3.4	5.0
TCS	-18	387	5	19.1	20.0
Axis Bank	-23	376	5	1.7	2.1
ITC	-22	360	5	12.2	24.5
State Bank of India	-24	278	4	0.8	1.1
Larsen & Toubro	-18	265	4	13.0	21.7
Sensex	-17	7,191	100	15.5	17.2

Price change since February 20; **One-year forward P/E (P/B in case of financial stocks); Average for last five years
Source: Bloomberg Compiled by BS Research Bureau

MFs deploy cash in volatile markets

JASH KRIPLANI
Mumbai, 15 March



Domestic mutual funds (MFs) have continued to buy equity shares, even as foreign institutional investors (FIIs) have pulled out large amounts of equity investments during the recent market meltdown.

According to the data sourced from the Securities and Exchange Board of India (Sebi), MFs bought ₹18,871 crore worth of shares in the current calendar year. Meanwhile, FIIs have been net sellers to the tune of ₹14,889 crore. This includes, according to the provisional data, ₹6,027 crore worth of shares sold by FIIs on Friday.

Domestic fund managers say the market selloff has made valuations attractive and conducive for fresh investments. "Valuations across the board have become attractive. India's macro data looks strong with balance of payment surplus and sharp correction in crude prices," said Chandraprakash Padiyar, senior fund manager at Tata MF. For investors like us, it is a great opportunity to use the cash we hold to deploy in the markets. We are closer to the bottom of the current correction phase and should expect a better outlook over the next 12-18 months," he said.

The sharp correction in Brent crude prices has come as a positive trigger, even as the coronavirus pandemic created uncertainty around global growth expectations.

In year-to-date, Brent crude is down 50 per cent, trading at $33 per barrel.

"Oil being one of the largest items on the country's import bill, such price correction should translate into a favourable outcome for the country's current account deficit," said an analyst.

Meanwhile, fund managers are also considering making some changes in their portfolios to mitigate any fresh risks. "We are using the opportunity to reshuffle the portfolio towards companies, which can sustain the slowdown in the economy and a changed macroeconomic scenario where the rupee could slip and inflation could be higher. In the cautious markets, we see opportunities and are deploying cash," said IV Subramaniam, managing director and chief investment officer at Quantum Advisors.

Domestic fund managers' cautious optimism also helped the markets stage a strong recovery on Friday. According to the provisional data on exchanges, FIIs on Friday sold shares worth over ₹6,000 crore.

In contrast, domestic institutional investors bought shares worth ₹5,867 crore. In the current calendar year, FII sentiments towards the Indian markets have gone through sharp highs and lows. By the second half of February, FIIs had pumped in over ₹25,686 crore worth of investments in Indian equities. Since then, constant FII selling over the last 14 trading sessions — aggregating to over ₹40,000 crore — has turned them into net sellers for the current calendar year.

EVENTS THIS WEEK

Date	Particulars
16-Mar	India - imports, exports & trade balance
	India - WPI figures
	UK - Rightmove House Price index
	Ex-dividend: Power Grid, Havells India, Marico &, Adani Ports & SEZ
17-Mar	US - industrial production & capacity utilisation figures
	US - NAHB Housing Market index
	UK - employment change
	Ex-dividend: TVS Motor
18-Mar	US - FOMC rate decision
	Eurozone - trade balance
	Eurozone - CPI & CPI core data
19-Mar	US - current account balance
	US - initial jobless claims
	US - leading index figures
	Ex-dividend: Ashok Leyland, Cipla, Eicher Motors, TCS & Coal India
20-Mar	UK - public finances figures
	Ex-dividend: HDFC

Source: exchange/websites/Bloomberg
Compiled by BS Research Bureau

'All asset classes are vulnerable as things stand'

The global equity markets saw a major sell-off last week with the Dow Jones Industrial Average (DJIA) slipping into bear terrain. The Nifty50 index hit a lower circuit on Friday as panic spread. **MARC FABER**, editor and publisher of *The Gloom, Boom & Doom Report*, tells ***Puneet Wadhwa*** that investors are too complacent about the impact the coronavirus pandemic might have on global economic activities. Though the markets may see a strong rebound in between this slide, they will be unable to reclaim the highs. Edited excerpts:

Q&A

MARC FABER
Editor & publisher of *The Gloom, Boom & Doom Report*

How do you see the global financial markets play out in the backdrop of coronavirus pandemic?

The global markets have slipped quite a bit from the top on the back of coronavirus fears and what it may do to the economies. I think the market has significant downside risk. Most markets are already down 20 per cent from the top and there are chances that most will fall 40 per cent from the top. That said, there can be a strong rebound in between this slide, but we will be unable to reclaim the highs.

All asset classes are vulnerable as things stand. Investors are far too complacent about the impact the coronavirus might have on global economic activity. In the context of the current US stock market speculation, I wish to emphasise that it may be a huge bubble, as some pundits maintain, but this is nothing new since periods of excessive optimism and speculation have been a regular feature of capitalism and free markets.

Do you expect global economies to slow down further?

The World Health Organization (WHO) has already declared COVID-19 a pandemic. I have always maintained that the global economy is slowing. For the last nine months, the statistics from Asia have pointed to a meaningful slowdown. Coronavirus is the health scare that became a trigger for the markets to tumble. The pandemic has come during a highly speculative phase in the US stock market which has been characterised by extreme optimism. I find this optimism among investors to be misplaced, given that numerous economic indicators were already weak before the late December 2019 coronavirus outbreak.

So, is it all gloom and doom?

Stock investors must realise that we are dealing with the COVID-19 pandemic at a completely different phase of the stock market cycle. Severe Acute Respiratory Syndrome (SARS) occurred after a gruelling bear market and provided a buying opportunity for stocks around the world — including Asia. Currently, we are at a totally different stock market juncture. We are also at a different phase of the economic cycle. I consider pricey markets, such as Hong Kong and New York, to be vulnerable.

What about India? Is it a relatively safe haven in these times?

I don't think so. The Indian markets have been expensive and they are not insulated from whatever is happening globally. India has just started to report coronavirus cases and I feel the country is under-reporting the number of people infected with the virus. Once more cases come out or are reported, the markets will react. India is as vulnerable, if not more, as other markets. The recent economic data has been very disappointing. The Indian economy can worsen further. That's because the global economy is weakening and India is not decoupled.

How do you see the response of global central banks to these developments?

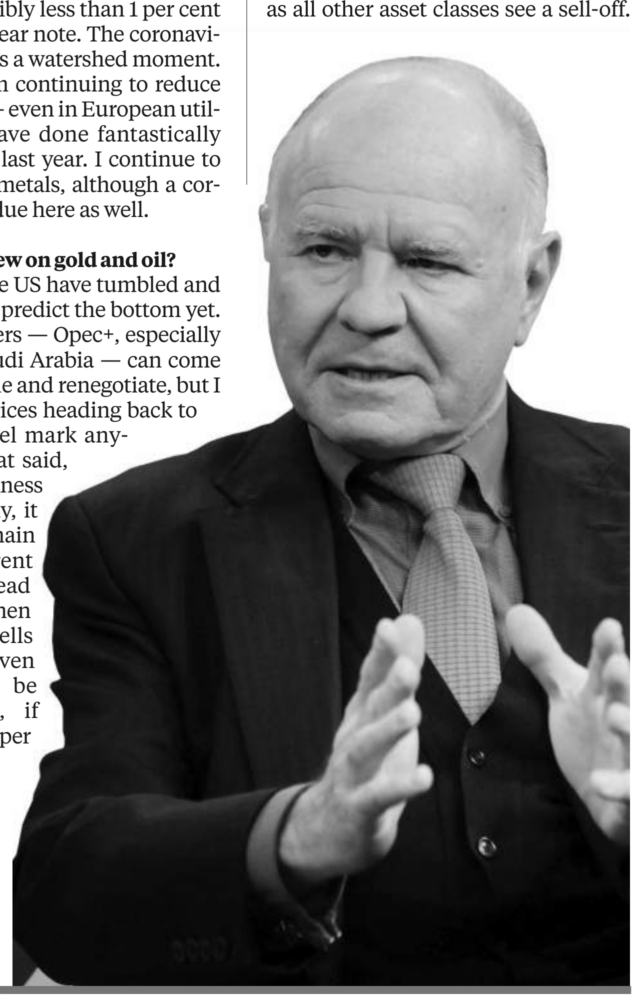
Investors' optimism rests on the belief that the worse the global economy is affected by COVID-19, the more central banks will print money and the more stocks will move up. However, when I look at economic indicators like Hong Kong tourist arrivals, I have to ask myself: For how long will investors ignore these dire fundamentals? The answer, of course, is: It depends on how long the current pandemic lasts, and on whether there is any permanent damage.

