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Business Standard

COMPANIES P2

DIFFICULT TO RUN BIZ AFTER ME: K K MODI IN UNPUBLISHED BOOK

COMPANIES P3

BIGBASKET EYES IPO IN NEXT THREE YEARS

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

How markets performed last week

	Index on Feb 28, '20	*One-week	% Chg over Dec 31, '19 Local currency	in US $
Sensex	38,297	-7.0	-7.2	-8.2
Nifty	11,202	-7.3	-7.9	-9.0
Dow Jones	25,409	-13.0	-11.0	-11.0
Nasdaq	8,567	-12.1	-4.5	-4.5
Hang Seng	26,130	-5.4	-7.3	-7.3
Nikkei	21,143	-10.0	-10.6	-9.9
FTSE	6,581	-11.5	-12.8	-15.6
DAX	11,890	-13.0	-10.3	-11.7

*Change (%) over previous week Source: Bloomberg

GST COLLECTIONS MOVE UP 8.3% TO ₹1.05 TRN IN FEB

The Goods and Services Tax (GST) collection crossed the ₹1-trillion-mark for the fourth month in a row in February, at ₹1.05 trillion. The figure, which grew 8.3 per cent year-on-year (YoY) in the month, was a tad lower than the ₹1.1 trillion mopped up in the previous month. The GST collection had grown 8.1 per cent YoY in January. The mop-up could have been much higher, but tax on imports fell 2 per cent YoY. The earlier collection target for the fiscal year 2019-20 required the mop-up in January and February to be at ₹1.15 trillion each. 6

Markets on edge as corona spreads

Weak economic data, rising cases spook investors further

SAMIE MODAK & SUNDAR SETHURAMAN
Mumbai, 1 March

There seems to be little respite in sight for the markets — which have just seen their worst week in a decade — as the impact of coronavirus has started reflecting in economic data.

Factory activity in China, the global engine of growth, has contracted at the fastest pace on record with China's official Purchasing Managers' Index (PMI) falling to a fresh low of 35.7 in February against 50 in January.

CORONAVIRUS OUTBREAK

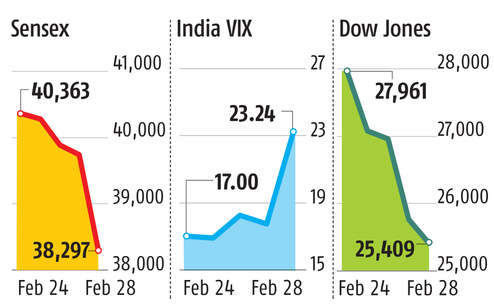
EDIT P9
RISKS TO REVIVAL

Further, China and South Korea continued to report more coronavirus cases over the weekend, while the US, Australia, and Thailand reported their first cases of death.

"It's going to be a tough period," said Shankar Sharma, founder and vice-chairman of First Global. "Coronavirus is a serious problem and can lop off quite a bit from global growth."

The Sensex and Nifty crashed nearly 4 per cent on Friday — the biggest single-day fall since 2015 — to end at 38,297 and 11,202, respectively. Both indices are down nearly 9 per cent from their all-time highs in mid-January. Turn to Page 5

BEARS IN THE RING



FEAR TAKES OVER GREED

India has struggled even when global growth has been robust. With a sharply lower global growth forecast, India's could get softer

SHANKAR SHARMA, Founder & vice-chairman, First Global

A lot of people have gone short, and if markets do not fall further, there could be widespread short-covering

U R BHAT, Director, Dalton Capital Advisors India

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Virus impact may be short-lived

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Valuation may fall further

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Accounting for coronavirus

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Firms stare at prospect of airlifting raw material

Jio seeks govt's nod for trial of self-designed 5G

SURAJEET DAS GUPTA
New Delhi, 1 March

In a first by an Indian telco, Reliance Jio has sought permission from the government to undertake 5G trials based on technology and design developed by it. Sources familiar with the development said that if the 5G technology foray was successful, the design and technology for equipment could be outsourced for manufacturing to third-party players.

The move comes on the heels of Jio deciding to broaden its 5G trial runs with Chinese giant Huawei Technologies, Ericsson, and Nokia Networks — and not limit them to South Korean giant Samsung.

ENTER THE NETWORK

- **Jio to undertake trial runs,** test its own design and tech
- **Has signed up with top** vendors from Europe and China, besides Samsung
- **Govt pushing** for Indian standards in 5G network
- **Trai had drafted recommendations for** incentivising indigenous design, manufacture of equipment

Samsung was earlier the sole supplier for core equipment to Jio for 4G services, despite competition and aggressive bidding by Chinese gear makers. A Reliance Jio spokesperson declined to comment on the development. Turn to Page 5

Car sales remain in slow lane

ARINDAM MAJUMDER
New Delhi, 1 March

Sales of vehicles continued to decline in February, with carmakers shifting focus to disposing of existing stocks, before the transition to a new emission regime. Companies also said confidence was yet to return among buyers, with many holding back their decision to buy cars.

Carmakers focused more on aligning inventories, as dealers wanted to exhaust existing stocks of BS-IV vehicles before pushing new stocks, because the deadline to shift to the BS-VI platform on April 1 is round the corner.

Carmakers also forecast that a continuous shutdown in China due to the spread of coronavirus would start affecting supply chains. Turn to Page 5

ON ROUGH TERRAIN

Company	Feb 2019	Feb 2020	% change
Maruti Suzuki	148,682	147,110	-1.1
Hyundai	54,518	48,910	-10.3
Tata Motors	57,221	38,002	-33.6
Mahindra & Mahindra	56,005	32,476	-42.0

Source: Companies

BS SPECIALS
ON MONDAY

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No and yes. The rules of the game have been changed forever....
TAMAL BANDYOPADHYAY writes

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SATYAVRAT MISHRA explains politics behind Nitish's anti-NRC move and bonhomie with Tejashwi.

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When K K Modi cast doubts on leadership after his death

SURAJEET DAS GUPTA
New Delhi, 1 March

In a conversation on his proposed memoir, the late K K Modi had pointed out he did not expect more than 60-70 per cent of the real value of the companies (in his group) to be realised in case his family went for an outright sale after his death.

The book could not be completed because of his sudden death late last year.

Modi said after him his family members would have three choices under the trust agreement — they could amicably choose a leader but there could not be two players running the show, divide the assets, or go for an outright sale and divide the money.

Talking about the challenges in the division, K K Modi said: "There is no solution to get to a single authority. Charu (his daughter) is willing to work under Bina (wife) and they can form a group and say let's divide the group. But will Lalit (elder son) and Samir (younger son) agree to work together? Lalit is very innovative but Samir is also coming up. My hope is that Lalit will agree to Samir running the business and he can become chairman or work with Bina. But that is difficult."

The family members are currently involved in a bitter battle on the future of the ₹10,000-crore empire. Pitted on one side is eldest son Lalit Modi, who wants the assets, which include Godfrey Phillips, Indofil Industries, and Modicare, to be sold. But the rest of the family has opposed the move. The two sides are in a legal wrangle, with Bina Modi moving the Delhi High Court last week, challenging Lalit Modi's move to conduct arbitration in Singapore on the trust agreement.

Bina has the support of Samir and Charu and they want arbitration to be in India. The matter has been reserved for March 2. Samir Modi, when contacted on the conversations of K K Modi for the proposed book, said: "The documents speak for themselves and the matter is sub-judice, so I will not be able to comment."

K K Modi pointed out the two flagship companies in the group — Indofil and GPI — were "strategically good businesses". For instance, he said GPI's partner Phillip Morris had the Marlboro brand, which was just like "what Coke is in soft drinks".

But he was clear the businesses had to be run by professionals. He said: "To run these businesses you need authority and skill. We can't depend on ourselves to run it, but (they have) to be run by a professional manager who has to be found and given the freedom. But we must have the authority to remove a professional if he does not perform."

Talking about Lalit Modi's plans, K K Modi said: "He is working on the cancer hospital. He wants to do big projects only. Of course in such ventures there are always chances of failure." Lalit Modi was unavailable for comment on the issue.

WHAT HE SAID

"To run these business you need authority and skill. We can't depend on ourselves to run it, but it has to be run by professional manager who have to be found and given freedom. But we must have the authority to remove him if he does not perform"

IN BRIEF

BPCL's valuation is too high, evaluating bid: Anil Agarwal

Mining baron Anil Agarwal, who was among the first to evince interest in bidding for Bharat Petroleum Corp (BPCL), has said "valuation of the firm is too high" and his company Vedanta will "evaluate bidding for it when the final bid document is out". At the close of trading on Friday, BPCL had a market capitalisation of ₹92,464.40 crore. At this price, the government's ₹52.98 per cent stake that is being sold in the country's largest privatisation exercise is worth about ₹49,000 crore. The acquirer will also be required to make an open offer for another 26 per cent stake from minority shareholders which will cost another ₹24,000 crore. PTI

AirAsia India loss in Oct-Dec down to ₹123.35 crore

AirAsia India narrowed its loss to ₹123.35 crore in three months to December from ₹166.15 crore in Q4FY18 owing to higher fuel and staff costs coupled with increased user charges and other related expenses, as per a company presentation. Total revenue during December quarter jumped 65 per cent to ₹1,057.55 crore as compared to ₹641.17 crore in the same period of financial year 2018, the airline said. PTI

ICAR inks pact with Patanjali for farm research, training

Indian Council of Agricultural Research (ICAR) signed an agreement with Patanjali Bio Research Institute to undertake research work as well as training and education. The Memorandum of Understanding (MoU) was signed by ICAR Director General Trilochan Mohapatra and PBRI CEO Acharya Balkrishna in the presence of Agriculture Minister Narendra Singh Tomar, a statement said. PTI

Maxxis bets big on India, eyes top-5 slot in global list

Maxxis Group is betting big on India, where it plans to build up to five factories, as it expects the country to play a crucial role in its chase to become a top five global player by 2025, according to a senior company official. The company is currently the world's 9th largest tyre brand and sees India along with Indonesia to play significant part in meeting its 2025 target. PTI

Sterling & Wilson eyes ₹800 crore topline in FY21

Sterling & Wilson is betting big on data centre business and expects this segment to contribute significantly to the group's top line and close 2020-21 with a revenue of ₹800 crore, a senior company official said. From an order book of ₹170 crore in FY18, and a revenue of ₹160 crore, Sterling's data centre business is on course to close the FY21 with an order book of ₹900 crore, clocking a revenue of ₹400 crore. PTI

Capgemini looks to hire 30,000 in India this year

French technology major Capgemini, which employs close to 115,000 people in India, is looking to hire up to 30,000 employees in the country this year, as it seeks to derive more value from its presence here. The hiring will be evenly split between freshers and experienced professionals, or laterals, its country chief executive Ashwin Yardi said. The Indian workforce constitutes for over half of its global employees base. "India forms a very important part of our business and we will hire 25,000-30,000 people here this year on a gross basis," Yardi said. At present, it is focusing efforts on re-skilling employees for the technologies of the future, he said, adding that this has now become a continuous process. PTI

GSK merger sets stage for HUL, Nestlé face-off

VIVEAT SUSAN PINTO
Mumbai, 1 March

Two of Europe's biggest names — Nestlé and Unilever — will now compete head-on within foods in India. The trigger is the merger of GlaxoSmithKline (GSK) Consumer into Hindustan Unilever (HUL), approved last week by the Chandigarh Bench of the National Company Law Tribunal (NCLT).

The NCLT nod paves the way for the final leg of the merger process, including an announcement of the record date (of the merger) and share allotment. According to sources, it is only a matter of weeks before the entire process is concluded. GSK Consumer shareholders will get 4.39 shares of HUL for each of their shares held.

GSK, which will become the second-largest shareholder in HUL after the merger, may encash its 5.7 per cent shareholding in the company. However, no formal announcement has been made yet on the proposed divestment, which is likely to happen via block deals. GSK Consumer closed trade on Friday at ₹9,444.9 per share.

HUL and Nestlé India's closing price on BSE was ₹2,174.90 a share and ₹15,770.55 apiece, respectively.

The merger of GSK Consumer into HUL will also allow the latter to close the gap with Nestlé in terms of top line. HUL's combined food and beverage turnover after taking into account GSK Consumer's revenue will be over ₹12,000 crore, said analysts tracking the companies. This is according to their financial numbers for FY19. The two companies are yet to disclose their full-year FY20 results.

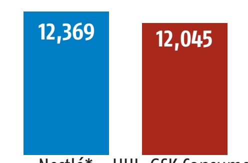
Nestlé's turnover for calendar year (CY) 2019 stood at ₹12,369 crore. The company follows a January to December accounting year.

More importantly, brands such as Horlicks and Boost will now be a part of HUL's portfolio, taking on Nestlé's Milo, which was relaunched in August last year in India. Analysts said this was in anticipation of the competition coming from HUL within health food drinks and Nestlé's need to prepare ground before the merger was completed. Officials at Nestlé India were not available for comment. However, persons in the know said that Tamil Nadu was a market where Milo is being pushed aggressively within stores and homes. Tamil Nadu is also a market where Horlicks is strong, given that health food drink consumption is high within the market. In addition, Nestlé is pushing the Tetra Pak version of Milo across the country to build a base of loyal users ahead of Horlicks's relaunch by HUL once the merger is through.

As things stand now, GSK Consumer has a value share of nearly 54 per cent in health food drinks. This includes brands Horlicks, Boost, Maltova and Viva. Mondelez's Bournvita has a value share of 15 per cent, while Abbott, maker of Pediasure and Ensure, has a value share of 9 per cent, according to data sourced from the industry. Nestlé does not figure in the top three yet. But, things could change in the future, as Nestlé steps up effort to improve share in the category, said experts.

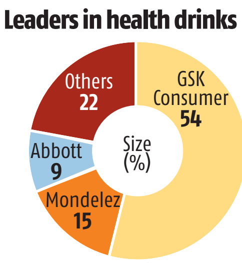
Abneesh Roy, executive vice-president, research (institutional equities), Edelweiss, said there were more categories where HUL and Nestlé will compete with each other besides health food drinks. This includes beverages, where Nestlé has Nescafé and HUL has Bru as well as packaged foods where HUL has Knorr and Kissan, while Nestlé has Maggi. The latter (Maggi) has already crossed 60 per cent share in instant noodles and is visible across condiments, spices, ketchups, soups and pasta. While HUL recently launched Hellmann's mayonnaise to beef up its presence in packaged foods, which includes soups (Knorr), ketchups and jams (Kissan).

NESTLÉ vs HUL: TOP LINE
(figures in ₹ cr)



*Net sales for calendar year 2019
Net sales for financial year 2018-19

Leaders in health drinks



Source: Company/Industry

HAL working on Apache-like helicopter

PRESS TRUST OF INDIA
New Delhi, 1 March

In an ambitious project with strategic significance, aerospace major Hindustan Aeronautics (HAL) has started ground work to produce a 10 to 12 tonne attack helicopter by 2027 which will be on par with some of the best medium-lift military choppers globally like the Boeing's Apache.

Chairman and Managing Director of HAL R Madhavan said the aim of the mega project is to stop import of more than ₹4 trillion worth of military helicopters for the three services in the coming years.

In an interview, Madhavan said the HAL has completed the preliminary design of the helicopter and that initial plan is to produce at least 500 units with the first prototype set to be ready by 2023 if the government gives the go ahead.

"One major project we are focusing on is to produce a helicopter in 10 to 12 tonnes category to replace the Mi-17 fleet. It will be an indigenous platform with the potential to manufacture around 500 helicopters. It will stop import of more than ₹4 trillion worth of platforms from foreign countries," he said.

He added that an amount of ₹9,600 crore will be required for design as well as to produce the prototype of the helicopter.

Phoenix Mills' key properties shine; investors on a high

RAGHAVENDRA KAMATH
Mumbai, 1 March

Phoenix Mills seems to be firing on all cylinders. Besides the 30 per cent jump in its net profit to ₹91.85 crore in Q3FY20, the company is doing well on several business metrics.

While the company had a muted H1FY20 with consumption growth of just 3 per cent across its malls, it saw consumption grow 10 per cent (year-on year) YoY and rental income rise 8 per cent, last quarter. Investors are also cheering the performance of the company. On February 25, the stock of Phoenix Mills hit an all-time high of ₹980. The stock has jumped 29 per cent in FY20 so far.

Its crown jewels — High Street Phoenix and Palladium — clocked an average trading density of ₹3,620 per sq ft per month last quarter and both properties are among the highest trading density among retail properties in the country. Trading density means sales turnover achieved on rentable square feet of a mall or store.

Its newer properties are also fast catching up with High Street Phoenix. For instance, Phoenix Marketcity in Bengaluru posted trading density of ₹2,085 per sq ft per month, thus becoming the first Marketcity to cross the density of ₹2,000 per sq ft per month, company's Managing Director Shishir Shrivastava said in the Q3 earnings call with analysts.

The company has also done a turnaround of sorts for some of its key assets, which were laggards earlier.

Trading density at Phoenix Marketcity at Kurla in Mumbai grew 50 per cent in the past three years from ₹942 per sq ft per month in FY17 to ₹1,415 per sq ft per month in Q3FY20.

Shrivastava told *Business Standard* that the company had done many things at Kurla mall from upgrading the common area spaces to investing into art and festive decors at a scale not seen before in other malls in the country. It has created one of the largest indoor performance venues, which has played host to the best of Indian and International artists over the past three years, he said. The company claimed that its flagship hotel property St Regis continues to be the market leader in Mumbai and had an occupancy of 84 per cent. It had highest-ever average room rental of ₹13,857 in Q3, the company said.

Phoenix Mills is looking to double its retail portfolio and increase commercial properties by FY24 and add a million sq ft area in tier-I cities by 2024.

Phoenix has eight operational malls, with a retail area of six million sq ft in six cities. It has 5.8 million sq ft of under-construction and under-planning malls. The 0.9 million sq ft Palassio Lucknow mall is expected to start operations in March and is fully leased. It will begin to contribute to rental income from Q2FY21 onwards. The Indore mall, which is set for an early FY22 opening, is also 60 per cent pre-leased, ICICI Securities said.

Shrivastava said the company had a staggered launch calendar across Ahmedabad, Pune and Bengaluru, with at least one new mall opening each year up to 2023. "We remain positive on the mall landscape in India as demand for Grade A malls has increased in the past few years while supply remains constrained due to high upfront capex," said a report by Spark Capital. PML's expertise on acquiring, designing and developing land parcels and best in class mall management skills have given an edge to the company over other mall developers," the report by Spark said.

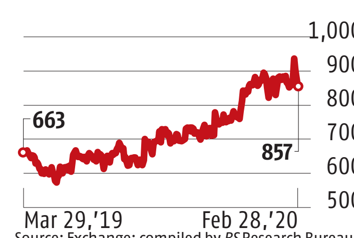
Phoenix Mills joint venture with Canadian pension fund manager CPPIB has also given it financial muscle to scale up the business, analysts said. CPPIB has put in ₹1,662 crore for 49 per cent stake in the subsidiary of Phoenix Mills.

According to ICICI Securities, the company's rental Ebitda to grow from ₹950 crore in FY19 to ₹1,330 crore by FY22, driven by renewal of 50-60 per cent space across malls over FY20-22. However, some analysts said the firm could see competition from the likes of Blackstone-backed Nexus Malls, Prestige Estates and VRSA, which are looking to double their portfolio. Nexus has a portfolio of six million sq ft and looking to double retail spaces.

THE LOWDOWN

- Net profit up 30% at ₹91.85 crore in Q3FY20
- Consumption growth touches 10% YoY; rental income at 8% in Q3
- Stock up 29% since the beginning of the current financial year
- High Street Phoenix and Palladium see highest trading density among retail properties in the country
- Phoenix Marketcity Bengaluru saw trading density of ₹2,085 per sq ft per month in Q3
- Trading density at Phoenix Marketcity at Kurla in Mumbai grew 50% in the past three years

ON THE RISE
BSE price in ₹



Source: Exchange; compiled by *BS* Research Bureau

How the Dua brothers turned Relaxo into a footwear empire

The $3-billion company has grown from a small cycle parts enterprise to a footwear major with 400 outlets and 20,000 employees across the country

ARNAB DUTTA
New Delhi, 1 March

February 17 marked a milestone for Relaxo Footwears. Its shares traded at an all-time high — at ₹830.15 apiece on BSE — taking its market capitalisation beyond ₹20,600 crore.

The unprecedented feat not only pushed its market cap to over 1,100 times that of the value it had 25 years ago during its initial public offer but also boosted the fortunes of Relaxo promoters, the Dua family, taking the combined wealth of the firm to over ₹14,600 crore (around $2 billion).

The two key promoters, Ramesh Kumar Dua and his elder brother Mukand Lal Dua, emerged as the biggest beneficiaries of the milestone. The Dua brothers' 43.7 per cent stake in the firm was valued at well over a billion dollars (₹9,000 crore).

The stupendous rise of its stock in the BSE during 2019 has aided the Duas' fortunes. During last year, Relaxo's share price jumped 72 per cent to make it one of the top performing consumer stocks on the bourses.

As a result, despite a fall in the family's ownership from 74.2 per cent to 70.98 per cent, the promoters' combined wealth grew 125 per cent between end-2018 and 17 February this year.

In fact, its long-term return surpasses the broader index by an extraordinary margin — a 7,276 per cent return from Relaxo stock over 10 years, as compared to 133 per cent from the Sensex.

The superior performance by the firm in recent quarters has played a key role in attracting investors to the stock. While in the October-December quarter, Relaxo's operating income grew 40 per cent, during the nine months between April and December, its net sales surged 18.2 per cent — much faster than its peers in the consumer goods sector most of whom are struggling to cope up with a consumption slowdown.

Relaxo's managing director and the largest stakeholder Ramesh Kumar Dua is not exulting, however. Sitting in his office at the top floor of the firm's headquarters in the north-western suburb of Rohini in the capital, Dua humbly gave the credit to decades of simple, honest hard work.

The importance of honestly running a business was, he said, acquired by accident. Dua recalls the event vividly. It was during the tumultuous days of the Emergency in 1975 when Dua was roaming inside Sadar Bazaar, a wholesale hub in the capital.

While most traders were running for shelter from government officials conducting raids under the infamous Maintenance Internal Security Act, Dua noticed a strikingly calm atmosphere inside the Bata shop.

Compared with the tense mood outside, the manager looked almost relaxed. "When I approached him to inquire why he wasn't scared, what he said was a lesson to me," recalled Dua. "The man said 'Why should we be scared? We follow all the rules'. That is when I realised that if one conducts one's business honestly, then one need not to be scared of anything."