So, what is your investment strategy?

I still own my long-term Treasuries, and believe that yields could still decline to possibly less than 1 per cent for the US 10-year note. The coronavirus pandemic is a watershed moment. Therefore, I am continuing to reduce my positions — even in European utilities, which have done fantastically well since late last year. I continue to hold precious metals, although a correction is overdue here as well.

What's your view on gold and oil?

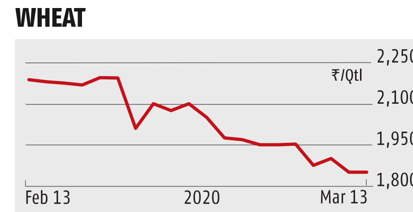
Oil prices in the US have tumbled and it is difficult to predict the bottom yet. The stakeholders — Opec+, especially Russia and Saudi Arabia — can come back to the table and renegotiate, but I don't see oil prices heading back to the $70 a barrel mark anytime soon. That said, given the weakness in the economy, it is likely to remain at the current levels or head even lower. When everyone sells everything, even gold will not be insulated. So, if equities fall 40 per cent from the top, even gold prices will correct, but not as much. Maybe, they drop 10 per cent from the current levels as all other asset classes see a sell-off.



"THE INDIAN MARKETS HAVE BEEN EXPENSIVE AND THEY ARE NOT INSULATED FROM WHATEVER IS HAPPENING GLOBALLY. INDIA HAS JUST STARTED TO REPORT CORONAVIRUS CASES AND I FEEL THE COUNTRY IS UNDER-REPORTING THEM. INDIA IS AS VULNERABLE, IF NOT MORE, AS OTHER MARKETS

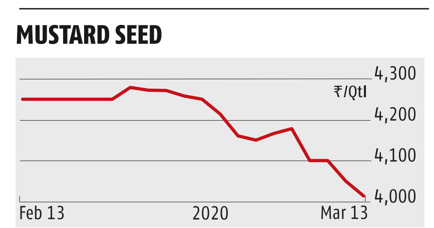
COMMODITY PICKS

WHEAT



Wheat prices in Indore market are trading at ₹1,837 a quintal. Prices are expected to trade lower towards ₹1,800 and ₹1,750 a quintal following expected arrivals and estimates of a record wheat production.

MUSTARD SEED



Prices at the benchmark Jaipur market are trading at ₹4,011 per quintal. For the week ahead, prices are expected to head towards ₹3,950 per quintal. New crop arrival pressure, weak demand and broad-based sell-off across commodities and equities to weigh on prices.

Prerana Desai,
Research Head - Edelweiss Agri Services and Credit

BRIEF CASE

M J ANTONY

A weekly selection of key court orders

Secured creditor's claim above taxmen's

The income tax authorities cannot claim a superior right to attach a property already sold under the direction of the debt recovery tribunal, the Supreme Court stated in its judgment in Connectwell Industries vs Union of India. "Unless there is preference given to the Crown debt by a statute, the dues of a secured creditor have preference over Crown debts," the court clarified. In this case, a firm took a loan from Union Bank of India to buy a plot from Maharashtra Industrial Development Corporation (MIDC). The loan was not repaid. The bank moved the tribunal, which asked the recovery officer to attach and sell the mortgaged property. It was sold through an auction. Then came a note from MIDC that the income tax authorities had already sent an attachment notice over the same property. When the dispute reached the Bombay High Court, it ruled in favour of the revenue authorities. The buyer of the property appealed to the Supreme Court. It set aside the high court judgment and lifted the attachment of the taxmen. It further ordered MIDC to issue a no-objection certificate to the buyer.

Damages for death while on duty

The Supreme Court has extended the meaning of the phrase "arising out of employment" to the benefit of employees claiming damages under the Employee's Compensation Act. The Act provides for compensation for death or injuries occurring in the course of employment. The employees are insured under the Act, as in this case, Poonam Devi vs Oriental Insurance Co. The death, in this case, was of the driver of a truck who went to the River Yamuna to get water while driving from Ambala to Meerut in 42 degrees C. He fell into the river and drowned. The commissioner under the Act granted the heirs ₹4.45 lakh. The insurer appealed to the Punjab and Haryana High Court. It ruled against the heirs holding that though the death occurred during the course of employment, it did not arise out of the employment. The law says compensation must be paid if the death occurred "arising out of and in the course of his employment". The heirs appealed to the Supreme Court and won. It said that "a truck driver who would not keep himself fresh to drive in such heat would be a potential danger to others on the road by reason of any bona fide errors of judgement by reason of the heat". So the death was in the course of employment.

Backdoor shut for blacklisted firms

The Supreme Court has foiled the attempt of over 180 blacklisted rice millers of Punjab to enter through the backdoor to supply goods to Food Corporation of India. Agencies of the state government procured rice and allocated it to various millers for processing and supply to FCI. It was found that the rice supplied by many millers to FCI was inedible and adulterated. After a CBI investigation, many of them were blacklisted for seven years. FCI, which suffered huge losses, demanded dues from them with penalty and interest. Those millers then leased their units to new entities to bypass blacklisting. FCI resisted the move. The new millers moved the high court arguing that they were clean. The high court agreed. FCI appealed to the Supreme Court. It allowed the appeal, FCI vs V K Traders, stating that the blacklisted millers were standing in the shoes of the new ones. Moreover, the lease deeds were also not registered.

Liability of insurance company extended

The collapse of a building because of excavation carried out in the adjacent plot will be covered under general insurance, though it may not be explicitly excluded in the policy document. If there is ambiguity in the terms of the policy, they should be interpreted in a way beneficial to the insured, the Supreme Court stated in its judgment, Sangrur Sales Corporation vs United India Insurance. In this case, a sanitaryware showroom collapsed as a result of the work of excavation carried out in an adjacent plot. The owner reported the incident to the police and then approached the insurance company. It repudiated the claim. The owner moved the district consumer forum, which directed the company to pay ₹18 lakh with interest. That order was upheld by the Punjab state consumer commission. However, the National Consumer Commission ruled that the policy did not cover damage caused by activities in the neighbourhood. Allowing the appeal of the owner, the court stated that damage from a third party was also covered by the standard policy. The court cited its 2004 judgment, in which the same insurer raised the same argument in an identical case and lost.

Farmer can sue seed distributor

A farmer who is offered seeds by a company with a promise to buy back the harvest at a higher rate is a "consumer", according to the Consumer Protection Act, said the Supreme Court in its judgment in Nandan Biometrix vs Ambika Devi. Those who resell goods or indulge in commercial activities are barred from moving consumer courts. In this case, the company supplied seeds to the woman and agreed to provide technical support, guidance and insurance. Her complaint before the consumer district forum in Kerala was that the company refused to buy back the crop which was a breach of contract and negligence. The company argued that it was a resale and she was not a consumer as she cultivated seeds for commercial purpose. The district forum agreed with the contention. But on her appeal, the National Consumer Commission and now the Supreme Court rejected the argument and directed the district forum to reconsider the complaint.

Rly officials judges in their own cause

The Calcutta High Court has set aside an arbitration award delivered by the railway tribunal in which the presiding arbitrator and his two co-arbitrators were officials of Eastern Railway. The court stated that they decided the issues in a "unilateral manner", gave no reasons for some of their conclusions, and there was a violation of public policy. "There is not an iota of evidence in the discussion that the tribunal made the slightest attempt to adjudicate on the rights of the parties starting from the legality of the termination," the judgment remarked. In this case, BBR Construction Co vs Union of India, a project to link some towns of Jharkhand with those in West Bengal was awarded to the contractor. The contract was terminated on the ground of delay leading to the arbitration. The court found that there were "obvious discrepancies" in calculating the liabilities and unjustifiable deductions.

Deal-making in the time of pandemic

Buyers and sellers may need to re-assess impact of COVID-19 on the business, assets, valuation, and future cash flows, say experts

SUDIPTO DEY

PHOTO: DALIP KUMAR

The government recently extended the bidding deadline for Air India from March 17 to April 30. That could well be a portent of the shape of things to come in the deal-making world, stuck by the coronavirus (COVID-19) pandemic. Facing the heat are distressed M&A activities in projects going through the Corporate Insolvency Resolution Process (CIRP).

Travel restrictions and other clampdown measures make time-critical deal-making a challenge, leading to legal and regulatory complications, say experts.

"The committee of creditors of many companies undergoing the CIRP are contemplating approaching the National Company Law Tribunal (NCLT) for the extension of the time limit, largely owing to delay in the bidder's diligence process," says Yogesh Singh, partner, Trilegal. The Insolvency and Bankruptcy Code sets a maximum time limit of 330 days for the completion of the CIRP.

With courts limiting their functions to urgent matters, this may impact the approval of resolution plans, say experts.

M&A experts point out the impact of the pandemic on supply chains would have a cascading effect on the value of assets, which were changing hands or were set to change hands. "A massive re-look at valuations may need to be undertaken for various deals which are currently underway," says Rabindra Jhunjhunwala, partner at Khaitan & Co.

While going through M&A deals in such times, buyers should re-assess the financial assessment model of a target for effects on account of the pandemic, say experts. Sellers, on their part, should weigh their business prospects warranties and explicitly disclose any potential business impacts, they add.

"To avoid landing in dispute situations, parties must devote time and attention to assessing the impact on relevant businesses and agree on appropriate risk allocation, valuation and deal certainty aspects," says Singh.

Buyers would also need to be mindful of the impact of travel restrictions on post-merger integration issues.

Monali Dutta, principal, infrastructure & corporate practice at Advaita Legal, recommends proactive discussions with contracting parties, recognising the importance of longer-term relationships and reality of the challenges faced by many businesses in the current environment.

However, legal teams of companies must also work in close coordination with insurance providers to ensure minimal loss in case deals go awry.

"It won't hurt to come up with a strategy to tackle any litigation that comes their way either," says Jhunjhunwala.

WHAT BUYERS & SELLERS SHOULD DO

- **Both parties should first assess** whether there has been any material impact of the pandemic on the business, assets, valuation, and future cash flows
- **In case of a significant material impact** on the business between signing and closing of a deal, the buyer could ask for walk-away rights
- **In an ongoing deal,** both parties should consider having specific warranties and disclosures regarding the impact of the pandemic to ensure deal certainty and appropriate deal allocation
- **The committee of creditors of companies** undergoing the CIRP could approach the NCLT for extension of the time limit, citing delay in the bidder's diligence process
- **With courts limiting their functions** to urgent matters, the committee and the winning bidder have to factor in a possible delay in the approval of resolution plans
- **Buyers would also need to be** mindful of the impact of travel restrictions on post-merger integration issues

HOW EMPLOYERS CAN FIGHT CORONA CRISIS

Employers are obligated to ensure a safe and healthy work environment for their employees, including temp and contract workers

WORKPLACE ENTRY: An employer has legal right and obligation to prevent an employee suffering from a communicable disease from entering workplace for the protection of other staffers

INSURANCE COVERAGE: Ensure that insurance coverage is in place for virus-affected employees and their family members

LEAVE ENTITLEMENT: There is no requirement under the Indian legal system to grant leave more than what is mandated or contractually agreed upon. However, employers can allow affected employees to proceed on paid leave

RESPECT EMPLOYEE PRIVACY: Employers should keep an employee's health information confidential and ensure that private data of those affected isn't breached

WORK FROM HOME: While devising a policy that allows employees to work remotely, businesses should be able to hold them accountable for the completion of assigned tasks

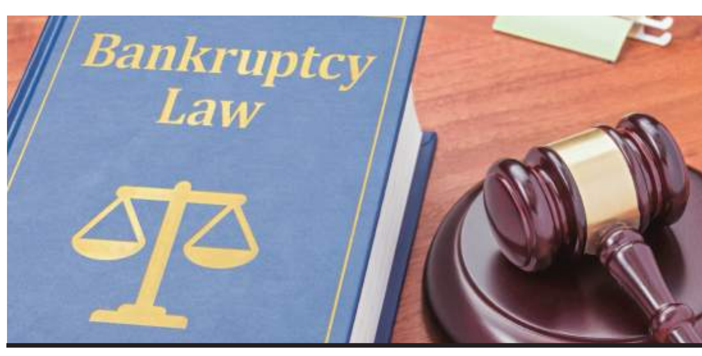
RESPECT DATA PROTECTION RULES: Ensure all employees working from home adhere to obligations under the company's data protection regulations

TACKLING DATA BREACH: Have policies in place to guard against any potential data breach by employees while working remotely

RAISING THRESHOLD FOR INVOKING INSOLVENCY

Good for NCLT, bad for smaller creditors

AKANSHHA AGARWAL



DOUBLE-EDGED IMPACT

PROS	CONS
De-clog the NCLT by reducing the number of filings	Adverse impact on operational creditors
Reduce frivolous disputes and maximise value of adjudged cases	May not have an impact on the backlog in the long run

The Insolvency and Bankruptcy Code, 2016, (IBC) currently prescribes the threshold of ? 1 lakh for invoking insolvency proceedings under the law. The Ministry of Corporate Affairs, however, has been for some time considering increasing the threshold requirement to reduce the number of filings before the National Company Law Tribunal (NCLT).

While the Insolvency Law Committee has recommended increasing the threshold to? 5 lakh, the government is reportedly looking at raising the bar to? 50 lakh. Experts are of the opinion that any increase in threshold needs a twofold analysis. While they agree with the government's view that the increased threshold will bring in efficiency and help de-clog the NCLT, some experts highlight the adverse impact of the move on businesses where the default amount is usually small.

A view within the MCA is that in cases where the amount of bad loan is not significant, lenders should look for other options before invoking the IBC. Experts are of the view that a substantial increase in threshold might affect certain sectors severely. "The impact of this may largely be felt by entities engaged in the manufacturing, trading, and real estate," says Abhijeet Das, partner at law firm Cyril Amarchand Mangaldas.

Abizer Diwanji, head of financial services at EY, notes that the change will most severely impact operational creditors, who will not have a redressal with the increase in the threshold. "Looking at the empirical evidence, small claims were raised by operational creditors. This will most severely impact them as they do not have any recourse apart from the IBC," says Diwanji.

Poornima Advani, partner at The Law Point, too, feels that this move will be discriminatory against small operational creditors as they will be denied the ability to approach the NCLT for resolution.

According to Delhi-based advocate Shreya Prakash, in such cases, debt enforcement may need to be done under other laws, such as the Recovery of Debts Due to Banks and Financial Institutions Act (RDDBFI) and the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI Act).

Das, however, takes a contrarian view. He notes this might lead to favourable results for small creditors, who will have to go to existing commercial courts or alternative dispute mechanisms. "This will hopefully provide an impetus for faster disposal of such disputes, without necessarily dragging the corporate debtor into insolvency proceedings," he adds.

Experts are also divided over to what extent this move will help declog the NCLT. "While this is a welcome move to balance various interests at stake, the revised threshold by itself may not lead to significantly fewer filings with the NCLT," says Das.

But, Advani feels that the increase in threshold might be effective in reducing the number of maintainable cases in the beginning. However, this may not have a significant impact on reducing the backlog in the long run. "There is a high possibility that creditors start inflating their dues so as to qualify under the threshold. Such action would only be detected later on in the proceedings when the NCLT looks into the merits of the matter," she says.

Several corporate law experts are approaching the suggestion to substantially increase the threshold sceptically. Diwanji is of the view that even though clearing the backlog is much needed, increasing the threshold to such a high amount is not the way to do this. "The way to reduce is litigation is for the courts to stop behaving in a liberal manner while granting a stay and actively work towards commercial betterment," he adds.

Experts fear any substantial increase in the threshold of default for initiating CIRP could make the Code lender-oriented. The government needs to ensure that the considerations of all stakeholders are balanced, they add.

VIVAD SE VISHWAS SCHEME

Settlement, a fact-intensive decision

RAJU KUMAR

Litigation is not a novel term when it comes to the administration of taxes, and more often than not it arises because of the difference of opinion on the computation of the fair amount of taxes due from taxpayers. In the Indian context, according to the government's data, an estimated amount of approximately ₹9.32 trillion as on November 30, 2019, was locked in direct tax litigation in around 483,000 direct-tax cases pending in various appellate fora. Taking cognizance of this fact and the consequential impact these litigations have in the form of pressure on the judiciary, the cost to the taxpayer and delay in collection of disputed tax liability, the finance minister introduced a direct tax amnesty scheme, named the Vivad Se Vishwas (VSV) Scheme, in the Budget 2020-2021. The scheme provides for a mechanism for settling pending litigation under the Income-tax Act, 1961. The FM has attempted to hit the bull's eye by trying to tackle two prominent issues together -- to compensate forgone tax revenue and to reduce direct tax litigation pending in various appellate fora.