Coming from a family that set up a cycle parts manufacturing unit in Delhi in 1954 after migrating from Pakistan, Dua's exposure to business activities came early. But it was only in the late-1960s that a close look at the business's finances prompted the family to focus on the new shoe unit.

It was Dua, who takes pride in being good in mathematics, who realized that the cycle parts business was not making money.

While the plan was that he would continue his studies and build a career in medicines while his brother helped the business, a split in the family occurred which forced his father to seek his help.

The initial years were tough. Not only had the trio a huge loan to pay off, lack of technical know-how kept their hands tied.

Dua recalls annual turnover was ₹300,000 in early-1970s. By 1976, when they formalised the business under the brand Relaxo, it had quadrupled thanks to a rubber technology course that Dua took. The first major breakthrough, however, came two decades later. Anticipating future expansion, the family had acquired land in Bahadurgarh for a large factory. The capital became a major roadblock.

Following the liberalisation of the economy in 1992, the Duas took a 'limited risk' and decided to go public. The IPO in 1995 fetched them ₹4.5 crore, valuing the firm at ₹18 crore, and paved the way for Relaxo's journey towards becoming a pan-Indian company.

Today, the firm has over 400 branded outlets across the country and employs some 20,000 people, with annual turnover of ₹2,300 crore. Dua is not ready to rest on his laurels yet. In fact, he still likes to spring surprises. Six years ago, he took a leap into the unknown by bringing Salman Khan and Akshay Kumar on board for promotion.

It's been over a decade since Relaxo challenged Puma, Adidas and Nike. A failed supply contract with Nike in the mid-2000s led the Duas to launch the brand Sparks.

At 63, he is charged up with the idea of a tenth manufacturing plant and growing exports. It exports to over a dozen nations but the exports' share in the revenue remains small.

Ramesh Kumar Dua

BIG STEPS

Promoter family's wealth grew 125 per cent since end-2018 (as on Feb 17, 2020)

Promoter(s)	% of total shares held	Value (In ₹ cr)
Ramesh Kumar Dua (MD)	23.31	4,804
Mukand Lal Dua (executive director)	20.39	4,202
Other Dua family members	27.28	5,622
Dua family's total holding	70.98	14,628

M-cap grew at 60% CAGR

₹18 cr
During IPO in 1995

₹20,608 cr
On Feb 17, 2020

Source: BSE & company

Govt, Sebi at the table over RPTs

Centre wants Companies Act and watchdog's regulations on related-party transactions consistent with one another

RUCHIKA CHITRAVANSHI
New Delhi, 1 March

The Ministry of Corporate Affairs (MCA) is holding consultations with the Securities and Exchange Board of India (Sebi) to iron out inconsistencies between the Companies Act and the Sebi (Listing Obligations and Disclosure Requirements, or LODR) Regulations over related-party transactions (RPTs).

"There is some difference in yardsticks between the Act and LODR, which can lead to a situation where a listed company has to comply with the both. It may leave the company in a very awkward situation," a senior government official said.

The government wants to remove certain complexities, and make both the guidelines consistent with one another. "Sebi can be the gold standard. But we have to have a common approach," the senior official said.

To begin with, the scope of a related party is much larger under Sebi's rules. As an extension to Companies Act norms, LODR states that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20 per cent or more of shareholding in the listed entity shall be deemed to be a related party.

VARYING OPINIONS

MCA		SEBI		
Threshold in relation to turnover of the company	Shareholder approval not required for breaching threshold	Under LODR, shareholder approval required	Sebi's limit related to consolidated turnover of the entity	LODR defines what is related-party transaction, the Act doesn't

The Act itself follows a "principle of arm's length in normal course of business". The MCA is of the opinion that a principle-based approach is better than a definition as it keeps the law simpler. "If anyone is found to be in contravention of the principle, he can be investigated or prosecuted," the senior official said.

Last year in November, the MCA in an order revising the rules for RPTs did away with monetary threshold and kept it at 10 per cent of the turnover, to bring the law to parity with Sebi's.

Some differences still remain. While Sebi counts the related party share as part of the consolidated turnover, the MCA takes only the share in a single legal entity into account.

Moreover, in the Act, transactions on the basis of arm's length and ordinary course of business will not require shareholder approval even if they breach threshold limits. But as per LODR all such transactions require shareholders' nod.

Also, the Companies Act prescribes different thresholds for different nature of transactions. Under LODR, a single threshold has been prescribed for all nature of transactions.

These loopholes in the current provisions under the Act, experts say, give leeway to corporations to escape approvals.

"A particular RPT may require shareholders' approval under LODR, but not under the Act, and vice-versa, therefore there is a need to bring parity... the MCA should also consider reviewing the subjectivity in the board and shareholders' approval process under the Act," said Ankit Singhi, partner, Corporate Professionals.

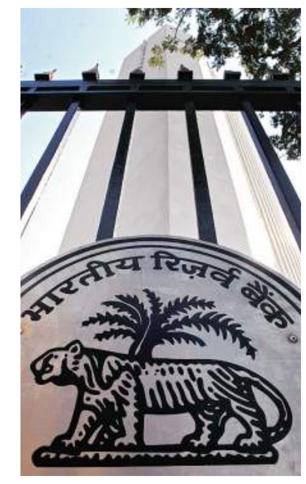
Sebi has proposed to tighten the norms governing RPTs at listed companies in order to prevent their misuse, and safeguard the interests of minority shareholders. The regulator has proposed widening the definition of related party and RPTs, changing the threshold for determining RPTs, and tighter disclosures and approvals.

A nine-member expert panel led by Ramesh Srinivasan, managing director of Kotak Mahindra Capital, recommended a change in the definition of related party to cover any person or entity that directly or indirectly exercises control, irrespective of shareholding.

RBI governor to hold meet with bank CEOs today

Rate transmission and coronavirus implication on the agenda

ABHIJIT LELE
Mumbai, 1 March



Reserve Bank of India Governor Shaktikanta Das will meet chief executives of commercial banks on Monday to take stock of monetary transmission. The issue of dealing with the effects of the coronavirus outbreak on the financial sector is also likely to figure during the interaction.

Senior public sector bank executives said usually, bank chiefs meet the RBI brass immediately after the monetary policy review. The Monetary Policy Committee met on February 4-6, and kept the repo rate unchanged at 5.15 per cent.

One of the issues that will come up for review is how much transmission of policy rate actions to the final customer has happened.

In its last monetary policy review, held in early February, the RBI had introduced measures like long-term repo operations (LTRO) and external benchmarking of new floating rate loans by banks to medium enterprises. "The RBI would likely to hear us out on the progress being made in these areas. The assessment of the implications of the coronavirus outbreak may figure in our discussions," a senior PSB official said.

The RBI had decided to conduct term repos of one-year and three-year tenors from the fortnight beginning February 15. The overall size of these LTROs is ₹1 trillion. It has already conducted two auctions for ₹25,000 crore each.

Since June 2019, the RBI has ensured that comfortable liquidity is available in the system to facilitate the transmission of monetary policy actions and the flow of credit in the economy. This was done to assure banks about the availability of durable liquidity at a reasonable cost based on the prevailing market conditions.

The RBI in its February policy review statement had stated: "The monetary transmission across various money market segments and the private corporate bond market has been sizable. The RBI has cumulatively reduced the policy repo rate by 135 basis points since February 2019. And, the transmission until the end of January was 146 bps in the overnight call money market. The transmission has been of 190 bps for three-month commercial papers of non-banking finance companies."

Transmission to the credit market is also gradually improving. The one-year median marginal cost of funds-based lending rate (MCLR) declined by 55 bps during February 2019-January 2020. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 69 bps and the WALR on outstanding rupee loans by 13 bps during February-December 2019.

After the introduction of the external benchmark system, most banks have linked their lending rates for housing, personal, and micro and small enterprises (MSEs) to the policy repo rate.

The monetary transmission has improved to sectors (retail and MSEs) where new floating rate loans have been linked to the external benchmark. Now, the pricing of loans to medium enterprises will also be linked to an external benchmark, effective from April 1, to strengthen monetary transmission.

During October-December 2019, the WALRs of domestic (public and private sector) banks on fresh rupee loans declined by 18 bps for housing loans, 87 bps for vehicle loans, and 23 bps for loans to micro, small and medium enterprises (MSMEs).

VIVAD SE VISHWAS SCHEME

100% target or poor appraisal, taxmen told

DILASHA SETH
New Delhi, 1 March

Income tax (I-T) officials have been directed to resolve all the tax dispute cases through the Vivad Se Vishwas scheme, and failure to do so will have direct bearing on their appraisals and promotions.

In an official communication, field officers have been informed that the performance assessment target under the scheme is 100 per cent of cases, which has given rise to fears of harassment of taxpayers.

The assessees have already started to feel the pressure from tax officials to withdraw cases and settle the disputes through the scheme.

"The target for assessment of the performance of the field officers in respect of the Vivad se Vishwa' scheme has been fixed at 100 per cent of the cases with disputed tax demand which fulfil the eligibility conditions under the scheme," said the official communication circulated by the Central Board of Direct Taxes (CBDT) last week.

The I-T officials argue that the target of 100 per cent cases is "unreasonable to begin with" and may lead to harassment of taxpayers. Besides, forcing assesses to go for the scheme may mean taking away taxpayers' right to appeal.

"How can one have a 100 per cent target in the first place? This indicates that you are taking away an assessee's right to appeal and settle a dispute," said an I-T official.

Assesses are facing the heat with calls from the tax officials. A New Delhi-based assessee said he had received at least five calls from the tax official to withdraw the case from Commissioner of Income Tax (Appeals) or Income Tax Appellate Tribunal (ITAT), and settle it through the scheme. Upon refusing to do so, the taxpayers are being asked to meet tax officials to explain as to why they are not participating.

Amit Maheshwari, managing partner, Ashok Maheshwary & Associates said these unrealistic targets may have an unintended effect. "The CIT(A) may either not decide the cases till the time the scheme is going on or may pass negative orders against taxpayers. Also, we don't believe these kinds of targets are achievable, and the scheme may have limited success in the context of large taxpayers," said Maheshwari.

Rajat Mohan, senior partner, AMRG & Associates said: "Tax officers are expected to use persuasive as well as coercive methods, asking the taxpayers to opt for this scheme as this will have an effect on their overall performance assessment and evaluation."

Arranging for cash and getting timely company approval are among the key challenges assesses are facing. Declarants will need to attach the application on withdrawing cases from the CIT (A), the IATA, High Court, or the Supreme Court, along with the Vivad se Vishwas form.

The amended version of Vivad se Vishwas Bill is likely to be tabled in Parliament when the session resumes on Monday after the recess. If passed, it will leave assesses with barely 20 days window to benefit most from the scheme, which offers a waiver of interest, penalty, and prosecution for settling tax disputes on amounts that were due up to January 31 this year. The scheme also offers a 50 per cent discount on principal tax amount where appeal has been filed by the I-T department. However payments have to be made by March 31, and an additional 10 per cent penalty will be levied if payment is made after March 31 but before June 30.

Amendments to the Bill, which was tabled in Parliament last month, expanded the scope of the scheme, and propose to reduce the tax amount by half in cases wherein assessees have won the cases but the I-T department has filed appeals.

Another officer pointed out that in case an assessee has won a case, there is a high probability of winning it at the next stage too. "How can we force that person to opt for the Scheme?" the official said.

There are more than 400,000 such cases pending, involving at least ₹9.3 trillion of taxes in disputes.

Incidentally, the Prime Minister's Office is learnt to have asked the revenue department to collect at least ₹2 trillion from the dispute resolution scheme.

Disputes related to search and seizure cases where recovery is below ₹5 crore will also be taken up under this scheme.

Cases related to undisclosed foreign income/assets and assessment or reassessment made on the basis of information received under the double taxation avoidance agreement are out of the purview of the scheme. Also, cases falling under the Indian Penal Code, Prevention of Money Laundering Act, or Prohibition of Benami Property Transactions Act, or convicted under these Acts, are not part of the scheme.

LITIGATION MANAGEMENT

	FY18	FY19
Cases pending with CIT (appeals) as on April 1	328,173	321,020
Demand involved in appeals at the end of the year (₹ trillion)	6.39	5.71
Demand stayed by ITAT/courts at the end of the year (₹ trillion)	0.87	1.15

Source: CBDT Central Action Plan FY20

Ministry looks to retain 8.6% interest rate on EPF deposits

PRESS TRUST OF INDIA
New Delhi, 1 March

The labour ministry is keen to retain an interest rate of 8.65 per cent paid on provident fund deposits to around 60 million subscribers of retirement fund body EPFO for the current financial year, a source said. The apex decision making body of Employees' Provident Fund Organisation (EPFO) — Central Board of Trustees — is likely to consider the rate of interest on EPF (Employees' Provident Fund) deposits in its meeting scheduled on March 5, 2020.

"The proposal to provide interest rate on EPF deposits for 2019-20 may come up for consideration and approval in the Central Board of Trustees (CBT) meeting on March 5," a source said.

The source further said that the ministry is keen to retain the interest rate at 8.65 per cent, as was provided in financial year 2018-19. Speculations are rife that the interest rate on EPF may be lowered to 8.5 per cent for the current fiscal, a tad lower than 8.65 per cent provided for 2018-19.

According to the source, the agenda for the CBT meeting has not yet been finalised and it is difficult to predict EPFO's income projections for the current fiscal, which will be the basis for fixing the interest rate.

The finance ministry has been nudging the labour ministry for aligning the EPF interest rate with other small saving schemes run by the government like the public provident fund and post office saving schemes.

STATSGURU

India's growth risks

THE LATEST DATA has darkened the outlook for the Indian economy. The National Statistical Office's estimate and projection puts gross domestic product (GDP) growth at 4.7 per cent in the second half of FY20 (Chart 1).

The stress lies in the manufacturing and construction sectors (Chart 2), the biggest employers of semi-skilled labour. Farm sector in Q4 could register the best growth in three years, but public spending is likely to moderate (Chart 2).

Further, numbers show a deeper collapse in investments. However, the annual estimate of 5 per cent growth has been retained, courtesy a likely uptick in investments in Q4 (Chart 3).

The impact on the economy may be visible going forward, as the incentive to borrow is slowly rising with softening longer-term bond yields. (Chart 4). But the outbreak of a deadly virus in China could affect the outlook for growth.

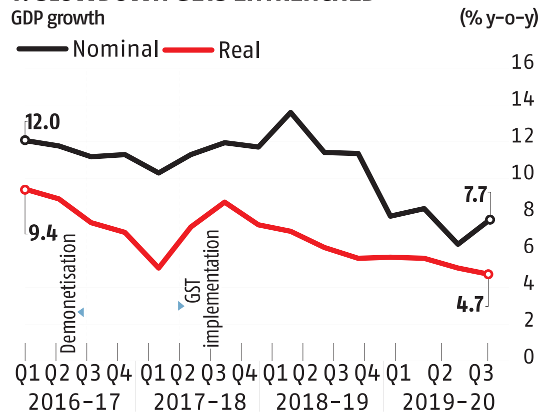
The immediate impact has been on stock markets across the world, as Chart 5 shows. Chart 6 shows how the demand for various goods and services are expected to decline due to Covid-19 spread.

Pharma prices are rising, auto parts movement could stall, and global trade can suffer, analysts concur. Indo-China trade in heavy machinery, gems and jewellery, and chemicals could get affected the most, a recent CRISIL report noted (Chart 7).

China's growth will decline and will be a drag for global growth (Chart 8). However, India's trend growth diverged from global growth after disruptions like demonetisation and the implementation of goods and services tax. Due to low base (lower growth in FY20), India's growth in FY21 could see an uptick despite Covid-19 impact, most forecasts show.

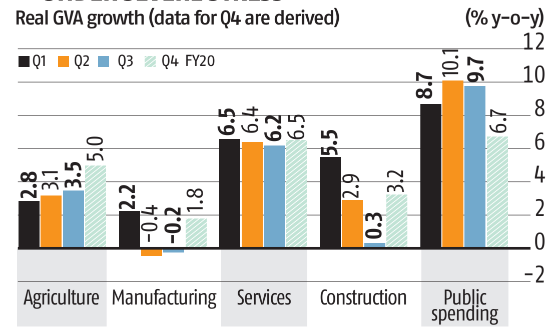
ABHISHEK WAGHMARE

1: SLOWDOWN GETS ENTRENCHED



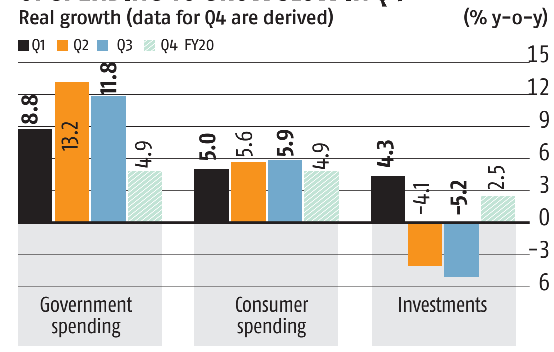
Source: National Statistical Office

2: MAJOR JOBS GENERATING SECTORS — MANUFACTURING AND CONSTRUCTION — UNDER SEVERE STRESS



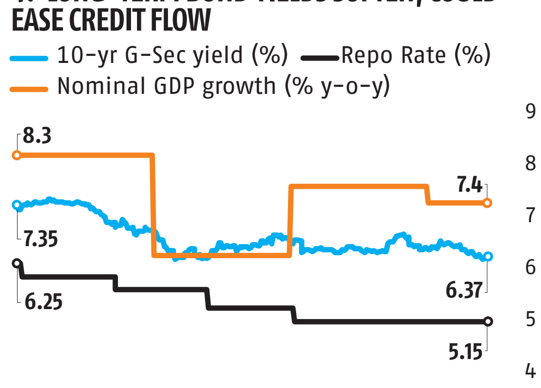
Mining excluded from the chart. Services include trade, hotels, restaurants, electricity and water supply, financial, real estate and professional services
Source: National Statistical Office

3: ON EXPENDITURE SIDE, ALL MODES OF SPENDING TO GROW SLOW IN Q4



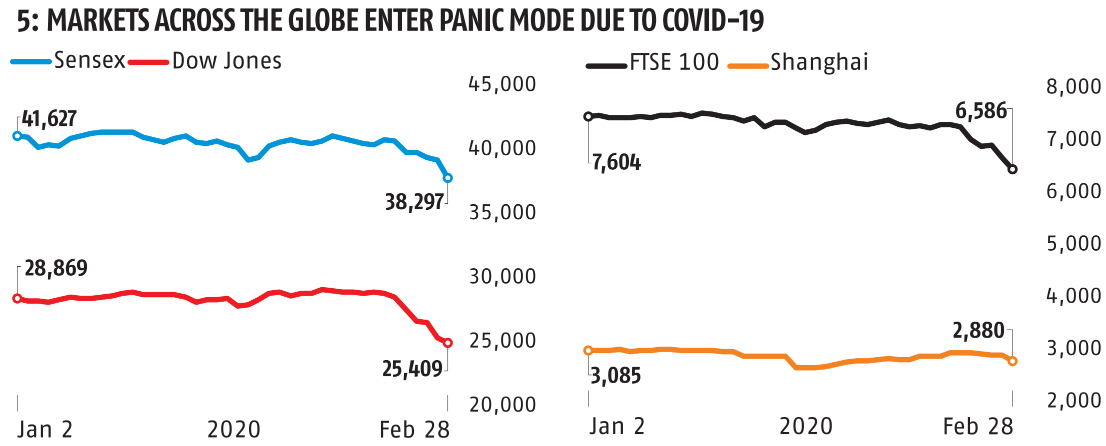
Government spending — government final consumption expenditure. Consumer spending — private final consumption expenditure. Investments — Gross fixed capital formation.
Data for Q4 are back-calculated from numbers available on three quarters and the annual advance estimates
Source: National Statistical Office

4: LONG-TERM BOND YIELDS SOFTEN, COULD EASE CREDIT FLOW



Source: NSO, BS Research Bureau

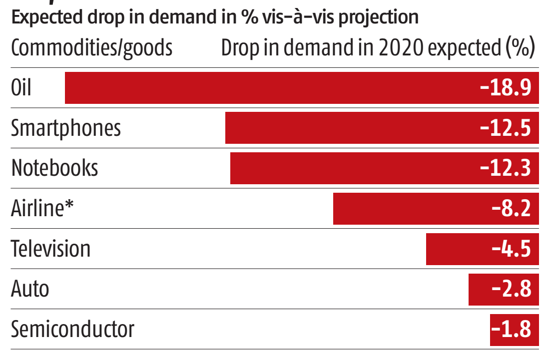
5: MARKETS ACROSS THE GLOBE ENTER PANIC MODE DUE TO COVID-19



Source: BS Research Bureau

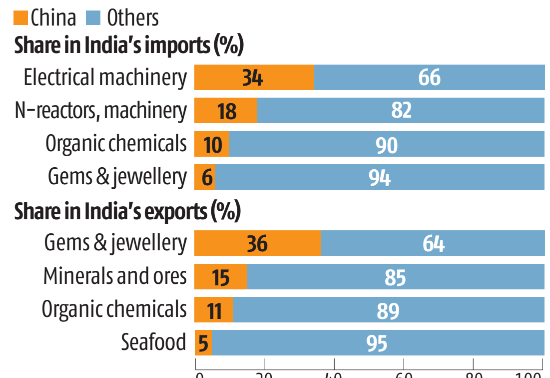
6: DEMAND FOR OIL AND ELECTRONICS TO BE HIT; GLOBAL GROWTH UNCERTAINTY LOOMS

Expected drop in demand in % vis-à-vis projection



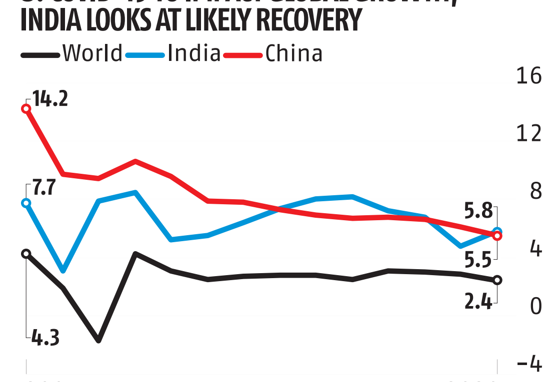
*Revenue passenger mile, drop in percentage points in growth; demand for notebooks and TVs for quarter ending March
Source: Nomura

7: SECTORS TO BE AFFECTED IN TERMS OF CONSUMPTION AND GLOBAL SALES



Source: CRISIL

8: COVID-19 TO IMPACT GLOBAL GROWTH, INDIA LOOKS AT LIKELY RECOVERY



Source: World Bank (till 2018), IMF (2019), Nomura (China 2020), S&P Global Platts worst case scenario (World 2020)

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

FROM PAGE 1

Jio prepares...