The VSV Scheme provides the taxpayer with an opportunity to settle pending litigations as on specified date i.e. January 31, 2020, by simply paying the tax on the disputed amount and getting a complete waiver of interest and penalty. The draft Bill, which was presented on February 5, 2020, contained the framework for implementation of the Scheme. The government also did several stakeholder discussions to ensure that the Scheme has wider acceptance and has been very receptive to concerns raised by taxpayers in respect of the Scheme, whether on technical interpretations or on practical aspects of implementation. Accordingly, in addition to amendments brought in the Bill at the time of bringing it to Parliament, the Central Board of Direct Taxes (CBDT) issued a Circular in form of FAQs explaining various aspects of the Scheme. The FAQs deal with the issues regarding the eligibility of a taxpayer to opt for the VSV Scheme in different situations, the manner of computing the quantum of disputed tax payable, consequences under the VSV Scheme, certain procedural aspects, etc.

The government has tried to make the Scheme flexible and easy to implement, providing equity in corresponding tax treatment which is notably reflected in amendments, such as the option to select particular appeal for settlement instead of all eligible appeals for a particular tax year, eligibility of deduction for the expense disallowed earlier because of non-compliance with TDS tax provisions if the taxpayer chooses to settle the TDS appeal, etc. Another significant proposal in the revised Scheme is the payment of 50 per cent of disputed tax in case of appeals filed by the tax department. It is also worthwhile to appreciate the efforts being made by the revenue authorities to make the most of this scheme by allowing continuous engagement with stakeholders and being open to constructive feedback to improve the Scheme.

Given the short timeline provided in the Scheme, it requires immediate consideration by taxpayers

From taxpayers' point of view, this Scheme provides a good window of opportunity to reduce litigation and it must be evaluated positively. Having said that, the complexities peculiar to direct tax cases like the multiplicity of issues involved with different level of confidence of success, the potential impact of settlement in one year on past years, as well as future years, the multiplicity of fora where the issues are pending make the choice of settlement a very involved and fact-intensive decision. Further, the issues that involve valuation aspects i.e. transfer pricing matters may be more amenable to a negotiated settlement compared to a binary resolution under the Scheme. The APA (advance pricing agreements) mechanism has been a great option for such matters. However, issues that are unique or one time and TDS matters will find a great place for resolution.

The final Scheme appears to be very beneficial for both government and taxpayers. It should enable a fair way of settlement of cases which may otherwise possibly take many years to attain finality. Given the short timeline provided in the Scheme, it requires immediate consideration by taxpayers and working with the field offices to expedite all pending administrative aspects in the preparation of the resolution.

The writer is tax partner, EY India. Vishal Pandey, senior tax professional, EY, also contributed to the article
Views expressed are personal

"JYOTIRADITYA SCINDIA FORGOT HIS IDEOLOGY... HE WOULD NOT GET RESPECT IN THE BJP, NOR WOULD HE FEEL SATISFIED THERE"
RAHUL GANDHI, Congress leader

"UNFORTUNATE TO SEE @JM_SCINDIA PARTING WAYS WITH @INCINDIA. I WISH THINGS COULD HAVE BEEN RESOLVED COLLABORATIVELY WITHIN THE PARTY"
SACHIN PILOT, Rajasthan deputy CM

"I ADMIRE YOUR STRENGTH OF CHARACTER AND COURAGE. IT'S GOOD TO BE ON THE SAME TEAM "
VASUNDHARA RAJE, BJP leader and Scindia's aunt

Shivraj isn't running solo for top job

Narendra Tomar, Narottam Mishra, and Kailash Vijayvargiya are among his challengers in CM race

SANDEEP KUMAR

Amid the ongoing political drama in Madhya Pradesh, the million-dollar question is: Who are the strongest contenders for the chief minister's post, in case the Kamal Nath-led Congress government falls? Former chief minister Shivraj Singh Chouhan is the frontrunner, but if sources are to be believed he is not the only one eyeing the top job. Other names doing the rounds include Union minister Narendra Singh Tomar, former minister Narottam Mishra, and Bharatiya Janata Party (BJP) general secretary Kailash Vijayvargiya.

If we go by the numbers, Chouhan is the favourite. The BJP has 107 MLAs in the Assembly and he enjoys the loyalty of more than 70 of them. But he reportedly lacks the trust of Prime Minister Narendra Modi and Home Minister Amit Shah.

Tomar appears to be the first choice Modi and Shah, but the opinion of MLAs and other state leaders is equally important. The Union minister belongs to the Gwalior-Chambal region, a BJP stronghold. The only non-BJP leader from the area until now was Jyotiraditya Scindia, who recently joined the party. Mishra, also from the same region, enjoys the support of 20-25 MLAs.

"The prime minister, the home minister and party President J P Nadda would decide on whether to form a government under the leadership of Chouhan," a BJP source said. "Like the Congress, the BJP's Madhya Pradesh unit, too, is fragmented. That's why the BJP's top leadership wants a unanimous leader in Madhya Pradesh."

The top contenders

Both Tomar and Chouhan are seasoned politicians. Their vast experience makes them perfect for handling a coalition government and tough situations like the one in Madhya Pradesh. So, what goes in favour of Tomar? A BJP MLA said: "Tomar *sahab* is not only a senior leader but also has an unmatched mastery of election art. We should not forget that under his able leadership the BJP won back-to-back Assembly elections in 2008 and 2013."

On the other hand, Chouhan is considered the most popular BJP leader in the state. He has a carefully cultivated image of a "family man" and is easily approachable.

The former chief minister loves to be called "son of the soil", is soft-spoken, and has often identified himself with the concerns of commoners. Needless to say during his 13-year tenure as chief minister, Chouhan transformed himself from a shy and simple leader into one with deep political machinations.

Bhopal-based political commentator Girija Shankar said: "If the BJP forms government in Madhya Pradesh, there should be no doubt who will be the captain. Chouhan has proved himself time and again. Especially in the current political situation when everything is possible, the BJP's brass cannot take the risk to go with a new face. Chouhan has the charisma, which is appealing to his friends and foe alike."

He had replaced Babulal Gaur as chief minister on November 29, 2005, and remained in the saddle unchallenged until the party's defeat in the November 2018 Assembly election.

After the embarrassing Maharashtra episode, the BJP is taking time to ensure things are easier in Madhya Pradesh. The BJP central leadership has also made it clear to state leaders that they should not "rush".

If we go by the numbers, Chouhan is the favourite. The BJP has 107 MLAs in the Assembly and he enjoys the loyalty of more than 70 of them

At present, there are 228 MLAs in the MP Assembly (two seats are vacant). The majority mark is 115.

The Kamal Nath government until recently enjoyed the support of 121 MLAs, which included four Independent, two Bahujan Samaj Party, and one Samajwadi Party MLAs. After 22 Scindia-loyalist MLAs parted ways, the Congress government is on the verge of collapse.

But some Congress leaders are hoping for a miracle. Party Spokesperson Syed Jafar said: "Kamal Nathji is in politics since the time when Chouhan and Amit Shah were not even in the picture."

On Friday, the chief minister met Governor Lalji Tandon and submitted a letter expressing his government's willingness to face a floor test in the Assembly. The BJP has also sought a floor test on March 16, the first day of the Budget session.

After 22 MLAs loyal to Jyotiraditya Scindia parted ways with the Congress, the BJP's Shivraj Singh Chouhan has another shot at power

CONSIDER THE EVIDENCE

Polarising faces take the lead in Delhi BJP

RADHIKA RAMASESHAN

For decades, the Bharatiya Janata Party (BJP) struggled to identify, nurture, and project a person to lead the party in Delhi, which was one of its bastions since the days of the Bharatiya Jana Sangh. By the BJP's own reckoning, Madan Lal Khurana was the last leader of consequence, until he was done in by factional feuds.

When Sahib Singh Verma was picked to replace Khurana as chief minister, it was regarded as an "unconventional" move because Verma was a Jat. It was recognised that Delhi's demography had moved beyond the Punjabi-dominated core to newly empowered social groupings and the BJP's command structures should reflect the trend.

The next significant change in the population composition was brought about by migrants, largely from undivided Uttar Pradesh and Bihar. The BJP could not take advantage of the transformation for want of a suitable leader until it chanced upon Manoj Tiwari, the North-East Delhi MP. Tiwari's appeal is sectional.

"At times, circumstances help instead of a concerted search. The recent Assembly election threw up an array of talent," a Delhi BJP source said, adding, "If we apply our minds to it, we have enough time to foster a new line-up."

The choice of Tiwari's successor might indicate the "high command's" thinking. The line-up being talked about is a diverse assemblage, which articulates the party's hardline ideology. Meet the protagonists:

Kapil Mishra: "Our chartbuster," a source remarked. Mishra's communal statements against anti-Citizenship Amendment Act (CAA) protesters at Shaheen Bagh and other hubs were believed to be a "push factor" for the cycle of violence in north-east Delhi, to which he belongs. A former Greenpeace and Amnesty employee, Mishra was co-founder of Youth for Justice, which worked on issues like farmer suicides and "encroachments" on the Yamuna river bank. He was a natural candidate for Anna Hazare and Arvind Kejriwal's India Against Corruption. He won the 2015 election from Karawal Nagar on an Aam Admi Party (AAP) ticket, but fell out with Kejriwal. Mishra joined the BJP in 2019 but lost the 2020 election. The BJP doesn't take kindly to losers. Mishra is an exception — he was given Y+ security cover because of a "serious threat perception" to his life.

Tajinder Pal Singh Bagga: The Delhi BJP's "social media warrior" who registered his presence back in 2013, when he protested outside L K Advani's residence for opposing Narendra Modi's candidacy as PM. Bagga was always the BJP's cat's paw. He once allegedly barged into lawyer-activist Prashant Bhushan's chamber and roughed him up and heckled author Arundhati Roy at her book launch. As a member of the 150 "super-exclusive" club of media influencers, he was invited to a private interaction with Modi in 2017. He lost the election from Hari Nagar.

Abhay Verma: The Laxmi Nagar MLA grew up in Bihar. He spearheaded the *Hindi Sanrakshan evam Samvardhan Samiti* for the "protection and development" of Hindi on the Delhi University campus where he was a law student. He led a procession through East Delhi during the violence and raised incendiary slogans.

Ragini Tiwari: She's also known as Janaki *behen*, "*Mithila ki beti* (daughter of Mithila)", and "*Modi ki mausi* (aunt)". Do the allusions to Janaki and Mithila make her some kind of a Sita incarnate? Ragini didn't contest the election but campaigned for the BJP. Ragini's combativeness was on display when she egged on the cops and mobs to lathicharge the women sitting outside the Jaffrabad metro station to protest the CAA. To her, the violence was a "religious war". Ragini is a devotee of Narsinghanand Saraswat, the mahant of Ghaziabad's Dasna Devi temple who had called for "cleansing" India of Islam.

Parvesh Sahib Singh Verma: The son of Sahib Singh Verma and West Delhi MP who conjured up scary images of Shaheen Bagh in the Assembly election and was banned from campaigning for 96 hours. Yet he was the BJP's opening speaker in the Lok Sabha for the motion of thanks to the President's address.

KAPIL MISHRA

PARVESH SAHIB SINGH VERMA

TAJINDER PAL SINGH BAGGA

ABHAY VERMA

RAGINI TIWARI

STORY IN NUMBERS

BLASTS AREN'T UNCOMMON IN COUNTRY, YET

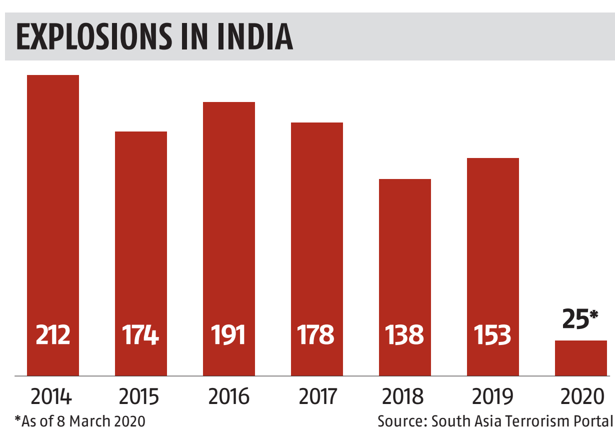
"In the last six years, not a single incident of blast has taken place," Union Minister Prakash Javadekar said on March 7. This claim is false. More than 1,000 explosions were reported in the country over the past six years, an analysis of the data recorded by South Asia Terrorism Portal (SATP) revealed.

"What we had experienced for 10-25 years (before the Modi government came to power)? We saw bomb blasts taking place in Pune, Vadodara, Ahmednagar, Delhi, and Mumbai. Every eight to 10 days, blasts used to happen and people used to get killed," Javadekar was quoted as saying in a *Press Trust of India* report in *The Hindu*. "But in the last six years, not a single incident of blast has taken place. This has not happened just like that but due to some strong measures undertaken by the PM."

As many as 1,071 explosion incidents have been reported between January 2014 and March 8, 2020, in India, according to the data from SATP, a website that records and maintains a database on terrorism and low-intensity warfare in the region.

In India, 406 blasts (337 improvised explosive devices, or IEDs, and 69 explosive ordnance) took place in 2016, a government reply to the Lok Sabha on April 11, 2017, said. The National Security Guard's National Bomb Data Centre (NBDC) "data includes all major as well as minor IED blast incidents... including those which are accidental in nature", the reply said.

SOURCE: DATA SATP
ANALYSIS: INDIASPEND



Looking to win hearts, MGR style

T E NARASIMHAN

If you want to win hearts and connect with the voters, you need to be like actor-turned-politician and former Tamil Nadu chief minister M G Ramachandran (MGR).

During his travel to the hinterland in the 1970s, MGR used to get out of his car into the farmlands, hug workers, and play with children. This strategy clicked and he remained chief minister for 10 years until his death in 1987.

The current chief minister, Edappadi K Palaniswami (EPS), is adopting a similar strategy. The self-proclaimed farmer stops his car and starts planting rice, drives a bullock cart to public events and stops his car occasionally to play with kids. "It is a good ploy because it helps reinforce the rural base of the AIADMK," says political analyst Sumanth C Raman.

EPS is trying to strengthen his rural base, which was once strong for the AIADMK. He undertook welfare measures for the poor, which had endeared the late J Jayalalithaa, and continued with the state's industrial development, which had declined for a while.

The strategy worked. He managed to win 11 bypolls of the 24 despite uncertainties, and helped the AIADMK government sustain a majority in the Assembly in 2019. This cemented his leadership in the party. The party had lost 38 of the 39 Lok Sabha seats in the state in 2019.

The results of the bypolls are a forerunner to the 2021 Assembly elections, EPS said earlier. He took over as chief minister in February 2017, after a series of political dramas and infighting in the AIADMK after the demise of Jayalalithaa in December 2016.

While he came to power as nominee of one of the most trusted aides of Jayalalithaa, V K Sasikala, who is in jail now, and her nephew T T V Dhinakaran, he later overthrew them and took control of the party.

STATE SCAN
TAMIL NADU

"He has come a long way from where he was three years ago. EPS has rescued the party from the brink of destruction and was able to hold it together. He has emerged a leader of some significance. He has made himself the primary face of the AIADMK before the public," says Raman.

Over the past three years as chief minister, EPS had signed 16,382 files, which focused on development projects. Most recently, what could be considered a milestone in his political career is declaring Tamil Nadu' rice bowl Cauvery Delta area a protected special agriculture zone.

A section of farmers from the delta presented the title of 'custodian of the Cauvery' to EPS, where he announced ₹170-crore schemes to be implemented through the agriculture department and ₹6,650-crore schemes to be carried out by the public works department.

P R Pandian, president of the Tamil Nadu Federation of All Farmers' Associations, told the media that unlike his predecessors like MGR, Karunanidhi and Jayalalithaa, EPS had been a "practising farmer" and there was nothing wrong in exhibiting his background. "He is not showing off as a farmer," he points out.

In 2021, EPS is expected to give a tough fight to M K Stalin, who needs to prove his prowess in the party after the demise of his father, DMK patriarch M Karunanidhi. EPS has made the next election a contest. A couple of years ago, it was a foregone conclusion that the DMK will win the Assembly election in 2021. A lot can happen in the next one year, but now it is going to be a contest, say analysts.

A constant and silent presence of the Bharatiya Janata Party's national leadership from Delhi in Tamil Nadu politics, according to them, added spice to his party, which was yearning for political stability.

He has been doing a balancing act without looking totally subservient to the Centre, and he tried to push through certain things for the state, they said. Analysts lauded his acumen in saving the government that was expected to last for only few months . Now, not only is he stable but has also won accolades in terms of industry and governance rankings by the central government and various organisations.

Whether he will be able to win the next election is something that time will tell. Would he be able to keep the party together even if it loses the election? Analysts say it may depend on various factors one year down the line, including what kind of strategy the party will adopt, the alliances it will forge, and how many seats it manages to garner.