Reliance has been quietly building its telecom R&D design. Rancore Technologies, earlier a subsidiary of RIL, for instance, was working on core software development that included building products and services to suit modern 4G needs.

It was then amalgamated with Reliance Jio. In 2018, RIL bought US-based Radisys for over $67 million to enhance Jio's capabilities in 5G and the Internet of Things. The Reliance move on designing 5G equipment is significant as this is an area that has always been dominated by foreign companies.

Competitors Airtel and Vodafone Idea are undertaking design of 5G telecom gear with all the three global players: Ericsson, Nokia, and Huawei. Some are tying up with Zte.

The government has been pushing for building local capacity in both the design and manufacturing of telecom equipment. In 2018, TRAI came out with recommendations on encouraging local telecom equipment manufacturing by classifying indigenous products into three categories and suggesting incentives.

These categories comprise products designed in India but manufactured abroad; those both designed and manufactured in India; and equipment designed abroad but manufactured in India. The latter is already being done by companies like Ericsson by setting up plants in the country. Analysts say the Reliance Jio effort could fall into the other two categories.

To push the agenda, the Indian telecom standards body, the Telecommunications Standards Development Society India, which has representatives from the DoT, has been pushing for an Indian standard for 5G rather than global standards.

The standards body has pointed out that it will make some changes and enhancements to the global 5G standards so that they meet India's specific needs. The move has, however, been opposed by incumbent telcos who say that it will lead to product unavailability and problems in roaming interoperability.

All operators are waiting for the government's nod for the trials. Vendors say that based on their discussions with the DoT, they expect telcos to be given a free hand in choosing as many players as they want to undertake trials.

Car sales...

"The coronavirus outbreak has severely affected our European and Chinese supply chains, disrupting production and impacting sales in February, and will continue through March," said Rakesh Sidana, director, sales, MG Motor India. MG Motor India too reported lower retail sales of 1,376 units in February.

Maruti Suzuki reported a 1.11 per cent YoY decline in domestic sales in February to 147,110 units, compared to 148,682 units in the equivalent period last year, as challenges of continued weakness in demand and transition to BS-VI emission norms persisted.

The company posted growth of 11 per cent in its entry-level car category or mini segment, in which it sells the Alto and S-Presso models. The company's mini-car sales were at 27,499 units during February compared with 25,885 units in January.

"Discounts have come down sharply with average ones of ₹15,000-20,000 in Arena outlets while Nexa outlets are not offering any discounts," said a market analyst. Mahindra & Mahindra (M&M) reported a 58 per cent YoY fall in PV sales in February as the automaker lowered its production of units compliant with BS-IV emission due to difficulties in procuring parts and components from China. The carmaker sold 32,476 units in February compared with 56,005 units last year.

In the utility vehicle (UV) category, which contributes nearly 100 per cent of its PV sales, M&M sold 10,675 units last month against 24,349 units in the corresponding period last year.

"The ramp-down of BS-IV vehicle production has been in line with our plan for February. However, because of the unforeseeable challenges on the supply of parts from China, our BS-VI ramp-up has been affected. This has resulted in high degrowth in our billing volume for February and our dealer inventory is under 10 days," said Veejay Ram Nakra, chief of sales and marketing, automotive division, M&M. Tata Motors reported a 34 per cent decline in domestic sales at 38,002 units in February 2020 as compared to 57,221 units in the same month last year.

Following similar trends, Hyundai Motor reported a 10.3 per cent decline in sales at 48,910 units in February. The company had sold 54,518 units in the same month last year. Honda Cars India (HCIL) reported a 46.26 per cent drop in domestic sales at 7,269 units in February. The company had sold 13,527 units in the domestic market in February 2019.

Markets on...

On previous occasions, indices have rebounded sharply after a near-10 per cent drop. However, a sharp reversal seems difficult this time as the peak impact of the virus is yet to play out.

The India VIX surged 31 per cent on Friday, a sign that traders expect the markets — which are back to October levels — to remain highly volatile.

Further, most global indices have entered "correction zone", posting a 10 per cent decline from recent highs. Many don't rule out a "bear market" —a fall of 20 per cent from highs — if the World Health Organization's (WHO) warning of a global pandemic comes true.

The US markets fell 4 per cent in intra-day trade on Friday, before paring losses to end 1.4 per cent lower. In addition, the US 10-year Treasury hit a record low of 1.114 per cent, before settling at 1.163 per cent. Market players say such low reading on the 10-year Treasury is a sign of extreme anxiety.

Foreign portfolio investors (FPIs) pulled out close to ₹12,000 crore last week. Domestic investors pumped in an even higher amount, but it did little to stem the fall in share prices.

Sharma said overseas investors typically "chase momentum" and there isn't much predictability to their flows. As regards a recovery, market players have not ruled out a bounce-back on account of technical factors such as short-covering. "Historically, global events that have caused a meltdown in markets have proved lucrative investment opportunities. The key point to remember is that we do not know for how long the current crisis may play out. Therefore, while investing in such times, it is better to make staggered investments," said S Naren, executive director and chief investment officer of ICICI Prudential AMC.

Free voice calls no excuse for poor service, says Trai chief

Telcos are citing free voice calls to duck action on poor quality of service, but that will not pass regulatory muster, The Telecom Regulatory Authority of India (Trai) Chairman R S Sharma said on Sunday, assuring users that the issue of call drops remains on its agenda.

Trai head said the watchdog's earlier provision for a penalty on telcom firms for call drops was successfully challenged in the Supreme Court, but the regulator will continue to work for improving the quality of service.

Most of the telcos are offering voice free, their argument is that "if something is free, how much can you (Trai) punish me because I am not getting anything for that", which may not be correct because they are essentially cross-subsidising, Sharma said at the Asia Economic Dialogue.

The comments come amid continuing call drops being experienced by subscribers across the country. After the entry of Reliance Jio in 2016, voice calling has become virtually free as it is getting embedded in the data plans. This has resulted in entrenched operators losing their biggest revenue stream, which has led to financial troubles. PTI

'Test checks' on assessment of dues may start this week

The "test checks" as promised by the government on AGR-hit telecom companies' dues assessment could start this week for large telcos, according to a senior DoT official. The government also wants Vodafone Idea to expedite its self-assessment, and Telecom Secretary Anshu Prakash is believed to have communicated DoT's views in this regard to VIL, CEO and MD Ravinder Takkar during a recent meeting on Friday evening. PTI

GST mop-up over ₹1 trillion for four months in a row

At ₹1.05 trn, Feb collections a tad lower than ₹1.1 trn in Jan

INDIVJAL DHASMANA
New Delhi, 1 March

Goods and Services Tax (GST) collection crossed the ₹1-trillion-mark for the fourth month in a row in February at ₹1.05 trillion. The GST collection, which grew 8.3 per cent year-on-year (y-o-y) in the month, was a tad lower than ₹1.10 trillion mopped up in the previous month.

GST collection had grown 8.1 per cent y-o-y in January. The mop-up could have been much higher, but tax on imports fell 2 per cent y-o-y. However, experts ruled out the impact of the coronavirus outbreak in China on imports since these are contracted three months in advance.

The earlier GST collection target for FY20 required January and February mop-up to be at ₹1.15 trillion each and that for March to be at ₹1.25 trillion. However, the Centre truncated the target for its part of the GST, compensation cess and integrated GST by ₹51,000 crore in the revised estimates for FY20.

The collections have exceeded ₹1-trillion-mark each month since November. However, experts said it could be due to blockage of input credits. "One will have to see how much of it is due to restriction and blockage of input credits, which has been happening in the last three months or so," said Pratik Jain, partner PwC.

He said the GST Council should look into this since it could lead to a fall in the GST collections later.

M S Mani, partner at Deloitte India, said the February figures reflected significant ground level measures taken in the past few months. "With e-invoicing and new returns on the anvil, the collections are now expected to continue with the stable trend," he said.

Of total GST, Central Goods and Services Tax (CGST) fetched ₹20,569 crore in February, slightly lower than ₹20,944 crore in January. The State Goods and Services (SGST) collections stood at ₹27,348 crore, less than ₹28,224 crore in the previous month.

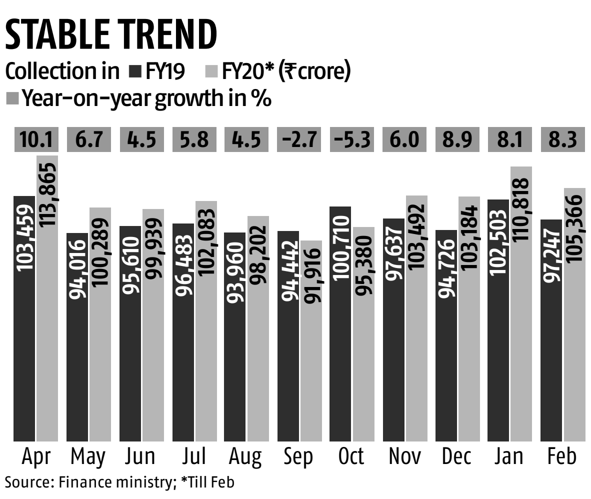
Integrated Goods and Services Tax (IGST) yielded ₹48,503 crore in the month, down from ₹53,013 crore in January. Within IGST, the portion from imports fell to ₹20,745 crore, from ₹23,481 crore in January.

Compensation cess was at ₹8,947 crore, higher than ₹8,637 crore in the previous month.

Abhishek Jain, partner at EY, said the GST collections continuing at above the ₹1-trillion-mark is an encouraging sign for the Indian economy.

The government has settled ₹22,586 crore to CGST and ₹16,553 crore to SGST from IGST as regular settlement. The total revenue earned by the Centre and the states after regular settlement stood at ₹43,155 crore and ₹43,901 crore, respectively, for the month.

The GST revenue from domestic transactions showed a growth of 12 per cent y-o-y in February. Taking into account the GST collected from import of goods, the total revenue increased by 8 per cent on the yearly basis.



Source: Finance ministry; *Till Feb

DBT, GST silent revolutions that we can show off to the world, says FM

'Bring in more efficient and adaptive tech to further smoothen working of PFMS'

PRESS TRUST OF INDIA
New Delhi, 1 March

"THIS IS THE BIGGEST REVOLUTION. THE ₹1 TRILLION YOU HAVE SAVED THROUGH DBT, THESE ARE NOT JUST SYMBOLIC. THE ₹1 TRILLION BEING SAVED FOR THE PUBLIC (IS) BY EFFICIENT USE OF TECHNOLOGY WITHOUT MAKING ANYONE FEEL SORRY"
Nirmala Sitharaman,
Finance Minister

Finance Minister Nirmala Sitharaman on Sunday asked civil accounts officers to focus on bringing in more efficient and adaptive technologies to further smoothen the working of the Public Financial Management System (PFMS). Speaking at a function to mark the 44th Civil Accounts Day, she said there is so much more to be accomplished and officers need to be responsive to the changes.

The minister further said the officers are not only competent accounts persons, but also competent technology professionals.

"Even as we are talking of technology, that itself is a challenge. Everyday it changes, newer versions come in, rapid changes are happening and therefore to keep on top of it is a big exercise. You have to constantly keep changing the milepost, bring in more and more efficiency and adaptive technology," Sitharaman said.

She also said that they have "revolutionised" technology-driven PFMS and it has empowered India to be accountable, responsive and transparent. "Today all over the world DBT (direct benefit transfer) and GST (Goods and Services Tax) are being talked about as one of the silent revolution that democracy can show off to the world," the minister added.

She said the officers have shown that public finance is not opaque, but efficient and responsive to the public.

"This is the biggest revolution. The ₹1 trillion you have saved through DBT, these are not just symbolic. The ₹1 trillion being saved for the public (is) by efficient use of technology without making anyone feel sorry," she said.

Through efficient use of technology, this service has proven that corruption and wrongdoing can be removed from the system, she added.

PFMS is designed to help the government agencies for processing payments, tracking, monitoring, accounting and reconciliation.

It tracks funds disbursement and ensures that state treasuries are integrated with the Centre to ensure money is sent as and when required.

Speaking at the function, Expenditure Secretary T V Somanathan said integration of PFMS with railways, defence and postal service needs to be taken forward and the officers should expeditiously implement further ongoing initiatives so that it realises its full potential.

"I would like to draw your attention to huge volumes of data PFMS have within it which can be effectively use to improve the quality of expenditure," he said.

He added greater attention is required to ensure timely payments.

Expenditure payments and tax refunds should be paid promptly without any kind of unnecessary delay, he said.

"I am aware that in most of these systems, there are multiple agencies involved and you are often at the tail end and the delay can be for various reasons beyond your control, but there is one element of the system which is in your control and what I would like you to do is to make sure that, that element of system is never a source of delay or complaint," he added.

He asked the officers to be very responsive to complaints received with regard to payment delays.

Traders unhappy with Centre, says CAIT

SUBHAYAN CHAKRABORTY
New Delhi, 1 March

The Confederation of All India Traders (CAIT), in a reversal from its earlier stand, has announced that traders have become disillusioned with the government. It has attributed its displeasure to the economic downturn, and indifferent attitude of ministers/officials towards domestic trade.

Consequently, the CAIT has called a meeting of the National Governing Council in Patna on March 5-6, to deliberate on the current business scenario and decide on its future strategy. Bihar is set to go to polls this year.

"After the BJP government came to power, traders had great hope that the attitude of the government towards traders would change. However, nothing has changed and traders remain neglected as ever before," it said in a statement on Sunday.


The CAIT said that despite several problems caused by demonetisation, traders supported the government in its efforts to fight black money

It added that traders remain "very impressed with Modi's positive attitude and thinking towards the traders and small industries".

Over the past 6 years, CAIT has repeatedly backed the BJP in state and national elections, and has become an instrumental player in the corridors of power, lobbying keenly on policies governing retail, e-commerce, and foreign direct investments, among others.

B C Bhartia, national president of CAIT, and Praveen Khandelwal, secretary general, said the executive wing of the government is intentionally neglecting traders' issues. Traders say the CAIT and other organisations had led several campaigns across the country to support Prime Minister Narendra Modi's policies — including Digital India, Skill India, adoption of digital payments, and GST.

Stepping up its attack, the CAIT also said that despite several problems caused by demonetisation, traders supported the government in its efforts to fight black money.

CAIT has issued a long list of demands that remain pending. On GST, it has pointed out that the system has become very complicated, duplicitous, and inefficient, calling it "mental torture".

On the contentious issue of e-commerce, it has once again trained its guns on global digital giants, alleging that these are "destroying and devastating domestic trade", and continue their alleged unethical business practices despite repeated warnings by the government.

It also called out the Enforcement Directorate for not releasing its report on the matter, two years after the body began probing certain e-commerce entities. Further, it argues that foreign direct investment norms continue to be violated. CAIT has also criticised Modi for the management of the Mudra scheme.

"It is true that trillions of rupees have been disbursed under the Mudra Yojana, but it is also a fact that the beneficiaries for whom the Mudra Yojana was introduced didn't get the loan. This is why non-performing assets are increasing," it said.

Khandelwal said there were fears over Modi not being given correct feedback about trade and business issues. He added that the contribution of the corporate sector to GDP remained a low 15 per cent, despite the attention given by ministers.

A lot of unutilised space in insurance for FDI

SUBHOMOY BHATTACHARJEE
New Delhi, 1 March

The stagnant share of foreign investment in insurance companies has prompted the government to defer raising the limit in the sector to 74 per cent from 49 per cent now.

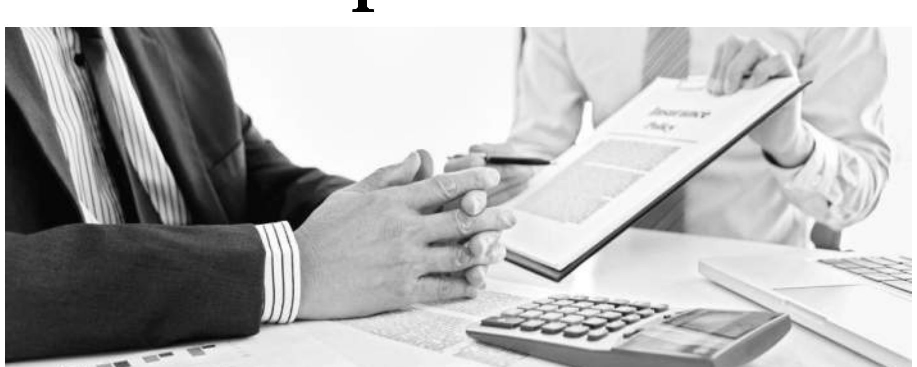
As the table shows, there is headroom for foreign partners in both the life and non-life sectors within the current limits. This is the list shared by the sector regulator, the Insurance Regulatory Authority of India (IRDAI), with the finance ministry before the Budget.

Both the finance ministry and IRDAI had talks on this with the companies in the run up to Budget 2020-21.

"We did get representations to raise the limit, but the data does not support those," said a senior official of the sector. There have also been strong representations from US business interests supporting the move to raise the insurance foreign investment limit.

After the Budget made no mention of it, the influential US-India Strategic Partnership Forum expressed disappointment.

Speaking at a recent event on the India-USA trade dialogue, Sanjay Chadha, additional secretary, ministry of commerce, said raising the foreign investment limit was a key issue of difference between New Delhi and Washington DC.



HEADROOM FOR FOREIGN PARTNERS
As on March 31 of respective years (₹ crore)

	Total equity of life insurers	Share of foreign investor	In per cent	Total equity of general, health and re-insurers	Share of foreign investor	In per cent
2015	26,239.55			11,504.31		
2016	26,691.46	7,498.63	**28.09**	12,064.77	2,462.99	**19.54**
2017	26,956.94	9,353.32	**34.70**	13,127.83	3,503.54	**26.69**
2018	27,164.38	9,565.95	**35.09**	14,970.69	3,805.30	**25.42**
2019	27,515.94	9,764.20	**35.49**	17,664.00	4,045.63	**23.66**

Source: IRDAI

As of March last year, in the life insurance sector, for instance, against the 49 per cent limit of permissible foreign investment, the aggregate foreign investment is 35.49 per cent.

It is almost unchanged from what it was a year ago. Of the 23 private sector companies in the sector, 12 have space for more investment in the sector. This includes leaders like Bajaj Allianz Life, HDFC Life, and ICICI Prudential.

In the case of general, reinsurance, and standalone health insurance companies the utilisation percentage of the space for foreign investment is worse. The aggregate space for foreign investment has been utilised to less than half the permissible limit. It has gone down from the level of March 2018, when it was 25.42 per cent, to 23.66 per cent.

Again, a perusal of the list of the 28 private-sector companies shows only six have used up their limit of 49 per cent. These are Max Bupa, Cigna, and Aditya Birla among health insurers and Bharti Axa, Iffco-Tokio and Raheja QBE.

Bank credit growth dips to 8.5% in Jan: RBI data

PRESS TRUST OF INDIA
Mumbai, 1 March

Bank credit growth declined to 8.5 per cent in January from 13.5 per cent in the year-ago period led by a sharp slowdown in loans to the services sector, according to RBI data.

Growth in advances to the services sector decelerated to 8.9 per cent from 23.9 per cent in January 2019. Bank loan growth to non-banking financial companies (NBFCs) slowed to 32.2 per cent in the reporting month from a growth of 48.3 per cent a year-ago. During the month, personal loans segment grew by 16.9 per cent. Within personal loans, credit to housing segment grew by 17.5 per cent from 18.4 per cent, while education loan showed a negative growth of 3.1 per cent as against a negative growth of 2.3 per cent in January 2019, RBI data showed.

Advances growth to agriculture and allied activities contracted to 6.5 per cent from 7.6 per cent rise last year.

Credit growth to industry decelerated to 2.5 per cent from 5.2 per cent.

Within industry, loan growth to paper and paper products, rubber plastic and their products and construction accelerated.

"However, credit growth to textile, food processing, chemical & chemical products, basic metal & metal products, all engineering and infrastructure decelerated," the RBI said.

According to the latest quarterly statistics on deposits and credit of banks, bank loan growth decelerated to 7.4 per cent in the October-December, 2019 from 12.9 per cent the year-ago quarter.

During the quarter, loans by public sector banks grew by 3.7 per cent while credit from private sector banks saw a growth of 13.1 per cent.

In the fortnight ended February 14, 2020, bank credit grew by 6.3 per cent to ₹100.41 trillion, from ₹94.403 trillion in the year-ago fortnight. Deposits grew by 9.2 per cent to ₹132.35 trillion in the fortnight compared to ₹121.19 trillion, the RBI data showed. In February, the RBI governor Shaktikanta Das had said that slowing credit growth is the biggest challenge the banking industry is facing.

"The most critical challenge today for banks, not just in India but also elsewhere, is slowing credit off-take. It affects the profitability of banks," Das said.

Crisil, in a recent note, said credit growth is likely to be around 6 per cent in this fiscal but is expected to accelerate to 8-9 per cent in FY21.

"Prolonged slowdown in bank lending may be bottoming out this fiscal, with gross credit off-take set to rise 8-9 per cent on-year in FY21, a good 200-300 basis points (bps) over the likely growth of near 6 per cent this fiscal," Crisil said.

This uptick in loan growth would be driven by a gradual pick-up in economic activity, continuing demand for retail loans, and strong growth in lending by private sector banks, it said.

The ground report: Inside Mumbai's under-river metro tunnel


The underground tunnel of Mumbai Metro Line 3 project that passes under the Mithi river PHOTO: PTI

AMRITHA PILLAY
Mumbai, 1 March

There is a steady clanking of metal chains. Labourers are busy at work, fixing disc cutters onto Tansa, under Mumbai's Mithi river. About 24 kilometres away, near Mumbai's Taj Vivanta, is Surya, tasked with another tunneling work.

Surya and Tansa are part of a fleet of tunnel boring machines (TBM), requisitioned for the ₹30,000-crore underground transit network — the third line of the Mumbai Metro.

At the southern-most end of the city, Cuffe Parade metro station is under construction opposite Taj President. Temporary scaffolding is used to reach 23 metres beneath the base level, where metro rail tracks will be laid. This station will be similar to the Chhatrapati Shivaji Maharaj Terminus (CST), as metro trains will terminate and start here. To facilitate this, two tunnels of 200 metres each have been constructed.