Chief Minister E K Palaniswami nowadays stops his car and starts planting rice, drives a bullock cart to public events, and occasionally halts his carcade to play with children as he looks to strengthen his rural base

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SANJAY SRIVASTAVA
Chief digital officer, Genpact

"TO TAKE THIS (CORONAVIRUS) ANXIETY AWAY AND MAKE TRAVEL HASSLE-FREE, WE ARE WAIVING OUR NORMAL CHANGE FEE ON ALL TRAVEL DURING THE NEXT TWO WEEKS AND FOR ALL NEW BOOKINGS MADE IN THE SAME PERIOD"

WILLIAM BOULTER
Chief Commercial Officer, IndiGo

Shared workspaces in battle mode

Better safe than sorry is the best strategy against the snowballing coronavirus or Covid-19 crisis

SHUBHOMOY SIKDAR & NEHA ALAWADHI

PHOTO: DALIP KUMAR

BEYOND GUIDELINES

- **Checking the body temperature of individuals** entering office premises and advising users to go for medical consultation if temperature crosses 100 degree Fahrenheit
- **Educating users on the dos and don'ts** through digital signages, internal posters and even informational videos on TV screens across centres
- **Cleaning coffee machines more frequently,** twice a day in some cases, monitoring vendor hygiene practices
- **Updating the database of hospitals and doctors** in the vicinity of every centre to save time in case of an emergency

Avoid sharing, avoid meeting anyone — these tips have a top of the mind recall when it comes to preventive strategies against the snowballing coronavirus or Covid-19 crisis. But what happens when your business model itself is based on professionals, often not bound by a single company code, congregating at confined spaces offered by you? The challenges mount as the risk intensifies.

The real worry is reducing footfalls. Some workspaces sell space in bulk, for longer terms, and against upfront payments. They have less to lose compared to the many smaller outfits that operate on a per seat basis, and on monthly rentals. Smartworks founder Neetish Sarda says his brand works with enterprise clients on long-lease contracts and so he doesn't foresee much impact on renewals or subscriptions. "While the average tenure in the co-working industry today is about 11 months, our average is close to about three years." But he points at an upside: There has been a spike in the number of inquiries and requests on a day to day basis. Could be a fallout of individual employees looking for infrastructure to link up with their offices as more and more organisations urge employees to reduce commute and work from home.

That said, co-working spaces like Oyo's Innov8 and BHIVE in Bengaluru have seen falling attendance over the last few weeks. "After the death of the 76-year old man from Karnataka, which was reported last Thursday, the number has been even lower," says a Bengaluru-based professional whose company works out of one of these shared workspaces. "Though there are measures being put in place like better housekeeping and cleanliness, people are wary and don't want to take a risk," he adds.

Some players say this threat would be limited to the short to medium term. "We believe that offering work from home is an essential step towards controlling the spread of the virus. As an engaged and responsible organisation, we have also deliberately put a pause on in-person site visits and have started to explore the alternative route of virtual tours to ensure business continuity," says Akshita Gupta, co-founder and CMO, ABL Workspaces.

So how does one work around or mitigate the threat? Players in the co-working industry realise that they have to step up the game to achieve the two-fold objective of managing day to day operations — ensuring better focus on hygiene by stocking up on and encouraging the use of soaps and sanitisers like everyone else — and taking customised approaches keeping their clientele and the nature of their businesses in mind.

Take WeWork. The company now has a mandatory 14-day work from home policy for every employee who has recently returning from high-risk regions, as well as those who exhibit flu-like symptoms, such as respiratory distress, fever, cough, shortness of breath, said a spokesperson. Documentation from a medical provider is required to return to work, the spokesperson added.

Awfis, another player in the segment, says it has placed posters/tent cards in common areas with detailed information on the virus and how to prevent it. Since the seats that the company offers are at different centres, it has worked out localised contingency plans besides following the World Health Organisation (WHO) guidelines and training the staff to handle basic queries. "We have a list of hospitals and doctors handy for each of the centres. We have adequate quantities of hand sanitisers and masks for members and staff at all our centres. We have partnered with vendors in case we require additional quantities," says Amit Ramani, CEO & founder, Awfis.

Atul Gupta, founder and CEO at CoFynd — that has presence in Gurugram, Delhi and Noida — says it has advised its team to bring home-cooked meals to avoid eating outside. "We have also provided the team with thermos flasks to have warm water through the day," he says. But that is more applicable to the staff. For those who come and work, the company has ensured that coffee and tea machines in the office are cleaned thoroughly twice a day, increasing the frequency of the exercise from it was earlier.

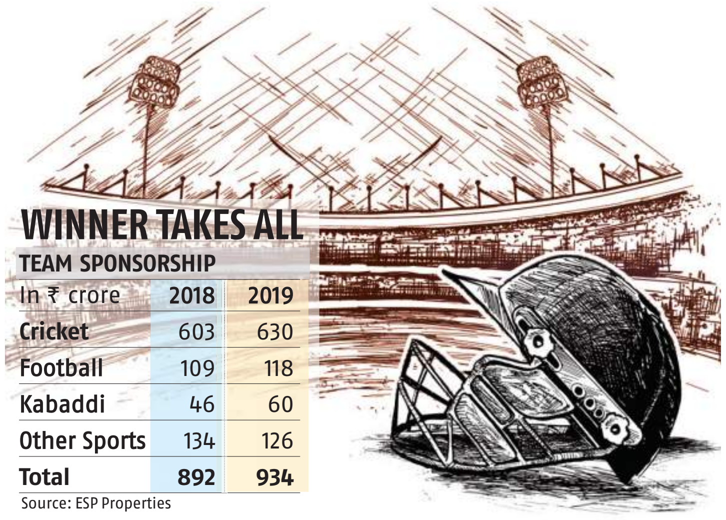
Two other crucial factors are screening and communication and there also more steps are being taken, assert companies operating in the co-working space. For example, at all centres run by Smartworks, the temperature of every individual is being checked at the time of entry. "All individuals entering Smartworks office premises are checked for their body temperature (using an infrared thermometer) as a precautionary measure and any person with a temperature higher or equal to 100 degrees is requested to go for medical consultation," says founder Sarda.

More on www.business-standard.com

Kohli leads the endorsement pack, while cricket dominates the sponsorship track

Cricket bagged the biggest deals in the ₹9,000 crore sports sponsorship business in 2019, but history may not repeat itself in the year of Covid-19

ARUNDHUTI DASGUPTA



WINNER TAKES ALL

TEAM SPONSORSHIP

In ₹ crore	2018	2019
Cricket	603	630
Football	109	118
Kabaddi	46	60
Other Sports	134	126
Total	**892**	**934**

Source: ESP Properties

Brands ran a two-horse race with Virat Kohli and M S Dhoni taking away 63 per cent of all endorsement deals in cricket, while the sport bagged lions share in 2019. This is in spite of the best efforts of sports leagues, marketers and athletes who have all tried to raise the profile of non cricket sports with brands and marketers for the past few years.

The big thrust for the sport in 2019 came from franchise cricket, specifically the IPL that saw a 15 per cent increase in its valuation and the ICC World Cup, according to Sporting Nation in the Making VII, a report by ESP Sports, a Group-M company. However the year 2020 may craft a completely new story as the tournament has been postponed in the wake of Covid-19.

Just as cricket dominated the sports sponsorship domain, cricketers ruled the endorsement industry that grew by 11 per cent. In 2019, of the 70 new brand endorsement deals being signed, 50 went to cricket players. With these new contracts, the sports business in the country clocked 329 valid endorsement deals last year, out of which 228 involved cricketers.

Kohli was the brightest star on the firmament, crossing the ₹200 crore mark. Dhoni playing the last few matches of his career added five new brands to his list and was the second most valuable sports endorser, while Sachin Tendulkar, six years past his retirement, crossed the ₹25 crore mark and was the third most valuable sports brand in 2019.

Even as cricket refurbished its kitty, attracting more brands and money than ever before and more than any other game played in the country, other sports saw a 10 per cent decline in revenues. Why does cricket continue to score while the other games struggle? Sandeep Goyal, brand strategist and founder Mogae Media says, "The continued ascendancy of cricket is not surprising. It is the only sport in which we are world class, and beat other big teams consistently. Winning brings fans and advertisers are smart enough to know which way the wind is blowing."

It helps that cricket is played round-the-year too and continues to attract new players and viewers. According to Goyal, while cricket does get the maximum share of endorsements in the country, not all cricketers get a chance to rake in the moolah. It is usually a case of the captain getting it all, although Dhoni is an aberration as he has continued to attract brands even after giving up his captaincy.