Engineers at the site say tunnels are being made using the new Austrian tunneling method, different from TBMs, and cheaper. TBM Surya is at work on the opposite end, boring a tunnel that will connect Cuffe Parade metro station to 25 other stations on metro line 3, including the Bandra Kurla Complex (BKC) station.

The target now is to complete the Cuffe Parade station by June 2022, a 10-month delay from the initially expected timeline. "There are various challenges, one of them is that we need to wait for lean traffic hours to move heavy material and equipment," said an engineer.

Moving materials in Mumbai's traffic, keeping Mithi's water out of the metro tunnels and meeting a deadline, initially set for 2021, are few of the many challenges for city planners. Kolkata, too, in February, got a second phase of its metro system, which includes tunnels under the Hooghly river.

The BKC station is part of the work package that includes construction of two tunnels passing under the Mithi. Around 1.1 km stretch of this tunnel will run under the river bed, with about 250 metres under the water channel and 70 metres under an active water channel.

The tunnel can be accessed through an 18-metre descend using temporary scaffolding and a ride in a makeshift rake, operated over temporary tracks. Usage of special gaskets to line segments of this tunnel, ensure water from the river does not enter it.

At the other end of this tunnel, where Tansa TBM is deployed. The Tansa is stationed there to bore its way out towards the Dharavi-end. The breakthrough is expected by middle of March. "The 42 disc cutters on TBMs need to be regularly serviced. The labourers are servicing it today," said one of the engineers present there.

The BKC station is planned to be a three-line station, two lines for regular operations and the third to allow reversing of trains. For every two trains that come from Cuffe Parade to BKC, one would be reversed to Cuffe Parade and one will continue ahead northwards. This planned station is expected to be an intersection for two different metro lines and will allow scope for direct connection to the proposed bullet train network.

It takes more than an hour to reach the under-construction BKC station from Cuffe Parade, a 24 km journey. Once Surya, Tansa and other TBMs complete their work, city authorities say the travel time will be shorter. For now the wait extends to 2021 for the north stretch of metro line 3, while the second stretch towards Cuffe Parade may take longer.

MUMBAI | MONDAY, 2 MARCH 2020 Business Standard

Secretaries and accountability

Projecting realistic Budget numbers is as important as taking steps to revive the economy

RAISINA HILL

A K BHATTACHARYA

The advent of Narendra Modi at the Centre as prime minister in 2014 was expected to herald a change in the way top civil servants in different central ministries were functioning. Modi's style of administration was different from that of his predecessor, Manmohan Singh. Modi was also seen as a more demanding boss than Singh.

So, what has changed for the secretaries in key central ministries in the last few years that Modi has been at the helm? A change that is easily noticeable pertains to the influence and role that the prime minister has been enjoying in the appointment of secretaries in important ministries. As a result, many central ministries would be headed by secretaries, who have been either hand-picked by Modi or with whom he has full understanding and, in some cases even prior working relationship.

This is in sharp contrast to how Singh allowed the top secretaries to be appointed in central ministries. The final approval of course came from Singh, but the ministers in charge of the ministries often had a bigger role to play in such appointments. Thus, Pranab Mukherjee as finance minister could have a veto on who should become the finance secretary. Singh would let the ministers have the final word.

An obvious corollary of this contrasting style of managing the appointment of secretaries is too evident to be ignored. While Singh often had difficulty in ensuring quick implementation of his agenda for action (the secretaries were more beholden to their ministers in charge than the PM), Modi is in full command and is supposed to have got things done through direct contact with the secretaries and often when the ministers in charge have not been fully in the loop.

In short, the Prime Minister's Office (PMO) has become more powerful under Modi and the ministers have had reasons to believe that their secretaries' loyalty is not just to them but also to the PMO and in particular, the prime minister. That impression has got further strengthened when Modi would hold meetings of secretaries in small as well as large groups and discuss with them their work, even though not all the ministers, to whom those secretaries reported, have been present at such gatherings.

Has this equation affected the responsiveness and effectiveness of Modi's ministers? There are no clear trends. Nor can anybody claim with absolute certainty that the reducing role of ministers in the appointment of secretaries in their respective ministries has led to a dilution in the influence of the ministers over their secretaries. But questions have often arisen over how the principle of accountability of secretaries has taken a hit.

Recent developments pertaining to the finance ministry are worth noting in this context. The Union Budget for 2020-21 was presented on February 1. The secretaries in the finance ministry, involved in the preparation of the revenue estimates often in close cooperation and consultation with the PMO, must have had access to the tax collection trends at least till the first half of January. As the numbers released by the Controller General of Accounts (CGA) show, the net tax collections for the Centre were estimated at ₹9.05 trillion at the end of December and ₹9.98 trillion at the end of January. Yet, a net tax revenue number of ₹15.04 trillion for the entire year of 2019-20 was presented in the Budget.

If tax collection estimates do not look real, a host of associated problems arises. Shouldn't the secretaries in the finance ministry have been more alert and careful in presenting revenue numbers that are realistic? If the actual tax collection numbers for 2019-20 turn out to be even lower than what were given out in the revised estimate, this will be the second consecutive year when such sharp variations will have taken place. Where is the accountability of the secretaries? Remember that one of the secretaries, who was involved in such overestimation last year, is among the first critics questioning the feasibility of achieving the revenue numbers this year.

Similarly, doubts have arisen over the numbers on disinvestment and subsidies. Disinvestment proceeds in 2019-20 were originally estimated at ₹1.05 trillion. In the revised estimate, these were scaled down to ₹65,000 crore. And till the end of February 2020, the government had collected only about ₹33,000 crore by way of disinvestment.

On major subsidies in 2019-20, the total expenditure was scaled down from ₹3 trillion in the Budget estimate to ₹2.27 trillion in the revised estimate. But the CGA's provisional numbers show that the government has already spent ₹2.63 trillion under this head by the end of January. So, in addition to a further tax collection shortfall, will the 2019-20 numbers on disinvestment see a bigger shortfall and will the subsidies expenditure exceed the revised estimate? And, should the PMO, which was fully engaged with the finance ministry bureaucrats when the Budget was prepared, review the entire process so that these numbers start looking realistic? Projecting realistic Budget numbers is no less important than taking measures to revive the economy.

CHINESE WHISPERS

A state in search of a title

The Uttar Pradesh government, under Chief Minister Yogi Adityanath (*pictured*), has completed three years in office. To mark the occasion, the state government plans to bring out a booklet to highlight its achievements. But its plan to crowdsource a title for the booklet via social media doesn't seem to be working too well if one were to go by the suggestions it has received. One user suggested "*Teen saal bemisaal* (three matchless years)", another suggested "*Teen saal; UP behaal* (a damaged UP in three years)". One even went to the extent of suggesting the title "*Uttar Pradesh bana hatya pradesh* (Uttar Pradesh becomes a land of murders)". Observers are wondering whether there was a need to solicit people's opinion when the UP government has a full-fledged public relations department and also some private agencies to manage its social media presence.

AAP-Congress-AAP

Within days of some senior Youth Congress leaders in Uttar Pradesh jumping on to the Aam Aadmi Party (AAP) bandwagon, the Congress has paid the party back in its own coin by inducting prominent state AAP leaders into it. Those who recently left the Congress to join the AAP included former Youth Congress UP unit president Nadeem Ashraf Jaisi, who hails from the Congress' pocket borough of Rae Bareli and is considered close to the Gandhi family. This development was quite disconcerting for the Congress, which has been working hard to revive itself under AICC General Secretary Priyanka Gandhi Vadra. On its part, the AAP has been looking to consolidate its position in the state after its victory in Delhi. AAP leaders who joined the Congress included its national supervisor Sanjeev Kumar Singh, who moved with a large number of his supporters. Many AAP functionaries of several Eastern UP districts, including Varanasi, also joined the Congress.

New tourist hotspots in MP

The Madhya Pradesh government is planning to develop a village tourism network and promote it online. The tourism department has shortlisted 60 villages for that purpose. These villages are situated in proximity to famous tourist spots like Sanchi, Orchha, and Khajuraho. The state's panchayat and village deployment department will develop home stays in these villages with the help of self-help groups. Some MGNREGA funds will also be used for this. Madhya Pradesh Tourism Managing Director Faiz Ahmad Kidwai says that the scheme is getting a positive response. A few of such home stay facilities are doing well near Orchha and this has encouraged the state government.

Have our bankers forgotten to lend?

No and yes. The rules of the game have been changed forever…

BANKERS' TRUST

TAMAL BANDYOPADHYAY

Last week, addressing public sector bankers at an event in New Delhi, Finance Minister Nirmala Sitharaman asked them to go back to branch banking. Going by media reports, later, at a meeting with the CEOs of these banks, Sitharaman urged them to lend money to the credit-starved micro, small and medium enterprises (MSMEs) even as the bankers insisted that there has been no demand for credit. According to Sitharaman, instead of viewing this as a lack of credit demand, the bankers should prop up credit to the MSMEs.

No one can find fault with the finance minister's observation on branch banking. The public sector banks have forgotten branch banking when it comes to giving loans. That's a big structural change in India's banking industry. The branches are now primarily used to collect deposits while loan applications are processed elsewhere. For private banks, the branches are for mobilising deposits as well as for selling insurance and mutual fund products. Essentially, the branches are points of sale in the new banking architecture. They are dens of sales persons, not bankers anymore.

Have our bankers forgotten to lend?

The Reserve Bank of India (RBI) took a series of steps in its monetary policy in early February to encourage credit offtake. It has opened a new window to lend one-year and three-year cheap money of up to ₹1 trillion to the banks; freed the banks from maintaining cash reserve ratio, from their liabilities for giving fresh credit to MSMEs, automobiles and residential housing till July; and allowed a one-time restructuring of loans given to MSMEs, among others.

Indeed, it is too early to feel the impact of these measures but the credit growth figures of the industry so far do not tell a happy story. Till mid-February this financial year, bank credit has grown at a measly 2.8 per cent against 9.4 per cent in the previous year. The year-on-year credit growth is equally anaemic — 6.4 per cent, less than half of 14.8 per cent growth in the corresponding period.

A December report of credit rating agency ICRA Ltd projected bank credit growth in the current fiscal year at 6.5-7 per cent, down from 13.3 per cent in 2019. If this happens, it will be the lowest in 58 years. The reasons behind the tardy growth are lower working capital requirements by companies and risk aversion among lenders. There is no slowdown in retail credit growth but this cannot make up for the sharp decline in demand for credit by corporate India.

A recent report of another rater, Crisil Ltd, says the worst may be over for bank credit growth as the demand for retail loans could pick up pace even as economic growth revives in the next fiscal year. Crisil expects bank credit growth to bottom out this year and rise 2-3 percentage points in 2021.

India's economy grew 4.7 per cent in the December quarter, its slowest pace since the March quarter of 2013 when it grew at 4.3 per cent. With upward revisions of the first two quarters (5.6 per cent for the June quarter and 5.1 per cent for the September quarter), during the first nine months of the current fiscal year, the economy grew at 5.1 per cent. So 5 per cent growth for the full year is now a given.

There are many reasons why bank credit has not been growing.

First among them is the big-time deleveraging by most large corporations. Many of them got into the habit of running their businesses and launching new projects at the drop of a hat, virtually without any equity contribution on their part. They devised ways of converting bank loans into equity. Many of them also could not service their loans either for genuine business failures or external circumstances that did not allow the projects to take off. And, of course, there have been cases of fund diversions. All these have stopped now. The RBI has forced banks to clean up their balance sheets and the new insolvency law has put the fear of god into the promoters.

Bankers have also changed their ways. With the big pile of bad assets staring at them, public sector bankers have shed their obsession for balance sheet growth, for good. Till the RBI drove the big-bang clean-up exercise in banking through an asset quality review which forced the banks to declare their bad loans in the six quarters between December 2015 and March 2017, the rules of the game were pretty simple: All public sector banks were into big-time project financing, irrespective of their size and appetite for risks. A May 2017 McKinsey India Financial Institutions Practice report points out that 49 per cent of State Bank of India's loans was corporate loans; for mid-sized public sector banks, it was 57 per cent and for smaller banks, 63 per cent. Clearly, most banks were not a great believer in project appraisal and risk management — they rushed to have a piece of the cake of corporate loans which they could not stomach. They have learnt their lessons.

While the focus of the banking system is now on the recovery of bad loans and not fresh credit, many of them are trying to learn the tricks of the trade but it will take a while to gain confidence. Besides, the bankers are also scared — of adding to the pile of bad loans and the glare of investigative agencies. A few of them were arrested and/or charge-sheeted and look-out notices were issued against them, suspecting foul play. They are going slow in project appraisal and loan sanctions. The non-banking finance companies (NBFCs) were the main drivers of loan growth in the past few years but that channel has also virtually dried up for banks as many NBFCs are not in the best of health.

Yet another factor contributing to the slow credit growth could be the consolidation drive in the public sector banking space. Ten such banks are being merged to form four. For these banks, the priority cannot be credit growth. Bank of Baroda, which has added to its size by merging two other public sector banks with itself, has clocked just 0.67 per cent growth in domestic advances year-on-year till December 2019.

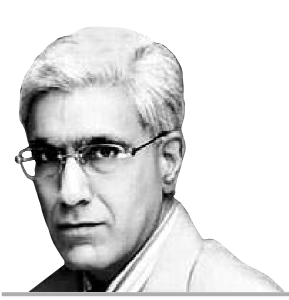
Do we need to say more?

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

AS I SEE IT

Why our court system is not in good health

Judiciary's "independence" and "fearlessness" have been converted into partisanship and sycophancy



KARAN THAPAR

Although it's not uncommon it's also not often that senior lawyers criticise the judiciary. They may do so amongst themselves but only infrequently in public. I guess there's an esprit de corps that stops them. So when one of India's most highly-regarded — and, more importantly, most highly-paid! — lawyers hits out at the judiciary the rest of us must pay close attention.

This is what Abhishek Singhvi has done. Tucked into a brief five-page conclusion of his forthcoming book *From the Trenches*, are astonishingly forthright comments about judges and the sort of justice they deliver. Singhvi's overall conclusion is pithy: "Our Court system is not in good health."

He begins at the lowest tier. "The infrastructure of our trial Courts is inadequate and the quality of trial judges is generally poor." This means that at the first point of contact with the judicial system Indians can't be certain of getting justice. Often they don't.

It doesn't get much better at the High Court level. Here it's not the infrastructure or the quality of judges that Singhvi questions but the volume of work. "A High Court judge has to handle fifty matters a day — and it requires a superhuman effort for a judge to keep track of so many hundreds of matters a week, to remember the facts, to hear arguments and ultimately to write a well-thought-out, reasoned order which balances the rights and does justice." Worse, adjournments are easily and frequently granted. In fact, "there is a tendency to decide hard questions by adjourning them". So, once again, the odds are loaded against a fair and proper judgment. Often delays in justice amount to a denial of justice.

It's when Singhvi addresses the problems at the Supreme Court level that he is both most candid and most critical. I imagine he's not just writing from experience but also expressing his own disillusionment.

When one of India's most highly-regarded — and, more importantly, most highly-paid! — lawyers hits out at the judiciary the rest of us must pay close attention. This is what Abhishek Singhvi has done in his forthcoming book *From the Trenches*

He begins simply. "The Supreme Court in the past few years, in matters where there are great stakes involved, has shown a reluctance to act against the government." Although he doesn't cite these examples, Chief Justice of India (CJI) S A Bobde refusing to hear the Citizenship Amendment Act cases until the protests stop or former CJI Ranjan Gogoi repeatedly deferring the Article 370 cases on the grounds the court can always "wind the clock back" are obvious illustrations of his point. And let's not forget the repeated refusal to hear habeas corpus cases without giving any explanation whatsoever.

Next is a brief analysis of the Court's delay tactics. "Even where it appears the government has erred, the Court has shown a pattern of deferring, adjourning and otherwise leaving the issue aside until it has lost the importance it had." Surely, the Kashmir cases are heading in this direction? How depressingly different this is to the speed with which the British Supreme Court heard the constitutional challenge to Boris Johnson's prorogation of parliament.

Finally, the damning conclusion: "My fear is that the judiciary has lost some of its independence and the fearlessness that it needs to check the executive and the legislature." Singhvi could not have foretold that even before these words are published, Justice Arun Mishra would confirm his fears.

When Justice Mishra publicly called the Prime Minister an "internationally claimed visionary" and a "versatile genius" he converted "independence" and "fearlessness" into partisanship and sycophancy. So far Singhvi hasn't commented but an equally eminent colleague, who's also President of the Supreme Court Bar Association, Dushyant Dave, has: "The damage his statement has caused is incalculable."

This is an instance where a Supreme Court judge has behaved improperly, unethically and in defiance of the Supreme Court's own judgments as well as its 1997 Charter of Judicial Values. The 1981 judgment says: "Judges should be stern stuff and tough fire, unbending before power, economic or political..." The Charter says: "Every judge must at all times be conscious that he is under the public gaze and there should be no act or omission by him which is unbecoming of the high office he occupies and the public esteem in which the office is held."

Will Singhvi accept it's not just at the trial level that the quality of judges is "poor"? It applies to the Supreme Court too.

LETTERS

Be strict

Following the recent communal riots in Delhi, a lot of questions are being asked about the new and proposed citizenship laws and there are suggestions that these be amended. Let us not fall into the trap and make any concessions. What is needed is a law that disincentivises any immigration. Thus all immigrants, regardless of religion and their descendants should only be given a "resident alien" status with no other identity document. They should be denied voting rights, property rights, employment in any sector, any subsidies, reservations etc. Only such a rights debilitating law will prevent future immigration. Even their children will be resident aliens. The US, Singapore etc have such demographic divisions. We can have it also. And a corollary law sending anyone with fake, false documents back to where he came from. We need laws that have no ifs, ands, and buts. Let us lose a few million minority votes, but ensure that millions of fake votes are not cast.

T R Ramaswami Mumbai

A laudable move

The Kerala High Court's recent order banning all forms of student agitations in school and college campuses — that disrupt functioning of educational institutions — is laudable. Campus politics is sadly going from bad to worse. In the past, it helped students to train themselves as responsible citizens to work for the welfare of the student community as well as the society. Violence was present in the past but not the horrendous kind that we see now. Student activists are used as "death squads" by some political outfits for their selfish motives. There are some Indian states that don't allow politics in the campus that's why most of the campuses there witness students enjoying their life and studies.

The present verdict comes as a result

of petitions filed by various college and school managements against agitations on campuses disrupting the peaceful atmosphere. The court said educational institutions can be made a venue for peaceful discussions and debates.

M Pradyu Kannur

Save banks, save economy

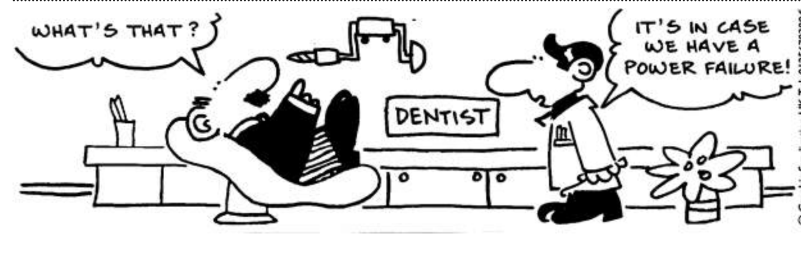
This refers to the editorial "Reform PSBs" (February, 28). It is an open secret that for long, the public sector banks or the PSBs have been made to or even intimi-

dated by some to finance such projects which they did not consider viable. In this game, in many cases, some black sheep in banks were also hand-in-glove in creating bad loans. Now such bad loans have reached such a stage where it has become a threat to the existence of the banks itself. It is time there are reforms to ensure autonomy to the banks with proper checks and balances so that they play their assigned roles effectively and professionally. Healthy banks are a barometer of a healthy economy.

Bijay Kr Sinha New Delhi

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

HAMBONE



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Risks to revival

The spread of coronavirus adds to significant uncertainty

Economic activity is not recovering in the second half of the fiscal year, as most analysts initially expected. According to the official data released on Friday, the Indian economy grew by 4.7 per cent in the third quarter, compared with the revised estimate of 5.1 per cent in the previous quarter. Second-quarter growth was earlier estimated at 4.5 per cent. Estimates have also been revised for 2018-19 and the first quarter of the current fiscal year, which now shows growth of 5.6 per cent, compared with the earlier estimate of 5 per cent. Although the full-year growth projection for the current year has been retained, the estimate for output in absolute terms has been lowered by over ₹95,000 crore. This has not disturbed the growth projection because output has also been revised for the previous year by a similar magnitude. Growth in 2018-19 has been revised from 6.8 per cent to 6.1 per cent. As a result of significant revisions, economic activity is estimated to grow at a slower pace in the second half of the fiscal year, though it may be revised at a later date.

While the agricultural sector expanded by over 3 per cent in the third quarter of the current fiscal year, output in the manufacturing sector contracted. Worryingly, investment showed a sharp contraction in the October-December quarter and is expected to remain in negative territory for the full year. The underlying economic weakness and other emerging challenges suggest that growth is unlikely to recover meaningfully in the next few quarters. For instance, as economists at Nomura have noted, net exports and government expenditure contributed 2.7 percentage points to overall growth in the December quarter. While lower imports reflect weak underlying demand, government expenditure will need to be contained in the current quarter. According to the latest data, the fiscal deficit touched 128.5 per cent of the full-year target in January.

Further, the spread of coronavirus across the world poses significant uncertainty. Apart from supply-chain disruptions in China — the epicentre of the crisis — it can lead to demand compression, which may last much longer than expected. Global stock markets fell sharply last week because of the possible impact of the outbreak on economic activity. India depends on China for supplies in sectors such as pharmaceuticals, auto, and electronics. Besides risks to domestic output, lower global growth will further affect the economic outlook. The only positive for the Indian economy perhaps is lower commodity prices.

The economy is also unlikely to get any significant support from monetary policy in the near term. While food prices, which were pushing up headline inflation in recent months, are likely to moderate, risks could emerge from other areas. Apart from supply-chain disruptions, which are reportedly putting pressure on prices, the rate-setting committee would want to see how developments in the telecom sector affect tariffs and headline inflation. The Reserve Bank of India may want to increase the limit for long-term repo to increase liquidity and lower market rates. However, given the inflation and liquidity situation, this option has limitations. Therefore, as things stand today, growth is likely to remain weak in the coming quarters. Longer-term prospects, of course, will depend on how quickly the government addresses some of the more fundamental issues, including its own finances.