However, a senior sports professional who preferred to stay anonymous said that cricket's 'winner takes all' syndrome demonstrates a singular lack of imagination on the part of the brands. They go looking for cricketing stars, without any research on brand fit, need and purpose. And as for the payers, he believes, they are playing a short-term game. "Take Dhoni. The man has so much going for him that can build himself into a legacy brand, but he is representing every product or service that comes his way. He probably thinks he has a limited window to cash in on," he says. But Captain Cool can surely do better, he believes.

'Mergers take time to evolve'

The coming together of Wunderman and J Walter Thompson has allowed the merged entity Wunderman Thompson to exploit new areas within digital marketing, **Rai** tells **Viveat Susan Pinto**

Q&A

TARUN RAI
Chairman & group CEO
Wunderman Thompson
South Asia

What kind of an impact will the ongoing coronavirus issue have on the domestic advertising business?

From conversations around supply-side disruptions three weeks ago, the discussion now is about domestic demand taking a hit due to the coronavirus. So yes, there is a perfect storm brewing. But there has been no discussion with our clients on postponing launches. The health scare, of course, is understandable because of the number of cases that are being reported every day. While it is a gradual buildup, the fact that Covid-19 has arrived in India is a worrying sign. In my view, the next couple of weeks will be crucial. How fast the outbreak spreads and the government's response to it will determine the future course of action of advertisers. For now, we continue to work towards meeting our deadlines as far as the launches for our clients go. The Indian Premier League (IPL) has been pushed to April 15, but not called off. The IPL remains a huge platform for brands. We are keeping our fingers crossed.

From J Walter Thompson (JWT) to Wunderman Thompson. How has the merger transformed the agency?

It has been a year since the merged entity and its new identity was unveiled in the country. This happened within days of it rolling out first in New York. We effectively became the second market after the US to be doing so, which was a big plus for us. Having said that, mergers take time to evolve. We are building a new culture, which is predicated not only on our traditional advertising strengths but also on harnessing data and technology. In many respects, the merger has allowed us to step into areas we weren't exploring much earlier. Marketing technology being a case in point. We already have 250 people at Noida (near Delhi) for e-commerce-related work. We have a 100-member-strong team in Mumbai that focuses on technology. We are not only talking to existing clients but new ones as well in different areas. Our pitch today is not just to chief marketing officers within companies but chief technology officers as well. This, to my mind, is a big shift.

Given the 90-year history of JWT in India, are clients comfortable with Wunderman Thompson?

A lot of our clients continue to refer to us as JWT. It is to be expected given our legacy in India and the globe. We were the first multi-national agency in the country when we started in 1929 out of a room at the Taj Mahal Hotel in Mumbai. We were subsequently incorporated as a company in India in 1938. So our history is long and has been reinforced over the years with the work we've done for big brands. It is understandable therefore when clients struggle to recall Wunderman Thompson when they've seen JWT all these years. I don't mind if clients take time getting used to Wunderman Thompson. But what is important is that they understand the difference between the two in terms of the agency's offering now versus what it was earlier. That has been our endeavour over the last one year, which will continue.

Are you looking at acquisitions now that your holding company WPP appears open to it?

No, we are not looking at acquisitions right now. Instead, we would like to get some of Wunderman's global capabilities into the domestic market as quickly as possible and scale it up for our clients. So we will look at a more organic way of filling need gaps within our portfolio and essentially simplify how we present ourselves to clients. Mark Read (WPP's CEO) has been speaking of not just an integrated solution, but also of the need for simplification. That is an important point he is making and something we are working towards even as we add new capabilities and strengths to our offering in the country.

Is the shift in services within your portfolio pushing you to change your hiring policies as well? How challenging is it for you to execute that?

We are changing the lens in terms of the talent we are hiring for the agency. Apart from advertising professionals, we are also looking at people with a non-agency background such as data analysts, engineers and technologists. Diversity is critical to our business and I've agreed with our leadership team to aggressively pursue this.

More on www.business-standard.com

QUIZ 655

1. It first originated as B814 then 229E was discovered and subsequently OC43 during the 60s. In the current form it seems to have caused massive damage to businesses and humans alike. Name it.
2. Connect the game of Ice hockey where a flat ball is used and BruceJay Wasserstein who was an American investment banker, businessman, and writer and what do you arrive at?
3. Name the person who completing his PhD in military occupied Berlin in 1949 and came back to India and launched a soap brand on the 15th of August in the early 50s. Name the person and the brand that was launched.
4. Who operates an online platform, called Community, for buying and selling consumer-centric digital advertising?
5. Manufactured by a British MNC, this brand was sold in India with the byline "Hair's Natural Food". This brand is still available in other variants. Name it.
6. Whose Women's Day campaign reads "She rocks when she travels on an ___"?
7. Who ran ads in the 70s and 80s in India, which read "Your credit is better than a Millionaire's"?
8. Which 100-year-old company says that its vision of "Passion, Artistry and Technology" are more than buzzwords and they have been living up to it?
9. Who uses this punch line in their ads "What are you solving for"?
10. What profession does this Egyptian Hieroglyphic represent?

COMPILED BY GAURAV SRI KRISHNA, www.facebook.com/gaurav.s.krishna

ANSWERS TO THE STRATEGIST QUIZ 655

1. Swiggy, emphasising on using hand sanitisers in the wake of Covid-19
2. The Bass beer brand founded in 1777. It was originally known as India Pale ale because it was sent to the troops of East India company
3. Charles Schwab
4. Triumph International, makers of lingerie
5. P T Barnum
6. The artist-turned engineer Robert Fulton
7. Corset, a precursor to the brassiere. Corsets were stiffened with whaleback bones and steel rods
8. WhatsApp. It has introduced a dark mode to reduce eye strain and prevent bright light from disturbing others around the user
9. Kemmons Wilson
10. It belongs to OEKO-TEX® which first introduced the STANDARD 100 as a label for textiles tested for harmful substances. It consists of 18 independent research and test institutes in Europe and Japan

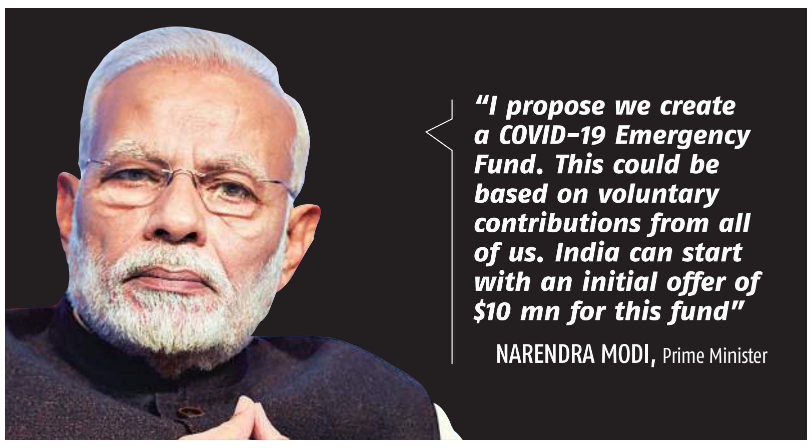
One lucky winner will receive a cheque for ₹2,000. Send your entries to strategist@bsmail.in. All entries must carry the postal address of the contestant. Last date for receiving entries is March 17 till 8 pm. Previous winners and employees of *Business Standard* and their families are not eligible to participate. The winner is chosen on the basis of the first correct entry received.

There was no correct entry to Quiz number 655

PM Modi proposes SAARC fund to combat COVID-19

Says region can best respond to pandemic by coming together, not growing apart

ARCHIS MOHAN
New Delhi, 15 March



Sharing details of India's preparedness to prevent and contain the spread of novel coronavirus (COVID-19), Prime Minister Narendra Modi on Sunday told leaders of SAARC member countries that India recognised it was "still in an unknown situation" and "cannot predict how the situation will unfold".

At a teleconference between the leaders of SAARC member nations on Sunday evening, called at Modi's initiative, suggested greater cooperation within the grouping, including sharing of experiences and best practices by their respective health experts.

Sri Lanka President Gotabaya Rajapaksa, his Maldivian counterpart Ibrahim Mohamed Solih, and Bhutanese PM Lotay Tshering, all three of whose countries depend heavily on tourism sector that is hit the hardest in recent weeks, called for a common fight not just against COVID-19 but also its economic fallout.

Modi suggested SAARC member nations should set up an emergency fund to combat COVID-19, and offered $10 million as India's initial contribution.