Greater transparency

New audit rules more onerous, but useful

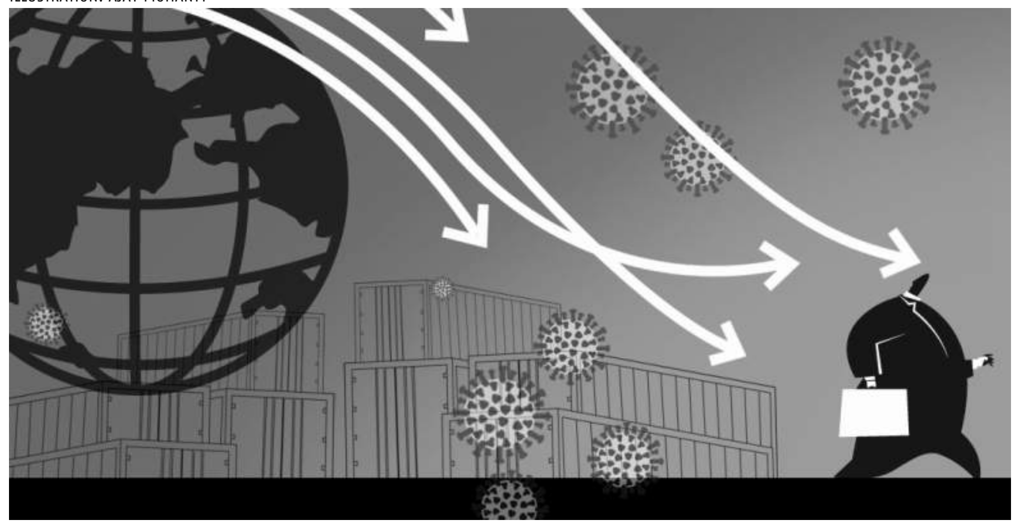
The Union Ministry of Corporate Affairs announced last week the notification of the Companies (Auditor's Report) Order, 2020 (CARO 2020). The order has introduced several changes to the rules governing audit reports of companies, with a view to increasing transparency. This follows a consultation paper that the ministry had put out last month, with several proposals for enhancing the role of auditors and bringing their incentives into more clear alignment. For example, the consultation paper proposed that non-audit services not be provided to audit clients, to prevent revenue from such services impinging upon the decisions taken by the auditor when writing its report. Already two of the big four companies have said they will no longer offer non-audit services to audit clients.

One of the issues that emerged in the consultations that the ministry has been having with audit firms is the fact that auditors can only provide reports that are as factual and as complete as the information they are provided by the company in question. There have been some recent high-profile examples of companies that have knowingly deceived their auditors. Yet a regular audit is not a forensic exercise, and instead relies on the companies to turn over information in a timely and accurate fashion. If they do not do so, the entire process is naturally called into question. The CARO has sought now to transfer greater responsibility for providing complete information to its auditors. Auditors have essentially been forced to demand more information, in what will be a net positive for shareholders and other stakeholders such as financial institutions.

It is true that the paperwork burden will significantly increase. The 2020 CARO, according to a report in this newspaper, requires auditors to comment on 50 matters, including sub-clauses, where the 2016 iteration of the CARO required comment on only 21 matters. This is a significant expansion in scope and it remains to be seen how much it adds to transaction cost and delays in practice. However, many of the new pieces of information appear to be well worth making a requirement for audit reports. For example, auditors are now required to report on how the company is using its connections with subsidiaries and joint ventures — are loans being raised to finance them? Or are loans being taken out against them? The auditor will also have to examine what the auditors of the subsidiary have said in their annual reports, and report them in the holding company's report if they find "adverse" remarks.

Several requirements seem designed to ease the load on banks, such as the requirement to specify the amount of loans that do not have terms for repayment, and whether the company has itself loaned money to related parties. Some provisions may simply go too far — for example, the auditor has been directed to provide an opinion on the main financial ratios of the firm. Yet where the 2020 CARO restricts itself to enhancing the information available to both investors and to financial institutions, it should be considered to be a major step forward for transparency in accounts. It is important that audit companies implement the rules in both letter and spirit.

ILLUSTRATION: AJAY MOHANTY



Virus vs trade

Till the coronavirus, policymakers and CEOs could ignore how much we are dependent on mainland China

POLICY RULES

MIHIR S SHARMA

Will future economic historians look back on the first months of the year 2020 as the period in which the advancing tide of globalisation was finally pushed back? The rhetoric of populist leaders across the world, as well as technological changes over the past decade, has certainly meant that globalisation is no longer the all-conquering force that it was a few years ago. Trade growth has decreased in recent years, but the rhetoric has been louder than reality. In spite of tariff increases by several jurisdictions, it is hard to point to any wholesale restructuring of global supply chains. Some companies have sought to move out of mainland China — but, by and large, the structure of global trade had not been affected.

The question is whether the Wuhan coronavirus will change all that. The final effect on humans is hard to predict. The virus may, like the swine flu in 2009, only kill some hundreds of thousands across the world. Or it may live up to what appears to be a higher mortality rate than most such viruses, and approach the death tolls of previous influenza pandemics, such as the Hong Kong Flu of half a century ago (misnamed, since that likely also originated in mainland China). However, after that initial toll, the likelihood according to epidemiologists is that it will become endemic — recur every now and then in a global population that largely has developed immunity to it.

The greatest long-term effect of the new coronavirus, therefore, is likely to be what it reveals about the global economy's dependence upon Chinese activity. The effect of the coronavirus on the mainland's economy is clear. Numbers emerging from Chinese official statisticians are always open to question, but even photographs taken by NASA and the European Space Agency show a sharp decrease in nitrogen oxide pollutants over the mainland's industrial and commuter hubs over the past eight weeks as the virus rampaged through Wuhan and the rest of the mainland, killing over 2,500 at last count.

The eight- to 10-week mark is a crucial one. Most mainland companies and factories stopped production before the Chinese New Year festival, which began on January 25. The last of those shipments, if packaged and put out to sea, should be arriving at their destinations around the world around now. Arrivals at ports have already decreased 20-30 per cent. Companies have about two weeks or a month of inventory on hand usually, though stocks are often piled up in advance in January precisely because of the Chinese holiday. But, either way, unless shipments resume swiftly, companies across the world will begin to run out of inputs in the middle of March.

Of course, for some, especially car companies, that effect is already being felt. And remember, even companies that do not immediately think they are dependent on mainland China may be affected, because their suppliers may be dependent on an input from the mainland.

What happens to confidence in supply chains under such circumstances? In essence, companies all across the world may be forced to pause because of a medical crisis in one particular geography. Since the SARS outbreak in 2002, China has become the factory of the world — and most of us have no real sense of how much we are dependent upon its stability.

The fact here is that instability does not have to be related to such public health emergencies. Authoritarian regimes are always brittle; political turbulence is not very far under the surface, and the People's Republic has reverted in recent years to old-style authoritarianism, which covers up subterranean fault-lines till they explode into the open. One only has to look at the turbulent political history of decades past to remember precisely why Beijing, prior to the current leadership, had embraced a more collective and less authoritarian model of government.

A reduction in the mainland's economic activity and supply because of political instability is one thing; something similar because of political choice is also possible. In the case of significantly enhanced military tension, for example, it is impossible to imagine that the world can continue to depend upon Chinese factories to the extent that it does at the moment.

The diffuse supply chains that have been built up since 2000 have been remarkably effective at introducing efficiencies and reducing costs. But we have all known since 2008 that increased "efficiency" means that there are fewer redundancies built in, and less capacity for flexibility at moments of crisis. In this case, the world may well shortly realise, for the first time, the degree of its dependence on the mainland's production and the fact that it in essence has few alternatives at a time of crisis.

This is why there is a good chance that, even if somehow the mainland manages a swift recovery, historians of globalisation will view this moment as a watershed. There may be no alternative, both from the point of view of rational profit-maximising companies and from the point of view of policymakers seeking to ensure local stability, to seeking out alternatives to supply chains that are dependent on mainland China. But then does that by itself alter the dynamics of globalisation, which is supposed to focus on cost minimisation and efficiency above all?

The truth is, however, that, the departure of some manufacturing from China has been delayed by inefficiencies and sunk costs — essentially, the extent of the infrastructure in the Pearl River Delta and elsewhere is such that clients have chosen to absorb significant cost increases rather than risk disruption to their supply chains. They now know that disruption is a fact of life — and in fact that such disruption is greater when it is paired with dependence. The question is to what degree this will change their decision-making, going forward. If Chinese factories do not re-open at full capacity soon, then it is very likely it will change it much more than we can anticipate.

Weak economy is host to coronavirus attack

IRRATIONAL CHOICE

DEBASHIS BASU

The stock markets have crashed, as they do from time to time. Each time it is for a different reason; this time the immediate reason is coronavirus, which started as a Chinese epidemic sometime in December but now has quickly escalated into a global scare. Since the problem is severest in China, it means a simultaneous global demand and supply shock. China not only does a lot of the world's manufacturing for export but is also a big importer. Strong linkages in manufacturing, trade, and travel across economies, following 30 years of globalisation, mean that trouble in one part of the world is easily transmitted across thousands of miles. Hence, from December 19, the S&P has crashed by 12.4 per cent, the Nikkei by 9.65 per cent, and the Nifty by 7.5 per cent.

But the real worry is not the market crash or the impact of coronavirus on India. A far bigger worry is the further weakened state of our economy. Evidence is getting grimmer by the month. On Friday, the government announced that India's GDP growth dropped to a 27-quarter low of 4.7 per cent YoY in Q3 FY20 against 5.1 per cent (revised) in Q2 FY20.

First, the manufacturing sector is already in recession, having registered two consecutive quarters of contraction. Second, the utilities sector posted its first contraction in the new data series. Third, the construction sector recorded no growth. Fourth, exports have contracted for the second consecutive quarter. Fifth, capital investments posted a second consecutive contraction; it was -5.2 per cent YoY in Q3 FY20, a record low. All this will be a shock to market players, who had shrugged off the disastrous Budget and pushed market indices back to nearly their all-time highs. Data revisions of the previous quarter denote further weakening of growth. Set against the virus scare and a global market crash, the latest economic numbers presents a scary scenario, especially since the December quarter in a given year is one of the strongest.

Weak economic immunity

Clearly, the Indian markets were running on fumes and coronavirus has simply exposed the weak immunity of India's economy to external impact. This weak immunity is due to poor policymaking at the highest levels over the past six years. From the Prime Minister's Office downwards, *netas* and *babus* have not only perpetuated gross errors of the past, but committed egregious new ones. They not only failed to repair the old crumbling superstructure, but made the very structure weaker still. Hence, we stand more vulnerable today than we have had at any time in the past six years. These are what caused the economy to weaken.

One, the Modi government has found no solution for the grossly unproductive public sector. There has been no meaningful disinvestment or significant strategic disinvestment; only sleight-of-hand, such as getting one public sector company to buy the shares of another; meanwhile, billions of rupees have been taken out of government companies as dividend. Some companies don't have the money any more to pay salaries. Within the public sector, the biggest cesspool of corruption — public-sector banks — remain as they were, except for some silly mergers. Their ownership, corruption, and lack of management accountability remain as is, with the result that hundreds of billion rupees of taxpayers' money has to be injected into them just to keep them alive.

Two, there is no end to Budget giveaways. Prime Minister Narendra Modi changed the names of UPA schemes and expanded them; he added a few more of his own to the list of giveaways to various privileged sections. Taking a leaf out of previous Congress governments, the government announced a loan *mela* called MUDRA. The resultant bloated fiscal deficit is hidden by gimmickry.

Three, not only does tax terrorism continue unabated, driven by "collection targets", it is now enshrined in the law. The high tax rates, glitch-ridden systems, and the draconian rules of goods and services tax have not helped increase government revenues but have surely created enormous aggravation for businesses. According to a Reuters story of last week, "with revenues falling, taxmen rake up three-year-old demonetisation cases. Jewellers have received tax notices asking them to turn over money they made from gold sales during DeMo ... About 15,000 Indian jewellers have been sent tax demands…" Remember these words of an ex-director of Infosys? "Tax officials seem to think of everybody as evaders and themselves as vigilantes! We have filed returns in over 30 countries, but no country treats taxpayers as badly as India does."

Besides, the Central government has launched a series of expensive countrywide projects that have caused strife and harassment. One is Aadhaar, which promised to be a miracle identification project to cut wasteful subsidies but is now just another big wasteful scheme, hurting those it was supposed to help — the poor. The second project that has created enormous fear and social tension is the Citizenship Amendment Act and National Population Register (a brainchild of P Chidambaram). Meanwhile, the bureaucratic and flawed bankruptcy architecture has descended into chaos and will soon resemble previous bankruptcy resolution efforts.

Put together, instead of minimum government, maximum governance we got just the opposite: An even more expansive, intrusive government while *Vikaas* and *Achche Din* have disappeared as vote-catching political slogans. With coercion, bans, tax terrorism, arrogance, and a continued decline of institutions running through most policymaking, the immunity of the economic system has naturally turned weak and, therefore, defenceless against external attacks. If coronavirus hadn't caused a market crash, an anaemic economy would have extracted its price anyway.

The writer is the editor of www.moneylife.in
Twitter: @Moneylifers

Understanding the Dalai Lama

BOOK REVIEW

DONALD S LOPEZ

"Dalai Lama" is a foreign title. Tibetans refer to him with names like "Precious Protector," "Wish-Fulfilling Jewel" and "the Presence." The divide between the Tibetan Buddhist world — which often has included China and Mongolia — and the world beyond has rarely been of particular consequence to the Dalai Lamas, until this one, the 14th, who is the first to spend most of his life in exile; he fled to India in 1959 and has not returned. His biographer, facing the usual problems of recounting the life of a figure still living (the Dalai Lama will be 85 this year), is also faced with the dilemma of describing his life on the world stage (which has been fairly well documented) and his life inside the world of Tibetan Buddhism (which has not). This is the challenge that Alexander Norman, a long-time associate of the Dalai Lama, takes up in his new biography.

Who is the Dalai Lama? Tibet is unique in the Buddhist world for its system of "incarnate lamas," the idea being that advanced spiritual masters are able to choose the place for their next rebirth, returning to the world in lifetime after lifetime to teach the dharma. There were many such lineages of lamas in Tibet, and the Dalai Lama was just one of them until 1642. It was then that the fifth Dalai Lama was placed on the throne of Tibet by a Mongol khan, his successors becoming at least the titular head of state. The current incarnation took over the government in 1950 at age 15 when the People's Liberation Army crossed into eastern Tibet.

THE DALAI LAMA: An Extraordinary Life
Author: Alexander Norman
Publisher: Houghton Mifflin Harcourt
Price: $30
Pages: 410

Like the authors of other biographies of the current Dalai Lama, Mr Norman does not read or speak Tibetan. However, he has the advantage of being able to use histories published over the past two decades that draw on Tibetan and Chinese sources, none more important than the four volumes by Melvyn C Goldstein, which provide 2,700 pages on the period from 1913 to 1959. Mr Norman puts these to good use, as well as recently published books about the Dalai Lama's two tutors, making this biography the most detailed and accurate to date.

The Dalai Lama: An Extraordinary Life is strongest on the early period, starting, wisely, not with the 14th Dalai Lama, but the 13th (1876-1933), who faced so many of the challenges that his successor would inherit and who left a chillingly prescient prophecy of what lay ahead for his country. Mr Norman makes clear that "old Tibet" was no Shangri-La, describing the corruption and intrigue of the Tibetan court and the sclerosis that the 13th and the young 14th tried, and failed, to cure.

The author also reveals the Dalai Lama to be a sophisticated thinker and consummate scholar, one whose feet remain firmly on the ground, a trait often obscured by his broken English

The book contains a number of errors, most of the minor variety, especially concerning the admittedly arcane world of Tibetan Buddhism; the Dalai Lama did not debate about colours — a topic for novice monks — during his examination for the highest monastic degree. Throughout, however, the biography is judicious on topics that often inspire hyperbole and mystification. For example, the Dalai Lama has navigated the modern world while consulting on all matters of import with oracles possessed by wrathful deities. Mr Norman's description of a crisis over which deity to propitiate, a crisis that began with the thirteenth and continues to the present day, is impressive in its clarity.

He also reveals the Dalai Lama to be a sophisticated thinker and consummate scholar, one whose feet remain firmly on the ground, a trait often obscured by his broken English. In keeping with a religion so obsessed with prophecy, the book, written in an engaging prose, ends with an insightful prediction of the legacy of the 14th Dalai Lama, and a clear-eyed assessment of the challenges that the 15th will face.

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

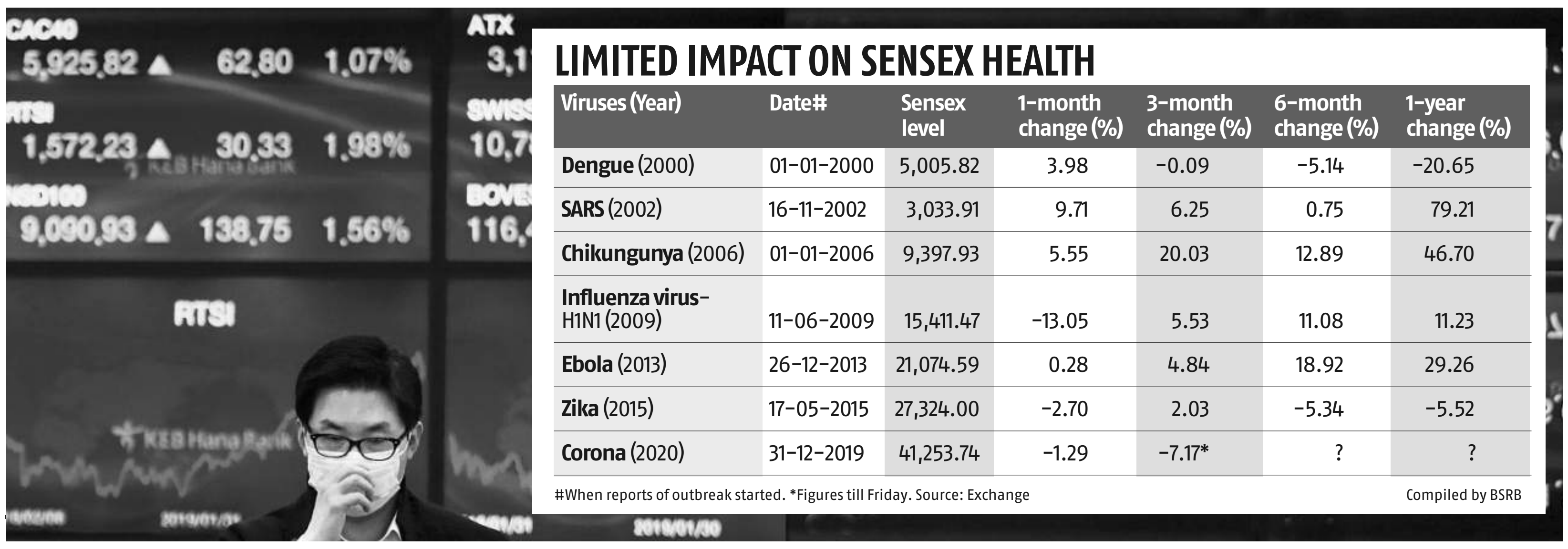
	SENSEX	GOLD	SILVER	FD (SBI)	PPF
1-YEAR	1,06,775	1,27,745	1,14,345	1,06,800	1,08,000
1-YEAR POST-TAX RETURNS	1,06,775*	1,19,422	1,10,041	1,04,760	1,08,000
5-YEAR	1,30,434	1,59,196	1,20,506	1,48,641	1,51,757
5-YEAR POST-TAX RETURNS	1,30,434*	1,53,276	1,18,455	1,32,408	1,51,757

As on February 28, 2020, in ₹; compiled by BS Research Bureau

Virus impact may be short-lived

Buy good stocks in small quantities, as there could be more pain

JOYDEEP GHOSH & SANJAY KUMAR SINGH



LIMITED IMPACT ON SENSEX HEALTH

Viruses (Year)	Date#	Sensex level	1-month change (%)	3-month change (%)	6-month change (%)	1-year change (%)
Dengue (2000)	01-01-2000	5,005.82	3.98	-0.09	-5.14	-20.65
SARS (2002)	16-11-2002	3,033.91	9.71	6.25	0.75	79.21
Chikungunya (2006)	01-01-2006	9,397.93	5.55	20.03	12.89	46.70
Influenza virus- H1N1 (2009)	11-06-2009	15,411.47	-13.05	5.53	11.08	11.23
Ebola (2013)	26-12-2013	21,074.59	0.28	4.84	18.92	29.26
Zika (2015)	17-05-2015	27,324.00	-2.70	2.03	-5.34	-5.52
Corona (2020)	31-12-2019	41,253.74	-1.29	-7.17*	?	?

#When reports of outbreak started. *Figures till Friday. Source: Exchange

Compiled by BSRB

On Monday, the market might open with a gap up (at a higher level) because there was aggressive selling before closing on Friday. But investors should not feel that the worst is over. There could be some more pain before things get better," says investment advisor Arun Kejriwal, summing up the market mood.

With the Sensex crashing as much as 1,448 points on Friday despite aggressive buying by domestic institutional investors (net ₹7,600 crore), stock markets are likely to be on the tenterhooks for some time. Over the week, the BSE Sensitive Index, or Sensex, lost a cumulative 7 per cent, wiping out ₹12 trillion worth of investor wealth. And there could be some more days of uncertainty, or even sharp falls.

More trouble ahead... Initially, the consensus view was that the outbreak would remain confined to China. "It is the spread of the virus beyond China to several parts of the world that has spooked investors," says Radhika Gupta, chief executive officer, Edelweiss Mutual Fund. According to reports, people in at least 53 countries have been infected by the virus. The bullish scenario, according to a note from Validus Wealth, is that the epidemic remains short and manageable. In a bearish scenario, if the Covid-19 comes under control only after six months or longer, then that could cause a material shift in developed market consumer and corporate behaviour. "There is a fear that if the epidemic persists, and is widespread, then global GDP growth could take a significant hit in the first half of this calendar year," says Jinesh Gopani, head of equity, Axis Mutual Fund. On Saturday, China's Manufacturing Purchasing Managers' Index (PMI) fell to 35.7 in February from 50 in the previous month — worse than 2008. The non-manufacturing PMI fell to 29.6 — a historic low.