CORONAVIRUS PANDEMIC

SAARC, or South Asian Association for Regional Cooperation, has seven member states, but has mostly been dormant, especially over the past six years, because of differences between India and Pakistan. New Delhi has instead tried to promote BIMSTEC, which does not include Pakistan, to rival SAARC. However, the challenge of COVID-19 spreading in the region seems to have forced South Asian neighbours to think of common strategies.

While the heads of state or government of other SAARC member states participated in the teleconference, Pakistan was represented by Zafar Mirza, the special assistant to Prime Minister Imran Khan. Mirza, who is also the state minister of health of Pakistan, said it was a matter of concern that COVID-19 had been reported from Jammu & Kashmir. He said the "lockdown" must be lifted immediately in view of the health emergency. Mirza also called for pooling of resources, technical expertise and financing.

The Bhutanese PM said when the world was fighting one common disease, it was important to leave behind the differences.

Rajapaksa said Sri Lanka's economy, particularly tourism, had taken a serious blow, which was just about recovering after last year's terrorist attacks in his country. He asked SAARC leaders to formulate mechanism to assist "our economies to tide over the difficult period".

Afghanistan President Ashraf Ghani suggested common frameworks for telemedicine between SAARC countries and flagged how the closing of borders would result in problems of availability of food, medicines and basic goods.

Ghani also asked India, since it is a key SAARC member and also a member of China-led Shanghai Cooperation Organisation (SCO), to coordinate between SAARC and SCO and much of China's experience in combating the virus is replicable in South Asia.

In his opening statement, Modi said: "We fully recognise we are still in an unknown situation. We cannot predict with certainty how the situation will unfold despite our best efforts. You must also be facing similar concerns. This is why it would be most valuable for all of us to share our perspective." Modi said SAARC region had so far listed fewer than 150 cases, but it needed to remain vigilant as it was home to nearly one-fifth of all humanity and densely populated. "We can respond best by coming together, not growing apart, collaboration not confusion, preparation not panic."

"As developing countries, all of us have significant challenges in terms of access to healthcare facilities," Modi said.

He said SAARC member countries' "people to people ties are ancient, and our societies are deeply inter-connected. Therefore, we must all prepare together, we must all act together, and we must all succeed together."

The Indian prime minister said India's guiding mantra in the fight against coronavirus is "prepare, but don't panic". Modi detailed the steps that India has taken in its fight. He said SAARC member states have made specific requests, including about medicines and equipment, which his team has noted.

Several members, including Bangladesh PM Sheikh Hasina, called for a common research platform to coordinate research on controlling epidemic diseases within the region. She said health ministers, secretaries and others should have similar teleconferences.

Modi offered to share the disease surveillance software that India has developed. He said a rapid response team of doctors and specialists in India with testing kits and other equipment would be at the disposal of its neighbours.

Mumbai in semi-lockdown as cases zoom to over 100

Police prohibits all group tours within India and abroad till March 31

VIVEAT SUSAN PINTO
Mumbai, 15 March

Security personnel outside a special isolation ward at Kasturba Hospital, in Mumbai, on Sunday. Maharashtra has reported 32 confirmed cases of COVID-19, ahead of Kerala's 22 cases PHOTO: PTI

The number of novel coronavirus cases in the country rose to 107 on Sunday. With 12 new cases reported in Maharashtra on Sunday, the state government put Mumbai, the financial capital, in a semi-lockdown mode.

Top malls, multiplexes, the Byculla zoo and the Taraporevala Aquarium in Mumbai have been closed as the state government strives to contain the spread of the virus.

So far, Maharashtra has reported 32 confirmed cases of COVID-19, ahead of Kerala's 22 cases.

In a conversation with Business Standard, officials at Inorbit Mall confirmed that their Malad and Vashi properties were closed on Sunday, and that it would remain shut for few days. R-City Mall in Ghatkopar, Phoenix Market City in Kurla, and Infiniti Mall in Andheri and Malad have all downed shutters to avoid congregation of people.

The World Health Organization, monitoring the COVID-19 pandemic, has identified community transmission as one of the reasons for the spread of coronavirus.

On Friday, the state government had announced that cinema halls, gyms, and swimming pools in cities including Mumbai, Navi Mumbai, Pune, Pimpri Chinchwad, and Nagpur would be shut till further orders. Schools and colleges would also be closed in all urban areas within the state till March 31, Health Minister Rajesh Tope had said.

The impact on business has been severe due to the lockdown.

Footfalls across malls, multiplexes and restaurants in the city were down 50-60 per cent in the last one week, industry experts tracking the retail market said, as confirmed cases began growing.

Now, the complete shutdown of malls and multiplexes has meant that business has come to a grinding halt, said Anuj Kejriwal, managing director and chief executive officer, Anarock Retail. "This has financial implications since even a short-term closure hits retail hard," he said.

Grocery stores, pharmacies, restaurants, and beauty centres in Mumbai, however, were open on Sunday. At a leading skin clinic in Bandra, customers and clients walking in were asked to sanitise their hands at the entrance. Those using the clinic's services were asked to fill a form disclosing their recent travel history and health details.

The Linking Road stretch at Bandra, a popular shopping destination in the western suburbs of the city, wore a deserted look as people stayed away from buying or eating out.

In a statement issued on Sunday, Infiniti Mall said that the health of its patrons was important and that it would implement all directives and strictures issued by the government.

R-City Mall said that it was shutting all stores at its property at Ghatkopar barring Big Bazaar, which would stay open for those wanting to buy groceries and essential commodities.

Officials at Big Bazaar said it had not shut any store but had put in place standard operating procedures, including sanitisers for staff, temperature sensors at entry points, disinfecting trolleys, baskets, and toilets.

The Mumbai police, meanwhile, issued an order to prohibit all group tours within India and abroad till March 31. "It is apprehended that there is a likelihood of spread of coronavirus through business and holiday groups travelling together," deputy police commissioner Pranaya Ashok said in the order. Those flouting the order can face action under Section 188 (disobedience of an order duly promulgated by a public servant) of Indian Penal Code. However, the order said, tour operators can seek exemption in case of exceptional circumstances.

In Maharashtra's Satara, five people were booked for violating social distancing rules in place to tackle the coronavirus outbreak by organising a religious event on March 13 in which over 5,000 people participated.

With input from Aneesh Phadnis

ELSEWHERE IN INDIA...

- 289 passengers of Dubai-bound flight from Kochi airport offloaded after UK tourist tests positive
- West Bengal seals all but one entry point with Bangladesh
- Pilgrimage to Kartarpur Sahib suspended
- SC suspends guided tours, closes museum
- Civic polls put off in AP museum
- Haryana shuts down cinemas, all schools till March 31
- All three old coronavirus-hit patients cured in Rajasthan, one new case being treated

Recession risk calls for joint response: UN chief

AFP/PTI
Lisbon, 15 March

UN chief Antonio Guterres on Sunday urged governments to work together to stop the coronavirus pandemic from plunging the global economy into recession.

"No country can face it alone," the secretary general wrote in an opinion article in the *Publico* daily.

"More than ever, governments must cooperate to revitalise economies, expand public investment, promote trade and ensure that people and communities affected by the disease are supported," he said.

The virus was "infecting the global economy", he said.

The pandemic had created a "real and growing risk of a global recession," the former Portuguese premier said.

The International Monetary Fund, which releases its updated outlook on the world economy next month, has said that the severity of the slowdown will depend on how long the virus outbreak lasts and how governments respond.

In January the fund was still projecting world GDP growth of 3.3 per cent, but that was before global disruptions, shutdowns and plunging oil prices.

IHS Markit, an economics research firm, this week slashed its forecast for global growth to 1.7 per cent.

Coronavirus has infected close to 160,000 people worldwide and killed more than 6,000, according to the latest AFP tally of official figures.

GLOBAL

The virus has claimed at least 5,973 lives globally and affected more than 161,048


Begona Gomez, Spanish Prime Minister Pedro Sanchez's wife, has tested positive for coronavirus PHOTO: PTI

- Trump tests negative, extends travel ban to Britain, Ireland
- Aramco 2019 profits plunge, to cut spending
- Iran's death toll reaches 724
- Malaysia reports 190 new cases
- China tightens quarantine, airport checks as imported cases tick up
- Global oil demand heads for record annual drop
- Virus may be worse than financial crisis, says Japanese economy minister
- Australia, South Korea call for G-20 meetings amid market rout
- UK ramps up production of ventilators
- Walmart to cut store hours to give workers time to restock
- American Airlines cutting international flights by 75%
- New travel restrictions possible, says Trudeau
- Swiss soccer president Blanc tests positive for coronavirus
- Hong Kong issues red alert against travel to Ireland, UK and US
- Nike to close all stores in US and several other countries