If a general risk-off atmosphere prevails, then the Indian markets will be impacted. As foreign institutional investors (FIIs) pull funds out of emerging markets and move them to other havens, the Indian market, too, will have to bear the brunt. At the ground level, many Indian companies import raw materials and semi-finished goods from China, which they use as inputs in their manufacturing. If the supply of those goods gets disrupted, the earnings growth of such companies could be affected. "If the disruption in economic activity in China continues for a long time, then the earnings of many companies that are dependent on Chinese imports could be affected," says Gopani. The expected rebound in earnings in the fourth quarter of this fiscal year could get further delayed.

...however, mayhem may not last long: Data shows that the impact of such outbreaks on the Indian stock market has not lasted for too long. And other domestic factors such as the economy come into play soon enough. For example: While the outbreak of H1NI did pull down the Sensex by 13 per cent in the first month, it rebounded within the next few months. And in most of the other cases, markets did not react much. "There could be some more pain, but most of the impact seems to have been priced in," adds Kejriwal. Of course, the Indian markets are facing domestic headwinds as well. The third quarter gross domestic product rose by just 4.7 per cent – the lowest in seven years.

Sectors that may take a hit: Consumer durables companies import parts like compressors for air conditioners and refrigerators from China. While they have adequate inventory for now, they could run out of them if supplies do not resume within the next 10-15 days. Auto ancillary manufacturers also import a lot of parts from China. Electronics goods, chemicals and the pharmaceutical industry are other major importers of raw materials and inputs from China. All of them could be affected if the epidemic is not contained soon. With many companies permitting only essential travel, the travel and tourism industry worldwide, and in India, is expected to be hit.

Be conservative even with good opportunities: Of course, there will be many. But don't go all out immediately as there could be more correction. Kejriwal says that investors can buy good stocks but in limited quantities. More importantly, don't lose your nerve. " Our study of past episodes, such as the SARS epidemic, has shown that panic caused by such an event can result in a sharp correction in the markets. But when the concern eventually fades, the bounce back can also be rapid," says Gupta. In a long-term investor's journey such episodes often appear as mere blips in hindsight.

These events also throw up buying opportunities which the diligent stock investors can benefit from. "Many investors would have done their due diligence and prepared a list of stocks they would like to invest in, along with the price at which they would like to buy them. If the ongoing correction brings the prices of those stocks within the desirable range, they should snap them up," says Ankur Maheshwari, chief executive officer, Equirus Wealth Management.

Experts suggest that investors should deploy their surplus money in a staggered manner during such a sharp correction. Avoid investing all your money at one go, as further corrections could create more attractive buying opportunities. At the same time, do not wait on the side line and try to guess the market bottom. This is almost impossible to pull off. If the market rebounds, you could lose out on good buying opportunities. Also, do not expect quick gains. "Gains are more likely if you invest in a staggered manner with a three-five-year horizon," says Gopani.

Mutual fund investors should keep their systematic investment plans (SIPs) for their long-term goals going. At the same time, if they have surplus money, they should check their current asset allocation, which may have got disturbed. The recent gains in mid- and small-cap funds have been wiped out by the ongoing correction.

Episodes like these also underline the importance of having a diversified portfolio. Gold, the safe-haven investment, has benefited from this crisis. It is up 1.6 per cent over the past week and 4.69 per cent over the past month. If your portfolio does not yet have a 10-15 per cent allocation to the yellow metal, think of investing in sovereign gold bonds (if you have an eight-year horizon) or gold exchange-traded funds (if you desire liquidity). Develop your allocation to gold in a staggered manner.

Rupee could come under pressure

High fiscal deficit and poor export performance are two possible triggers

MARKET INSIGHT

DEVANGSHU DATTA

The black swan of the coronavirus continues to impact the global economy. As of now, there are more infections popping up. China is the world's export engine but the virus has also started to cause disruptions in other economies. We don't know yet, if the disease will ease off once the seasons turn. While vaccine development and medical research continues, it may take months, maybe years, before there are effective cures and vaccines.

Hence, we're seeing a flight to safety. Many investors have started pulling out of Third World assets, and out of overall risky assets like equity. Some have moved to hard currency bonds, including government treasuries. Gold has also spiked up.

China is the world's largest manufacturer and exporter, contributing about 16 per cent of global gross domestic product (GDP). It has near monopoly market share in certain areas and it features in most major manufacturing supply-chains. It has already lost a large chunk of productivity in the last two months. That has impacted global commodity markets as well.

China contributes 16 per cent to the global gross domestic product. It has near monopoly market share in certain areas and it features in most major manufacturing supply chains

Manufacturing could bounce back in China as the disease abates. But the loss of productivity in the service sector will not be so easy to make up. It's also anybody's guess what outbreaks in places like Italy (which is part of the EU with its open borders), Japan and South Korea will do. Moreover, multinational companies might want to diversify supply chains but that will take time, and where will they go if other economies are also infected?

This is currently a supply shock – a reduction of the capacity to produce goods and services. It could also lead to a demand shock if demoralised consumers cut expenses. We can reasonably assume that at least one quarter of global GDP will take a knock. While it's possible that there will be a v-shaped recovery, there will also be a readjustment in global supply chains and a slowdown in growth while that happens.

India hasn't been hit particularly hard yet, at least in terms of pullouts from the equity markets by foreign portfolio investors (FPIs). There have been sell-offs but there have also been relief rallies. FPIs remain solidly net positive on Indian equity in 2020, and domestic mutual funds were still seeing strong inflows till January.

There are the classic hedges for investors to consider, especially since the Indian economy is not likely to see a big acceleration in growth. One such asset is gold, which is the traditional haven in times of fear. Gold exposure is worth a look – whether it's taken through ETFs, or through the physical metal, or via NBFCs that lend against the metal.

Another hedge is forex assets. Hard currencies are almost guaranteed to appreciate against the rupee and other Third World assets. Apart from investing abroad directly, investors could look at the IT sector. IT hasn't done well for a while but if there's a rupee depreciation through 2020, the industry will see inflows.

Pharma is an interesting case. China is a huge supplier of APIs (active pharmaceutical ingredients) and it's no secret that inventories are running low across the world because Chinese manufacture is currently in lockdown. We could see critical shortages across the global pharma industry. Indian pharmaceutical companies could struggle to cope with shortages and the inevitable price increases that accompany shortages.

If the epidemic levels off, there will however, be a move back towards risky assets across the world. In that case, positions in gold will probably lose value. Hard currency assets could however, remain a good hedge even if the disease eases off.

The rupee is in a tight spot. A large fiscal deficit is officially being underestimated in the estimates for 2019-20. The fiscal deficit will stay high in 2020-21, as well. Once GDP estimates correct, the rupee will tend to see more downward pressure. But even if the rupee weakens, overall exports might not grow much because of the negative external factors.

If we look at the rupee's history, it stays stable for fairly long periods, interspersed by sudden, jerky drops. This could be a year when the next major depreciation comes along. A high fiscal deficit, and poor export performance, are two possible triggers. There may be an FPI selloff given the coronavirus panic. There might also be a fall in foreign direct investment, given the poor optics of riots, and policy interactions with Vodafone and Amazon.

LOAN AGAINST PROPERTY: GET IT WITHOUT PROOF OF INCOME

Add a co-applicant to improve your chances of increasing loan amount

- You can take a Loan Against Property (LAP) not only against constructed residential or commercial properties but also against a plot of land.
- Some lenders allow you to get LAP without income proof and income-tax return (ITR), but you will have to specify your income source and explain why you do not have the necessary documents.
- If you maintain a high average monthly balance in your savings account, it will work in your favour, as it will show the lender you have good financial habits.
- If you add a co-applicant to your LAP, you stand a better chance of increasing the maximum loan amount you can avail.
- Another way to get LAP without income proof and ITR is to opt for a lower loan to value for the property.

LOAN AGAINST PROPERTY: RATES AND CHARGES

Lender	Interest rate (%)	Processing fee (% of loan amount)	Loan amount (₹)	Maximum tenure (Yrs)
PUBLIC SECTOR BANKS				
Bank of Baroda	9.35-14.15	1% (₹8,500-1,50,000)	Up to 10 crore	15
State Bank of India	9.65-10.50	1% (Max: ₹50,000)	Up to 7.5 crore	15
Punjab National Bank	9.70-14	0.90% (₹5,000-1,25,000)	1 lakh-5 crore	15
UCO Bank	10.35-11.35	1%	2 lakh-2 crore	12
Canara Bank	11.10-13.15	1% (₹5,000-50,000)	Up to 10 crore	7
PRIVATE SECTOR BANKS				
Bandhan Bank (GRUH)	10-13.50	Up to 1%	Up to 60% of property's value	30
ICICI Bank	10.20-10.40	1%	10 lakh-5 crore	15
Federal Bank	10.50 onwards	1%	Up to 5 crore	15
Axis Bank	11.25-11.75	1%	5 lakh-5 crore	20
RBL Bank	16-18	1.50%	Up to 10 crore	15
HOUSING FINANCE COMPANIES (HFCs)				
HDFC Ltd	9.40-11.50	Up to 1.5%	*For Existing customers[1] For New customers[2]	15
IIFL	11.50-22.00	Up to 3%	Up to 10 crore	10

*The principal outstanding on all existing loans and the LAP being availed should not cumulatively exceed 60% of property's market value, as assessed by HDFC. Rates and charges as on February 26, 2020; 1: Up to 60% of the property's market value, 2: Generally up to 50% of the property's market value

Source: Paisabazaar.com

Personality-defining sculptures for homes

Apart from making a bold style statement, they can be good investments

NAMRATA KOHLI

A few years ago, Iraqi-British architect Zaha Hadid's work of art was the toast of Sotheby's sculpture exhibition 'Beyond Limits' in London. When the monumental outdoor sculpture titled "Lilas" opened, some guessed it was a mushroom, others thought the pavilion-like structure was a piece of architecture. She finally disclosed that it was inspired by the natural geometry of petals and leaves. That is how abstract even a life-sized object can be.

Carved out of solid wood, it is priced at ₹1.5 lakh

PICTURE COURTESY: ESSENTIA ENVIRONMENTS

SUCCESSFUL INDIAN SCULPTORS 2019

Name	Turnover (₹crore)	Residence	Lots sold	Price* (₹crore)
Anish Kapoor	168.25	London	102	9.31
Himmat Shah	3.36	New Delhi	14	1.78
Ravinder Reddy	1.51	Visakhapatnam	3	0.93
A Balasubramaniam	1.26	Bengaluru	4	0.50
Bharti Kher	1.10	New Delhi	3	0.47
L N Tallur	0.76	Bengaluru	2	0.52
Ranjani Shettar	0.70	Bengaluru	1	0.70
Dhananjay Singh	0.57	New Delhi	4	0.33
Rina Banerjee	0.40	New York	4	0.14

Lots sold: Number of pieces of artist's works sold by the auction house. Turnover: Total value of art work sold. *Price: Highest price fetched by one of his/ her art work
Source: Hurun Art Report 2019

Art form with an edge

In sculpture, there can be as many themes as the minds that create them. There can also be as many shapes and sizes as are conceivable. A sculpture can be as gigantic as the height of an eight-storey building, such as the one created by India-born British sculptor Anish Kapoor in the North of Auckland, or as small as a fly on the wall. According to Hardesh Chawla, founder, Essentia Environments, "From large dimensions making a statement on their own to small ones that can be placed on table tops, there is a range of sizes and shapes that we see in sculptures." Their work centres a lot around animals. "Glossy animal sculptures made of composite material, marble or glass are big right now," says Monica Chawla, co-founder, Essentia Environments.

What's trending

Traditional forms and antique sculptures are very much in vogue. Designer couple Sachin and Neha Gupta, founders, Beyond Designs, are fond of mythological creatures. Says Sachin: "We source a lot of antique sculptures from all across India, which our customers find very attractive. While they come across as traditional art, they can be easily placed in a contemporary space as well."

Metal is the rage and is being used creatively to form chic sculptures that reflect modern and post-modern themes. Most of designer Bhisham Chawla's works, such as his car and bike sculptures, are inspired by dramatic scenes from Bollywood and Hollywood movies. "Metal and resin are two materials I usually use. Stone composite is something I have introduced lately," says Chawla, who is director, Karma Lakelands. In fact, he has fashioned a bike sculpture from a real motorcycle that was cut into half to make the piece.

What it's made of

A wide range of materials is used to make sculptures, such as clay, wax, plaster, papier-mache, granite, concrete, metal and bronze. Depending on the concept, the sculptor could use glass, mirror, wood, metal, MDF, or cotton steel. Says interior designer Sanjyt Singh: "Art is an expression of your taste and should have a story behind it. I primarily design bespoke art that blends well with the identity of the space."

Designer Payal Jain likes to work with a neutral palette, which gives her the freedom to play with colour, texture, design and details. The backdrop remains monochromatic and splashes of colour are introduced through art installations, paintings, sculptures, and so on. Says Jain, "A vacant space is like a blank canvas to which a sculpture brings colour and character. Sculpture in a space is like a soul to the body. It brings depth and dimension, shape and emotion."

Placing the piece of art

Does one find corners that are empty or does one place sculptures in the middle of the room? Chawla suggests that the head-turner piece should be placed in the common area, like the living space or dining space. In the private or personal space, he suggests opting for subtle or subdued pieces that don't distract the mind.

Pricing: Sky is not the limit

Prices vary according to theme, provenance, sculptor's brand equity, and the level of detailing. Says Gupta: "Most of them fall in the ₹50,000-2 lakh bracket, depending on the intricacy involved. Many antique pieces are certified by the government of India and hence carry investment value."

Anish Kapoor, one of whose sculptures fetched ₹9.31 crore at Christie's, making him among the most successful Indian artists alive, is the only one with the exclusive right to use the 'blackest of black' pigments in the world developed by Vantablack. The prices of his creations start at about ₹50,000 and can go up depending on the material used and the time taken. "There have been instances when we have taken up to six months to finish a piece. And sculptures are definitely an investment, like any other artwork. The bigger the brand identity of the sculptor, the bigger the resale value," he says.

US reports 1st fatality from coronavirus

AGENCIES
1 March

A man in the Washington state of the US with underlying health issues became the country's first fatality from coronavirus, officials said on Saturday, as the Donald Trump administration stepped up efforts to combat the spread of the global outbreak.

The patient, who was in his 50s and chronically ill prior to contracting COVID-19, died at EvergreenHealth Hospital in Kirkland, near Seattle, and officials are unsure how he was exposed to the virus, said Jeffrey Duchin, head of the Washington health department's communicable disease unit. The state has recorded two other "presumptive" coronavirus cases at a long-term care facility in Kirkland where more than 50 residents and staff could be showing symptoms, he said.

The two cases at the Kirkland facility were a health care worker in her 40s who is in satisfactory condition, and a woman in her 70s who lived there and is in serious condition.

Vice-President Mike Pence defended the US administration's handling of the epidemic amid rising criticism of the state of America's preparedness.

Pence and Health Secretary Alex Azar made the rounds of Sunday talk shows with the message that risks from the disease remain low for most Americans, while promising to make up for testing shortfalls.

COUNTING THE DEAD

2,870 dead in China, so far; 35 more lives were lost

11 more die in Iran, taking toll to 54

50% surge in new cases in Italy; 34 dead, so far

MASKING THE FEAR: Pedestrians in face masks cross a street in Tehran. Iran is preparing for the possibility of "tens of thousands" of people getting tested for coronavirus as the number of confirmed cases spiked again on Sunday

- **Countries in Europe, West Asia and the Americas** have rolled out bans on large gatherings, and stricter travel restrictions as cases of new coronavirus spread rapidly
- **Saudi Aramco, the world's biggest listed firm,** dropped 2.1% to 32.65 riyals ($8.70), its worst performance since listing on December 11

CORONAVIRUS OUTBREAK

Brent Crude
$49.67/bbl
–$2.06 (–3.98%)
Till 11:30 pm IST

IT companies widen travel curbs; automotive vertical worst affected

DEBASIS MOHAPATRA & NEHA ALAWADHI
Bengaluru/New Delhi, 1 March

TAKING A HIT

- All IT biggies have cut non-essential travel to affected countries
- TCS, Infosys, and HCL are pursuing 'remote working' model to overcome the situation
- Outbreak in the world, especially in Italy and South Korea, to aggravate challenges
- IT industry's exposure to China is less, with only 1% revenue contribution

As new cases of coronavirus started to emerge in many parts of the world, IT services firms have begun to impose strict travel restrictions, which is likely to result in business disruption in the coming days. Also, the demand from hospitality & travel and automotive verticals is expected to turn weak in the coming months, as tourism has been badly affected in the past two months.

According to company executives, most IT firms have cut down unnecessary travels to countries like Singapore, South Korea, Japan, and Italy.

"Wipro has suspended travel to and transit through mainland China, including Hong Kong and Macau, until further notice. Employees have also been advised to avoid non-critical travel to Singapore, South Korea, Japan and Italy," a spokesperson of the firm said.

Apart from such advisory, IT biggies such as Tata Consultancy Services (TCS), Infosys and HCL Technologies among others have been pursuing 'remote working' model to overcome the situation.

"Remote working or work from home strategy has been activated to aid social distancing in the impacted regions," said HCL Technologies in an email reply. Industry body Nasscom, however, said apart from non-essential business travel, no business disruption has been reported yet.

"It might be a little too early to comment. The industry is part of a global value chain and if situation persists for a long and the virus spreads, then there is likely to be an impact similar to all countries and sectors," said Sangeeta Gupta, senior vice-president and chief strategy officer, Nasscom.

Experts were of the opinion though Indian IT industry's exposure to China was less, with just 1 per cent revenue contribution, the ongoing disruption to supply chains and emergence of the virus in some key geographies like US, Italy, France, South Korea and Japan was a matter of concern.

"That South Korea and Italy are the big automotive and hi-tech clusters further aggravates the challenge for the automotive vertical, given that Wuhan's biggest industry is also automobile," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting.

Industry watchers also opined that the news of virus-infected cases in the US was the most worrisome for the sector.

Apart from travel and automotive verticals, segments such as retail and hi-tech have also begun to see early signs of weakness, with some clients deferring outsourcing decisions, sources in the know said. Supply decline in semiconductor and chemicals due to production shortage in China is also going to result in weak outsourcing demand, they said. "Decision making on new discretionary spending is likely to slow down while deal conversion rate is expected to face some pressure," Jain added.

Firms stare at prospect of airlifting raw items

TE NARASIMHAN, SOHINI DAS & VIVEAT PINTO
Mumbai, 1 March

The growing spread of coronavirus and its impact on production in China have left Indian companies scrambling for options.

While airlifting raw materials from China is a measure that some firms are now considering, others are looking at neighbouring countries such as Taiwan, Vietnam, and Thailand for their sourcing requirements.

Categories where the pressure is felt the most include electronics, apparels, auto, and pharmaceuticals. Almost 70 per cent of pharma raw material comes from China. And 18 per cent of automobile components, 30 per cent of tyres, and 45 per cent of completely built units of consumer durables are imported from China, said CRISIL in a recent report.

One of the largest carmakers in the country has already begun airlifting components from China

Kamal Nandi, business head and executive vice-president, Godrej Appliances, said makers of durables had supplies in place till the end of March. But April will bring in new challenges as supplies will run out by then for most majors.

"From April onwards, companies would have to airlift supplies if production in China is not restored," he said. "The logistical cost would escalate to 2-3 per cent, which would have to be passed on to the consumer," he said.

Compressors for air-conditioners, flat panels for television sets, and mobile phone parts are imported from China. Industry sources said manufacturers had given their list to the government regarding components that would need to be airlifted from China in the coming weeks.

Sivaramakrishnan Ganapathi, managing director of India's largest apparel exporter, Gokaldas Exports, said: "We do a lot of imports. We have materials to see us out till April. Some factories in China have begun operations and they will be pushing their goods now. But if they miss the supply deadline, they will allow us to airlift raw materials without us having to bear the cost for it."

One of the largest carmakers in the country has begun airlifting components from China. While the freight cost will shoot up significantly as a result, the company, said sources, is prepared to take the hit to ensure domestic production does not suffer.

Pharma industry officials said the aerial route was the best option available to companies right now, given the congestion at Chinese ports.

Sudarshan Jain, secretary general of the Indian Pharmaceutical Alliance (IPA), said a task force formed by the health ministry was coordinating with the commerce ministry.

"The government has assured us of any help required to help import raw material through the aerial route if necessary. This would be a faster process than the sea route," he said.

At least two multinational companies confirmed to Business Standard that their global offices were looking at supply chain issues and how raw materials could be transported quickly to India from China.

Virus forces world to rethink strategy

EXIM MATTERS

T N C RAJAGOPALAN

Coronavirus (Covid-19) has spread to almost 50 countries, with as many as 80,000 confirmed cases and more than 2,800 deaths, a majority of them in China. It is too early to assess its effect on global trade and economy as every day new strains of the virus emerge and more confirmed cases are found outside China, especially in Europe (Italy), West Asia (Iran) and East Asia (South Korea and Japan).

What is certain, however, is that the travel and tourism industry has been severely hit, with many people restricting non-essential travel and cancelling business, sports, cultural, religious, social, and other events. Several businesses that get their finished products made in the affected countries, especially in China, are running down on their inventories. Manufacturing activities of factories around the globe, which rely on supply of inputs or intermediates from China, are severely disrupted, leading to closures. Lockdown of cities, quarantine of people suspected of infection, and precautionary self-quarantine by millions around the world is bound to depress the global demand for goods and services, other than medical care.

In India, the central and state governments have acted with great alacrity in quickly isolating and treating confirmed cases, restricting travel to and from China as well as other nations, and screening and testing thousands of travellers and suspected cases. Thus, the spread of the virus within the country has been contained so far.

The Confederation of Indian Industry has termed the economic impact as moderate and given a sector-wise analysis to highlight possible impact of the disruptions and remedial measures. Recognising the lurking threats to revival of growth, Finance Minister Nirmala Sitharaman discussed the situation with business leaders.

The commerce ministry banned export of personal protection equipment including clothing and masks on January 31, fearing they might be required within the country. Eight days later, export of surgical/disposable masks and gloves were allowed for export. Last Tuesday, eight more items — breathing appliances, gas masks, surgical blades, etc — were added to the list, signaling, perhaps, lower threat perception. The equity markets, however, did not buy into the optimism, as they followed the global markets and went on a sell-off spree.

In the meantime, a different sort of virus is eating into the vitals of our country, claiming scores of lives and injuring hundreds in communal riots. Vested interests spread this virus without any concern for human rights or fear of law.

In the process, the perception about our country is taking a beating and that can drive away foreign investors. Around the world, the coronavirus emergency has forced governments and businesses to rethink their strategy of depending on a single source for finished goods, inputs, and intermediates based on only the cost of production.

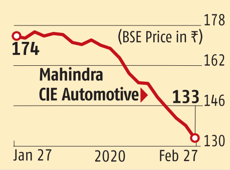
Voices are getting louder in the United States that its significant dependence on China for essential medicines will impair its ability to cope with the spread of the disease. So, developing more sources of supplies to guard against serious disruptions may emerge as the next big trend. But that may not necessarily mean flow of more investments into India, unless investors are assured, besides important economic factors and impartiality of institutions, that social disharmony will not cause unexpected disruptions. Our leaders need to take note.

email: tncrajagopalan@gmail.com

BSE 200: TOP GAINERS OF LAST WEEK

BSE price in ₹	Feb 20, '20	Feb 28, '20	% chg
Bayer CropScience	4,261.1	4,393.1	3.1
Max Financial Services	565.1	577.5	2.2
Abbott India	15,554.7	15,709.1	1.0
Pfizer	4,182.9	4,200.5	0.4

QUICK TAKE: NEAR TERM PRESSURES FOR MAHINDRA CIE



The stock of Mahindra CIE Automotive has shed 12 per cent over the past week over muted December quarter results and a weak demand outlook for key markets of India and Europe. While demand is unlikely to revive in the near term, analysts expect some recovery on the operating front led by cost-control initiatives

"OUR BEST GUESS IS THAT THE DRAWDOWN IN RISKY ASSETS HAS FURTHER TO GO, ALTHOUGH AFTER A SIZABLE PULLBACK THE SHORT-TERM RISKS APPEAR LESS ASYMMETRIC TO THE DOWNSIDE"

ZACH PANDL,
Co-Head EM & FX strategist, Goldman Sachs

WEIGHING THE COSTS

THREAT TO GLOBAL ECONOMIES AND DOMESTIC EARNINGS IS KEEPING EXPERTS CAUTIOUS

CORONAVIRUS OUTBREAK

CHEAPER IMPORT COSTS DUE TO SOFT CRUDE OIL & COMMODITY PRICES MAY HELP ₹ STRENGTHEN

Valuations may fall further

UJJVAL JAUHARI
New Delhi, 1 March

Last week's steep fall in leading indices has made market valuations cheaper, as compared to the start of 2020. The Nifty, after about 10 per cent decline from its high, is trading at slightly more than 17x FY21 estimated earnings and is now closer to its mean one-year forward valuations of 16.5x.

Experts, however, believe investors still need to tread with caution, given the downside risks to growth and earnings.

The fall in the Indian market is being led by the decline in the global markets, given the rapidly spreading coronavirus and the expected slowdown in global growth and corporate earnings. The US market, which was trading firm, has seen a steep decline on the back of risks faced by the global economy. Experts point out the epidemic is now beyond the Chinese borders, and the countries in the European Union which have porous borders are witnessing a rapid spreading of the virus.

The markets are now fearing that the epidemic could now turn into a pandemic, says Siddhartha Khemka, head-retail research, Motilal Oswal Financial Services. Investors are fearful that this might lead to a global recession as the outbreak is spreading in the world's largest economy, the US.

Global businesses themselves have become vulnerable. For one, companies will see supplies getting affected as orders in the pipeline are not being supplied by China. Many would have already paid for supplies, and hence would feel the pressure on working capital, too.

The risk of default by highly leveraged companies has increased significantly, points out Pankaj Bobade, fundamental research head at Axis Securities. All these concerns are impacting investor sentiments.

Because of these events, Nischal Maheshwari at Centrum Broking sees an impact of 0.5-0.6 per cent to the world's GDP and, therefore, he remains cautious.

However, given the sharp fall in the markets and the various measures being taken by central bankers (interest rate cuts) and governments around the world, some intermittent bounce back is not ruled out either.

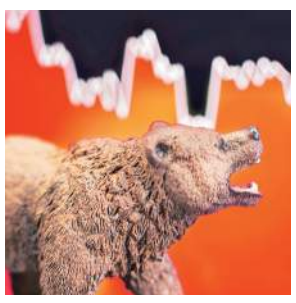
For countries like India, declining commodity prices, especially of crude oil, bode well. India, so far, also has been able to restrict spreading of the virus in the country. Further, with falling inflation, the scope for further interest rate cuts by the Reserve Bank of India (RBI) in the coming policy meeting has increased.

The RBI had left interest rates unchanged in its last policy because of inflation concerns. So, any further cuts will be positive for interest rate sensitives, while companies (paints, tyres and others) using crude oil as raw material are already set to see gains. Moreover, the correction in large caps has made them somewhat attractive. Broader indices like BSE MidCap and SmallCap have lost less and outperformed the Sensex/Nifty.

Deepak Jasani, head of retail research at HDFC Securities, sounds a note of caution. "While the overall valuation of the broader markets has become cheaper post the recent correction and may boost sentiments, earnings growth is more important. We are not sure earnings growth has bottomed out," he says. The lower crude oil prices and other factors may be good for macros (fiscal deficit, etc), but may not be significantly beneficial for micros — which, in turn, drive earnings for companies.

More on business-standard.com

BEAR RUN ACROSS THE GLOBE



	Value		PE ratio (x)	CY19/FY20 EPS estimate	
	Feb 28, 2020	% chg	Feb 28, 2020	Feb 28, 2020	Upgrade/ downgrade in %
US					
DOW JONES	25,409.36	-11.98	18.01	1,574.98	-6.34
NASDAQ	8,567.37	-5.77	33.08	365.94	-0.99
EUROPE					
FTSE 100	6,580.61	-13.46	19.03	549.23	-2.06
CAC 40	5,309.90	-12.11	19.18	397.89	-1.69
DAX	11,890.35	-11.17	20.5	918.06	-2
ASIA					
NIKKEI 225	21,142.96	-10.63	18.65	1,264.18	-3.45
HANG SENG	26,129.93	-8.46	10.88	2,583.11	-2.23
SHANGHAI SE COMPOSITE	2,880.30	-6.64	13.86	272.43	-1.94
Straits Times Index	3,011.08	-7.41	11.07	242.71	-3.47
BSE SENSEX*	38,297.29	-7.28	23.43	1,854.46	0.27

Note: % change and EPS upgrade/downgrade are over January 2, 2020, as the global markets were closed on January 1; *for the Sensex, it is over January 1, 2020 Source: Bloomberg

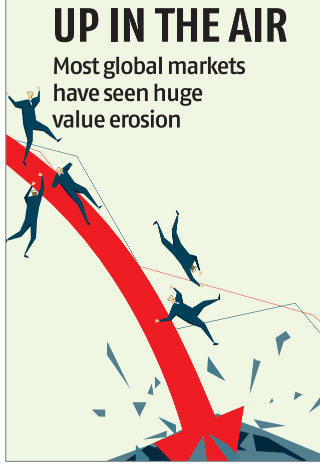
$8 trillion wiped off world m-cap

SAMIE MODAK

While the impact of the coronavirus outbreak on the global economy will play out over the next few quarters, the equity markets have already seen an erosion of $8 trillion in market value. Most global stocks have tumbled as the epidemic has triggered a flight to safety among investors. While riskier assets have dropped, safe-haven investments, such as gold and developed world bonds, have rallied. In absolute terms, the US has lost $4.25 trillion in market cap — from $35.99 trillion to $31.74 trillion. In comparison, China, the epicentre of the outbreak, has lost only $400 billion. Market players said the steps taken by the Chinese government have mitigated the fall in its markets. The Indian markets have lost nearly $180 billion in market value. "If the epidemic is prolonged, it will have a big impact on global economic activity. If it is contained shortly, the risk-reward is very attractive after the latest correction," says Gautam Chhaochharia, head of India research, UBS.

UP IN THE AIR

Most global markets have seen huge value erosion



Market cap (in $ trillion)	Week ago	Now	Chg*
World	88.12	80.18	−7.94
US	35.99	31.74	−4.25
China	7.86	7.46	−0.40
Japan	5.94	5.52	−0.42
Hong Kong	5.42	5.19	−0.23
UK	3.34	3.00	−0.34
France	2.68	2.48	−0.20
Canada	2.39	2.17	−0.22
Germany	2.25	2.04	−0.21
India	**2.17**	**1.99**	**−0.18**
Switzerland	1.93	1.79	−0.14

Source: Bloomberg; Note: *Change for Feb 28 over Feb 21

Currency traders see no reason to panic

ANUP ROY
Mumbai, 1 March

While currency traders are shunning long-term views, they don't see any reason that the rupee will get into a free fall due to the coronavirus fear.

"There is a huge risk aversion. The momentum of the risk aversion can be captured on a day-to-day basis," said Abhishek Goenka, managing director of IFA Global.

Still, the rupee is not in a bad shape. Dealers don't see the local currency depreciating much from the present level if the epidemic doesn't turn into a pandemic. The immediate level could be 72.50 a dollar, which can be reached even on Monday, but 73 a dollar offers good resistance level.

If there is news about the possible containment of the virus, the rupee can strengthen rather sharply. There are quite a good number of reasons for that.

Crude oil has softened considerably, and is now trading at below $50 a barrel, which is really a boon for the Indian markets. On top of it, the Reserve Bank of India (RBI) has accumulated huge foreign exchange reserves that can be used against any sharp movement in the rupee.

Besides, the exchange rate in India is actually determined by import and export dynamics. Exports are small for India, and so, a cheaper import cost because of soft crude oil and commodity prices can cause the rupee to react positively.

"With imports falling, demand for the dollars has fallen anyway. One may expect the rupee to collapse, but that's not happening because a huge amount of money is coming to the markets, which means there is supply of the dollar," said Jamal Mecklai, head of Mecklai Financials.

Still, "a lot depends on the global equity markets. Whether the rupee will blow up or hold steady is difficult to predict," Mecklai said. In this context, long-term bets are risky in dollar-rupee, as the RBI could be unpredictable.

What's certain though is that there will be volatility, and the RBI is yet to step in with massive dollar intervention, something that all the speculators fear the most. The RBI's actions, in the past, had triggered huge margin calls, and speculators had to cut losses.

"With $50 billion mobilised in this fiscal year alone, the RBI can go against the market, which they have actually done many time. And this can cause mayhem even in these uncertain times. Nobody wants to risk that," said a senior currency dealer.

On February 17, ₹ was at 71.29 a $. Since then, it has slid 1.23%. Other EM currencies have fallen about 3% or more

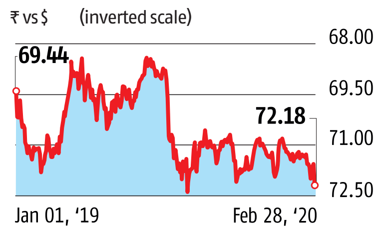
On February 17, the rupee was at 71.29 a dollar. Since then, the slide has been 1.23 per cent. But other emerging market currencies have fallen about 3 per cent or more during the same period, led by the South Korean won.

"Several asset classes are behaving abnormally. Despite the stock market meltdown, rupee has really not moved much. Coronavirus has not moved the Chinese yuan at all. On top of it, gold and silver prices have fallen whereas one would expect them to rise in such uncertainties," said Goenka. The rupee seems to be watching the Chinese yuan, like it has done in the past, he added.

According to Satyajit Kanjilal, CEO of Forexserve, while the rupee direction is uncertain, there are healthy flows in the market and the RBI's forex kitty is insurance enough. "All currencies have fallen, but the rupee has not fallen that much. There will be IPO-related flows because of SBI Cards; other flows are also there. It is difficult to predict, but don't be surprised if the rupee actually scales back to the 72 level on flows."

In February, the foreign funds inflow remained positive in both equities and debt. The total foreign funds inflow in February, despite the coronavirus-related risk aversion, has been to the tune of ₹3,917 crore.

UNDER PRESSURE



'Virus' impact not fully priced in'

The global financial markets, including India, have been taken aback by the rampant spreading of coronavirus and its possible adverse effects on economic growth. **JIM ROGERS**, chairman of Rogers Holdings, tells **Puneet Wadhwa** that he is looking to invest in India upon a correction. He also wants the Indian government to do away with protectionist regulations. Edited excerpts:

Q&A

JIM ROGERS
Chairman of Rogers Holdings

How do you see the global financial markets play out in the backdrop of coronavirus fears?
The virus is slowing down the global economy. Airports, hotels and other public places across the globe have very few people. There has been a major impact on the Chinese economy, which as it was slowing before the coronavirus outbreak. The recent developments suggest that things may get worse from here on. There could even be bankruptcies in China is things get worse from here. This, I feel, will surprise a number of people who are not expecting such a scenario.

I don't think the markets are factoring in the worst as regards the coronavirus outbreak and how things may play out. Even during the last week or two, most global markets were trending up and it is only in the last few sessions that they have seen a sharp fall. Most financial markets have been taken by surprise by the (rampant spread of) coronavirus and the impact has not yet been fully priced in.

So, is the worst priced in?
No. I think the worst is yet to come for the global financial markets — not purely because of coronavirus, but slowing growth. The Chinese economy had been slowing down even before the virus' outbreak; interest rates in the United States (US) are likely to go up eventually. This does not mean that we will not have a blow-off rally. Countries across the globe have been printing a lot of money, and spending it, too. More stimulus and printing money because of the coronavirus outbreak could lead to the last blow-off rally before the markets blow up in many countries. And this could happen before too long. This health scare is having an effect on the global financial markets which we don't want, but we will end up paying the worst price that one can imagine!

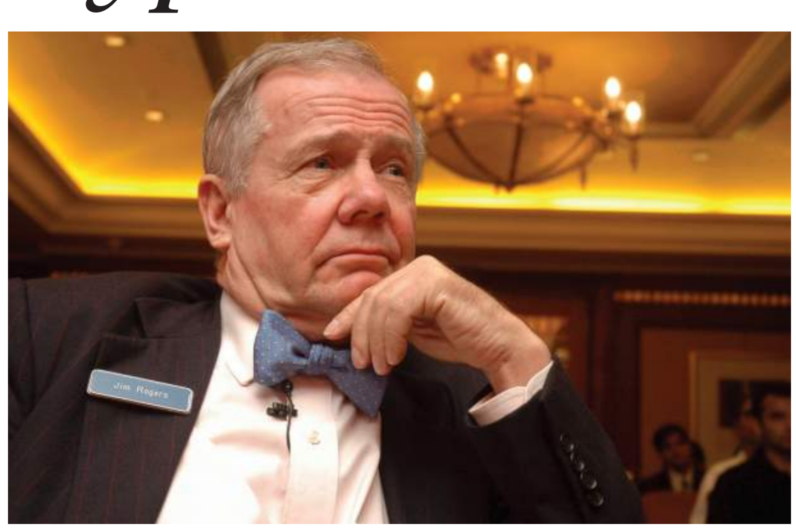
Do you think the global economy can head into recession if coronavirus' impact turns out to be worse-than-expected?
Maybe not because of the virus. It looks to me that the virus is already peaking in China. The country has already taken some very strong measures. However, the consequences of the virus, such as people and companies going bankrupt, may lead to a recession in a few months.

What are your views on India in this backdrop?
Narendra Modi is a very popular leader but has not done a lot to open up the Indian economy and this has surprised me a lot. I hope India's agricultural and financial markets open up more so that it can become a truly great country. For one, Modi has got toilets cleaned and built in India which was a much-needed measure. However, several steps are still needed to fully open up India's agricultural and financial markets. Modi should realise that it is 2020 and not 1920! India does not need all these protectionist regulations that hamper its growth potential, which the government must realise and do away with. Policies have to be framed and implemented accordingly. Modi should open India more to foreign investments. However, his actions on consolidating corporation taxes are brilliant and much-needed.

Where are you looking to invest now?
Well, I am scouting for investment opportunities. Most asset classes, especially equities, have started to drop a lot. So, the more prices fall, the more avenues it opens up for me. Regions like South Korea and sectors like airlines are investment-worthy. Given the coronavirus scare, the tourism industry is collapsing. So, these avenues will be of great interest. Airlines will not disappear because of this health scare and people will not start using boats, instead of aircraft. Eventually, things will come around. Prices of those assets that will fall the most are the ones that interest me.

Are you looking to invest in India?
Well, yes. If the Indian markets correct, I will look at India as an investment option. That said, I am looking to anywhere in the world where assets are available at an attractive rate. Meanwhile, it is not legal for me to invest in Venezuela and North Korea -- the two regions where I would actually like to invest right now. My investment decision will be based on global developments. If there is a war and recession, the markets would decline 80 per cent; so I could wait. I would own even more gold and silver in such a case.

What are your views on crude oil and gold?
Oil prices are collapsing. That said, we will not stop using oil in the near future. I am watching oil prices very closely. I see panic and a crescendo before a hysterical collapse in oil prices. I own gold and have done so for decades. I bought more of the yellow metal last week. In the summer of 2010, I stopped buying gold and silver, except as gifts, but started buying again last summer. I will buy more gold if there are opportunities. Gold prices will be much higher in a few years — higher than you and I can both imagine right now! Whenever people have lost confidence in the economy, currencies, and governments and lost money, they have bought gold and silver as a safe-haven investment.



THERE IS A LARGE AMOUNT OF MONEY BEING PRINTED AND SPENT NOW, ESPECIALLY BECAUSE OF THE CORONAVIRUS OUTBREAK. THIS HEALTH SCARE IS HAVING AN EFFECT ON THE GLOBAL FINANCIAL MARKETS WHICH WE DON'T WANT, BUT WE WILL END UP PAYING THE WORST PRICE THAT ONE CAN IMAGINE

STREET SIGNS

SBI Cards' grey market premium moderates

The grey market premium for SBI Cards and Payment Services has seen some moderation following a 7 per cent crash in the stock markets last week. Grey market operators were paying a premium of as much as ₹400 per share of the credit card company. The premium has now dropped to below ₹300 per share. Still, this is a hefty premium of 45 per cent over the upper-band issue price of ₹755 per share. Market players said the prevailing risk-off sentiment could make a dent in demand for the IPO. However, investment bankers said they have firm commitments from institutional investors and expect the issue to be a success. The ₹10,355-crore IPO — India's fourth biggest — opens on Monday.

SAMIE MODAK

Index inclusion hopes for HDFC Life

HDFC Life Insurance has a serious shot at becoming the first insurance company to make it to the Nifty index. Despite having a fairly large free-float market capitalisation — a key criterion for index inclusion — the private sector life insurer was never part of the derivatives club. To be part of the Nifty, it is important for a stock to be traded in the futures and options (F&O) segment. Starting this week, F&O contracts based on HDFC Life shares will be traded. Many analysts say the stock could make it to the 50-share blue chip index during the next reshuffle.

SAMIE MODAK

Large-sized advisors eye mergers

Independent financial advisors (IFAs) with larger asset size are looking at mergers to scale up their business. "Individual mutual fund (MF) distributors who have gained ₹200 crore-₹400 crore of asset base are looking at merging their business with other players so that they can rapidly scale up their business. This would help them to absorb the cut in commission payouts in a more efficient manner," said an IFA. In some instances, advisors are looking at partners, which have already built a large corporate entity for distribution of financial products. "At a later stage, the merged business can be monetised by stake sale to private equity investors," the IFA said.

JASH KRIPLANI

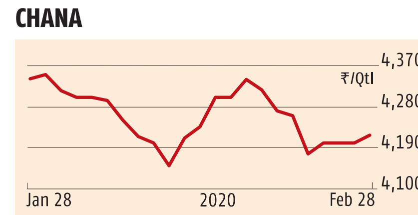
EVENTS THIS WEEK

Date	Particulars
2-Mar	India - Markit PMI Mfg
	US - Markit US PMI Mfg, construction spending, ISM manufacturing
	UK - Markit UK PMI Mfg,
	Eurozone - Markit Eurozone Mfg PMI
	China - Caixin China PMI Mfg
3-Mar	Eurozone - CPI, unemployment rate
4-Mar	India - Markit composite & services
	US - ADP employment change, Markit US services & composite PMI
	UK - Markit /CIPS UK services & composite PMI
	Eurozone - Markit Eurozone services & composite PMI
	China - Caixin China PMI composite & services
5-Mar	US -initial jobless claims, durable goods orders
6-Mar	US - trade balance, change in non-farm payrolls, unemployment rate
7-Mar	China - trade balance

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

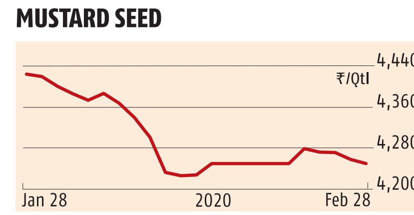
COMMODITY PICKS

CHANA



Bargain buying ahead of the festive season could help prices revive this week. However, sharp gains are not expected ahead of the new crop harvest. Prices in the Delhi market are expected to recover from ₹4,200 to ₹4,250-₹4,275 per quintal.

MUSTARD SEED



Weakness across the oil seed complex coupled with the impending harvest of the new crop which is expected to gather pace this week will weigh on prices. Mustard seed prices in Jaipur market are expected to correct from ₹4,250 per quintal to ₹4,175-₹4,200 per quintal.

Prerana Desai,
Research Head - Edelweiss Agri Services and Credit

BRIEF CASE

M J ANTONY

A weekly selection of key court orders

Loyalty insurance cushions firm's loss

The Supreme Court has asked Oriental Insurance to pay ₹3.5 crore to National Bulk Handling Corporation, which suffered by a fraud committed by its employees. The corporation had taken a fidelity guarantee insurance. The policy covers fraud, theft, and other offences committed by the employees of a firm or institution. The insurance under it is for honesty, against negligence or for being faithful and loyal to its employers. The protection afforded is different from normal insurance policies. In this case, the corporation was a collateral management company, which undertook store commodities pledged by farmers, traders and manufacturers to get loans from banks. The claim arose when 601 barrels of mentha oil stored in a godown in Udhampur was found substituted with water. The corporation claimed compensation under the fidelity policy alleging that its employees were involved in the fraud. The corporation had also filed a police complaint. The insurer, however, argued that there was no evidence to prove that the employees committed the offence as the seals were intact. The court rejected the appeal and ruled that the policy covered employees' fraud.

Glider is aircraft for insurance

The Supreme Court has directed an insurance company to pay ₹1 crore to the mother of a youth who died while sightseeing in a glider in Canada. The youth was in a two-seater glider over British Columbia when it hit a Cessna aircraft, killing him and the pilot. The insurer rejected the claim arguing that a glider is not a standard aircraft carrying passengers and, therefore, it was not covered under the policy. It further argued that he was on a round trip with no destination and, therefore, he was not a 'passenger'. The National Consumer Commission and the court rejected these contentions and ruled that a glider is an aircraft according to the Aircraft Act. The judgment in AXA General Insurance Co vs Priya Paul pointed out that the insurer had not excluded gliders from liability, while it had specifically excluded hang-gliding, ballooning, parachuting, and other adventure sports. The youth had 'chartered' the glider, according to the court. The term charter is not defined in either Indian or Canadian regulations. If the meaning is ambiguous, the interpretation should benefit the insured, the judgment said. It further stated that a person taking a round trip with no destination would still be a passenger, as one in a sightseeing bus which returns to the starting point.

Compensation rises with each appeal

Assessing loss suffered by a victim of road accident is difficult for judges, but it would seem that with each appeal, the compensation goes up. In Kajal vs Jagdish Kumar, a 12-year-old schoolgirl was rendered 100 per cent disabled for life when a truck hit the motor vehicle in which she was travelling. The motor accident compensation tribunal awarded her ₹11 lakh. On appeal before the Punjab and Haryana High Court, the amount was raised to ₹25.78 lakh. On further appeal, the Supreme Court found that the courts below had erred in calculating the compensation on several counts and it was not "just and fair", which was the principle prescribed in the Motor Vehicle Act. The court raised the compensation to ₹62.27 lakh. The court ordered that the amount should be deposited in a fixed account in a public sector bank until she attains majority. The interest could be used to pay attendants and medical expenses.

Forfeiture should not be 'extortionist'

The Calcutta High Court last week declared that though an employer of a work contract can impose a condition of forfeiture, it should be reasonable, not "punitive or extortionist". A government company that calls for tender has an additional duty to strike a balance while forfeiting the earnest deposit, the judgment stated in the case RBL Infrastructure vs Rites. In this case, Damodar Valley Corporation engaged Rites for a road project. The latter called tenders and RBL bid for it. However, it had concealed some factors in the acceptance document, which was a breach of the terms of the offer. Rites, therefore, attempted to forfeit the entire ₹50 lakh deposit, which led to the writ petition. The court stated that there indeed was an enforceable agreement and the breach is "established and unquestionable" but Rites did not suffer any substantial loss on account of that fault. Forfeiture should not lead to a "windfall" for the government entity. It should not unjustly enrich itself, especially because "contractors have, per force, to apply for obtaining work from government employers".

Arbitration caught in legal knots

An arbitration which was caught in legal knots for 12 years will start now after the Division Bench of the Bombay high court set aside the order of the single judge bench. In this case, Antikeros Shipping Corporation vs Adani Enterprises, the Liberian shipping company alleged fuel supplied by the Indian firm did not meet the quantity and quality promised. It invoked arbitration but there were several questions involved like whether it was domestic or international arbitration and whether the high court could name an arbitrator when one party does not appoint its nominee. The disputes lasted seven years, but the single judge condoned the delay and passed an order favourable to Adani. The shipping company appealed to the division Bench, which made certain interesting remarks about Adani's appeals, comparing them to "arrows" and "torpedoes". While imposing ₹5 lakh as legal costs on it, the judgment remarked: "The torpedo fired by the respondent is declared to be a dud and it sinks without hitting its target."

ONGC struggles to get customs refund

Though the Supreme Court has denounced the practice of government and its companies fighting legal battles in courts, there is yet another judgment from the Gujarat High Court deciding a customs dispute between ONGC and the central government. ONGC imported certain equipment from Russia for exploration of hydrocarbon and Customs duty was paid in 1986. There was an excess payment of around ₹22 crore, which was admittedly due. But the Kandla port authorities prevaricated on the refund, one main argument being that ONGC had not passed on the benefit to "consumers". The court rejected this defence stating that there were no consumers in this case and the demand should be "deprecated, quashed and set aside". It gave the authorities 30 days to calculate the dues with interest, after hearing ONGC. The court rejected the prayer of the authorities to grant more time to pay as there was already "inordinate delay" in the matter.

Accounting for coronavirus

SUDIPTO DEY looks at challenges faced by accountants and auditors as they factor in the impact of the epidemic

At a time when most companies are scrambling to generate year-end financial statements and match their accounts, the ominous impact of the coronavirus outbreak on businesses has sent accountants and auditors into a tizzy.

The key challenge, say experts, is to capture the potential financial impact and implications on assets, liabilities, and results — both present and future. The other is to provide appropriate disclosure for various stakeholders in an evolving business scenario, they add.

Businesses which are dependent on supply from China or have exposure to the Chinese market are the worst affected. "All investment, loan and assets connected with China may have to be additionally tested for impairment," says Milan Mody, partner, NA Shah Associates.

On the liability front, commitment, obligation and damages because of inability to supply due to non-receipt of material from China also need to be provided for, he adds.

"Indian companies having presence in the affected markets may need to evaluate their liquidity or funding requirements, as there may be stress on recoverability of inventories and receivables, settlement of trade and employee liabilities, and possible claims and contingencies," says Govind Ahuja, partner and professional practice director, assurance services, S R Batliboi & Associates.

According to M P Vijay Kumar, chief financial officer, Sify Technologies, most Indian entities with exposure to China have started using the force majeure clause to protect themselves from any claims.

Over the years, financial regulators across countries have been proactive in issuing guidance on key national or global events with a possible adverse impact on financial statements or audit of those financial statements. The US' Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB), and the UK's Financial Reporting Council have had several rounds of discussions with auditors and other stakeholders on how to factor in the impact of the latest virus outbreak on financial statements. They have offered guidance to companies and auditors to proactively monitor the impact on financial statements and issue appropriate disclosures to all stakeholders from time to time. These regulators are also open to the idea of giving specific relief to companies on a case-by-case basis.

According to Mody, a key regulatory concern is inappropriate and non-uniform reporting by firms on the impact of coronavirus on their businesses, possible impact, and disclosures around risk assessment.

Mody is of the view that Indian regulators should issue guidance to auditors on common issues, along with uniformity of approach and reporting. "Dialogues with the Securities and Exchange Board of India (Sebi) and stock exchanges will result in clarity on timelines for the submission of consolidated financial statements," he says.

Vijay Kumar feels boards of companies, which are impacted significantly, should proactively communicate to their investors and bankers. "Timely communication is received positively by all stakeholders."

He is, however, not in favour of giving companies extra time for the submission of consolidated financial statements, except in cases where there are subsidiaries/ associates or JVs in coronavirus-hit countries.

KEY CONCERNS FOR INDIAN BUSINESSES

MANY INDIAN COMPANIES whose business has been disrupted have started using the *force majeure* clause to protect themselves from claims

FOR THOSE HAVING subsidiaries or JVs in China and other affected nations, producing financial statements or having them audited is a challenge

THERE ARE CHALLENGES IN generating financial reports because of inability to obtain reconciliations & confirmations from suppliers, customers and others

THE DISRUPTION IN production cycles and supply chain could lead to potential write-downs of inventories and other limited life assets

HOW OTHERS ARE TACKLING IT

THE UNITED STATES

- SEC and PCAOB have had discussions with large US audit firms on the impact that the exposure could have on financial disclosures and audit quality
- Advised companies to work closely with their audit committees and auditors to ensure their financial reporting, auditing and review processes are robust
- Businesses encouraged to contact SEC staff regarding any need for relief or guidance
- SEC to consider relief on a case-by-case or a broader basis depending on circumstances

(Based on a joint statement by the SEC & PCAOB on Feb 19)

THE UNITED KINGDOM

- Companies need to provide up-to-date and meaningful disclosure when preparing their year-end reports
- This is particularly relevant to companies either operating in, dependent on supply chains in, or having close trading associations with China
- Companies should consider whether to refer to the possible impact on their business in their reporting of principal risks and uncertainties
- They also need to report the mitigating actions taken and the impact on the carrying value of assets and liabilities

(Based on a statement by the FRC on Feb 17)

DRAFT COMPETITION (AMENDMENT) BILL 2020

How life may change for tech companies

AKANSHHA AGRAWAL

The Ministry of Corporate Affairs in October 2018 had set up the Competition Law Review Committee (CLRC) to comprehensively review the Competition Act and suggest substantive and procedural amendments for a robust competition regime. The CLRC submitted its report in July 2019, and its recommendations were closely reflected in the recent Draft Competition (Amendment) Bill, 2020.

One key highlight of the Bill was to suggest changes in the Competition Act to increase regulation over the technology sector.

Increased scrutiny over mergers

The Competition Act requires any proposed combination meeting the specified threshold of asset or turnover to be approved by the Competition Commission of India (CCI). The report had earlier highlighted that certain high-value transactions, such as the acquisition of Myntra by Flipkart, WhatsApp by Facebook, and Freecharge by Snapdeal escaped the CCI's scrutiny as they did not meet the threshold requirement.

Avaantika Kakkar, partner & head of competition law at Cyril Amarchand Mangaldas, is of the view that an enforcement gap exists in the current merger regulations and the proposed amendments attempt to bridge the same. "One has to appreciate that the enforcement gap in the merger regulation also exists because of the very broad scope of de minimis (small target) exemption and also because the threshold for reporting mergers is amongst the highest in the world," she noted.

The Bill proposes to allow the central government, in public interest and consultation with the CCI, to include any other criterion for reviewing proposed combinations. "On a plain reading of the proposed change, the CCI and the Ministry of Corporate Affairs would have the power to specify the deal value threshold for certain sectors," said Kakkar. Experts are of the view that this will help regulate the acquisition of small firms by tech giants for eliminating competition.

However, Rahul Goel, partner at IndusLaw, is of the view that the proposed amendment is too broad. "The proposed Competition Bill suggests an increase in the scope of power of the central government to prescribe any criterion, other than those prescribed as a jurisdictional threshold. While this is proposed to be done in consultation with the CCI, the proposed amendment is too broad and will necessitate balance," he said.

Broadened understanding of anti-competitive agreements

Currently, the Competition Act takes a restricted view of anti-competitive agreements by penalising specified horizontal and vertical agreements. The CLRC had taken note of this and recommended widening the ambit of agreement to target agreements in the digital market which may not fall under existing classifications. The committee emphasised that evolving business models are introducing "unanticipated linkages or arrangements" necessitating a change in the understanding of agreements under the Act.

Keeping in track, the draft Bill suggests including "any other agreement" to the already existing list within the Act. "The proposed definition of agreement has been broadened to cover all kinds of arrangements, even when companies are not involved in identical trade of goods or provision of services," said Goel.

The Bill allows for scrutiny in agreements, which do not strictly fall under the existing classifications. Competition law experts have noted this will cover agreements typical to the digital era, such as algorithmic collusion and most-favoured-nation (MFN) clauses.

Impact on tech companies

However, the tech sector does not need to lose its sleep yet. "The idea behind the proposed amendment was to build in some flexibility in the wording of the statute to provide for evolving circumstances. I don't think it increases the possibility of scrutiny of any particular type of agreement," said Kakkar.

Kakkar noted regardless of the competition policy, much depends on the regulators' appetite for commencing investigations at any given point in time. "The history of competition law will show that there are phases or cycles for a certain sector or type of arrangement that one jurisdiction scrutinises and this is then followed across other jurisdictions. The current flavour is the technology and digital markets," she added.

Experts have said the impact of the Bill on the business models of tech industries remains debatable. "The proposed change should not have much bearing on the functioning of companies, as it only provides enforcement power to the CCI," noted Goel.

EXPANDING THE NET

	Current framework	Proposed change	Impact on tech sector
Threshold for merger review	Restricted to asset and turnover	Central government, in consultation with CCI, can introduce new thresholds	Empowers CCI to review high-value takeovers of small firms, such as Myntra by Flipkart
Definition of agreement	Strict classification between horizontal and vertical agreements	Broadened definition to include any other agreement	Boosts CCI's ability to scrutinise agreements unique to digital markets

Populist, popular, welfare in context of subsidy

EXPERT EYE

SUKUMAR MUKHOPADHYAY

The issue of subsidy has gained immediate attention because of substantial subsidy for electricity to the poorer sections and several other subsidies given recently by the Delhi government, which has attracted criticism on the ground that it is a populist measure to gain votes. I am not writing exactly on the issue of what the Delhi government has done. I am writing on the theoretical aspect of how to judge subsidies as populist or popular or welfare measures.

Any theoretical approach to the issue of subsidy has to begin with what goes in the name of Pigouvian subsidy. British economist Arthur Pigou developed in the early 20th century a concept in favour of the government intervening in tax activities that harm the economy as a whole and subsidising activities that help society as a whole. The theory of Pigou is what came to be known later as dirigisme. This view is opposite to the concept of neutrality of tax, which means that tax leaves unaltered different allocations of resources, such as between labour and capital and choices for consumers (Allan Tait - International Practice and Problems, 1988 p.220). The VAT is theoretically a neutral tax if there are no exemptions. However, a completely neutral tax is only a theoretical possibility, which can be prevalent in a country where the population is of roughly the same economic standard, like Australia, New Zealand, and Japan. In a country like India, which has a very large proportion of poor and very poor people, and also a large proportion of lower middle class, there is a role for subsidy to bridge the inequality of income and making basic amenities available to them.

In the above context, we have to measure the role of subsidies as to whether they are populist, popular or for welfare. Subsidies can be put to bad use, as well as to good use. The examples of bad use are: Giving free bus rides to women, free tirth yatra, exempting lady handbags, bindis, writing ink, etc. The use of writing ink is so little in a pen or ballpoint pen that exempting it from a tax of 10% would only give about one paisa benefit in the cost of production for a pen selling worth ₹10. Therefore, these measures are perverse subsidies and are of no real worth. They are meant for pleasing the crowd and, therefore, are populist. Populist and popular are quite different. Populist is a fake of popular.

Popular and welfare are almost the same. Examples of popular (welfare) subsidies are for promoting solar power, water conservation, electric vehicle, health care, education, cheaper/cleaner water for the poor, subsidised Metro journey by exempting the original huge cost for laying down the track and buying the passenger bogies, etc. For the Konkan Railway and Metro Railways, huge subsidies have been given in the form of exemptions. Since they were hidden subsidies, nobody criticised them. A transparent subsidy is better. Putting cash subsidy in Jan Dhan Accounts was recommended by Nobel laureate Abhijit Banerjee for increasing effective demand to counter the slowdown in the economy. Petrol subsidy is often criticised as a subsidy to the rich, but all petrol is not used by the rich only. On balance, the government policy to reduce the subsidy to petrol is correct. Subsidy to urea is necessary to boost agriculture. But this subsidy also needs to be reduced gradually to make agriculture stand on its own feet. Food subsidy given through the Food Corporation of India is meant for the welfare of the poor but it has become a virtual scam because of huge losses and corruption. Therefore, substituting it by direct cash subsidy could be much better. Subsidy to farmers by giving free electricity has also proved to be a wasteful expenditure and does not merit continuation.

> **Subsidy has to be there, where there is the poor class or lower middle class, which have to be helped to make basic necessities affordable to them and also to bridge the inequality of income**

The conclusion is that subsidy has to be there, where there is the poor class or lower middle class which have to be helped to make basic necessities affordable to them and also to bridge the inequality of income. Subsidy has to be there also where we need to promote certain things like electric vehicles, solar electricity, and metro rail. We have to examine each type of subsidy on its own merit.

The writer is member, Central Board of Excise & Customs (retired)
Email: smukher2000@yahoo.com

"RASHTRAPATIJI, YOU ARE GIVEN THE HIGHEST POSSIBLE RESPONSIBILITY... TO REMIND IT (THE GOVERNMENT) OF ITS CONSTITUTIONAL DUTY AND THE PILLARS OF *RAJ DHARMA*"

SONIA GANDHI, Congress president

"SONIA GANDHI, PLEASE DON'T PREACH US *RAJ DHARMA*; YOUR RECORD IS FULL OF TWISTS AND TURNS"

RAVI SHANKAR PRASAD, Union minister

"SHE (SONIA GANDHI) SAID 'NOW WE HAVE TO DECIDE, CHOOSE YOUR SIDE'. IS THIS NOT INSTIGATION? PRIYANKA GANDHI SAID 'HUNDREDS OF PEOPLE WILL BE PUT BEHIND BARS'. IS THIS NOT MISINTERPRETATION (OF THE CAA)?"

PRAKASH JAVADEKAR, Union minister

Hitting two birds with one stone

Satyavrat Mishra explains politics behind Nitish's anti-NRC move and bonhomie with Tejashwi

Last week, at the start of the Budget session of the Bihar Assembly, Bharatiya Janata Party (BJP) lawmakers were lining up to greet Chief Minister Nitish Kumar. At the same time, Leader of the Opposition and Rashtriya Janata Dal (RJD) leader Tejashwi Yadav was busy submitting an adjournment motion over the controversial National Population Register (NPR).

Less than 24 hours later, Speaker Vijay Kumar Choudhary accepted Tejashwi's motion and a debate over the issue began. BJP members, at first, were a bit confused over the turn of events. The confusion deepened when Nitish appeared neutral over the issue, and not siding with ally BJP. Before BJP MLAs could seek clarity from him, the chief minister announced the state government would not implement the NPR in its new form, and would go ahead with the 2010 questionnaire.

The president of the Janata Dal (United) or JD(U) also vociferously denounced a nationwide National Register for Citizens (NRC) and termed the BJP's demand for it "needless" and without justification.

What happened in the second half of the day was even more shocking for BJP MLAs. Just after Deputy Chief Minister Sushil Kumar Modi finished presenting the state Budget, Kumar asked the House to unanimously pass a resolution against a nationwide NRC. Before BJP legislators could discuss the matter, the resolution was approved.

It's interesting to note that Nitish had invited Tejashwi for a cup of tea when the House was adjourned for lunch. They met again the following day, and Nitish got another resolution unanimously passed, demanding a caste-based census in 2021. And they again met a day later.

Nobody is ready to spill the beans, but the air is heavy with speculation. "Having a casual chat over a cup of tea should not be linked with politics," said JD(U) state President Bhashishta Narayan Singh. But in politics, nothing is what it seems.

Eyes on the prize

Political analysts call this "affection" between chacha-bhatija (Nitish-Tejashwi) the need of the hour for them, especially when the Assembly election is only months away. "The BJP tried to use issues related to nationalism, the CAA and the NRC in the Maharashtra, Haryana, Jharkhand, and Delhi elections, but it did not work for the party. Nitish understands this and, therefore, he is sidelining the BJP beforehand," said N K Chaudhary, former head of department of economics at Patna University.

With his latest moves, Nitish has asserted his autonomy and also boosted his secular credentials

On the other hand, a JD(U) leader said: "Sometimes you have to show that you can't be taken for granted. Kumar hit two birds with a stone — he asserted his autonomy and also boosted his secular credentials."

Bihar Chief Minister Nitish Kumar met the RJD's Tejashwi Yadav thrice last week last week, and managed to get two motions, one against a nationwide NRC, passed in the Assembly — much to the discomfort of ally BJP PHOTO: PTI

Some say Nitish's move in the House and his bonhomie with Tejashwi were a message to BJP to stop its "pressure politics". Ever since their success in the Lok Sabha elections, BJP leaders have been asking for a greater say in the state's ruling alliance. They want the BJP and the JD(U) to contest an equal number of seats in the upcoming election.

Though the BJP leadership has already announced Nitish as the National Democratic Alliance's (NDA's) chief ministerial candidate, not many within the party are happy. Nitish knows this and understands that if the BJP manages to secure more seats than the JD(U)'s tally, he could be looking at a tumultuous term, to say the least. Therefore, he wants the upper hand in the seat-sharing talks. "Hence, the feelers," said Chaudhary.

On the other hand, Tejashwi, too, is facing several problems in the Grand Alliance. The Congress, after its victory in Jharkhand, is seeking more seats to contest. Whereas smaller allies — the Hindustani Awam Morcha's Jitan Ram Manjhi, Rashtriya Lok Samata Party chief Upendra Kushwaha and the Vikassheel Insan Party's Mukesh Sahani — are busy making plans of their own. They recently met Nitish's advisor-turned-foe Prashant Kishor in Delhi.

Besides, he has troubles closer home. His elder brother, Tej Pratap, wants to prove his superiority in the party. On Thursday, Tej Pratap named one of his close aides member of the party's parliamentary board, but this move was overturned by Tejashwi minutes later.

"They (allies) see Tejashwi as Lalu Prasad's son, not his heir apparent. The current scenario gives an opportunity to Tejashwi to present himself as their leader. He is already claiming credit for the Assembly's motion against the NRC, saying he forced Nitish's hand," said a party insider.

Game is afoot

Does this mean that Lalu and Nitish are coming together? Not exactly, said leaders from both camps. "We have been very clear about the CAA, the NRC and the NPR," said Bihar's Information Minister Neeraj Kumar. "We supported the CAA, but we were not in favour of the NRC and the NPR in its current form. The RJD was trying to make it an issue, but we stopped that idea in its tracks."

Meanwhile, RJD Vice-President Shivanand Tiwary said Nitish "scored one against the BJP". He, however, called the government's move a tactical understanding between Nitish and the BJP leadership. "Nitish is not going away from the BJP anytime soon. The BJP leadership has changed stance after the party's defeat in recent Assembly polls. It understands that nationalism would not be a big factor in the Bihar election and that it would be fought on local issues. The BJP doesn't want to leave Kumar, thus avoiding a multi-corner contest."

The BJP, so far, has been silent on the entire episode. Deputy CM and senior BJP leader Sushil Kumar Modi refused to comment on the issue when contacted. He, however, said there was "no confusion" between the two partners. But, sources said the party leadership was "not pleased" by the turn of events.

Battle preparations

In the Assembly election, the stakes would be high and all the parties understand this. Following the BJP's recent electoral debacles, Nitish has decided to focus on local issues.

"Local equations play an important role. In 47 Assembly constituencies, minorities constitute more than 20 per cent of voters. Plus, there are more than 80 constituencies where they form 10 per cent or more votes. Upsetting them would mean upsetting the chances of winning," said a senior JD(U) leader. Therefore, party leaders are now focused on issues, such as prohibition, education, roads, and electricity.

In fact, when Nitish's most-trusted lieutenant R C P Singh embarked on a constituency yatra, the Rajya Sabha MP discussed the alcohol ban and development schemes of the Nitish government. "We are trying to win a fourth consecutive term. It's not going to be an easy task," said a leader.

Meanwhile, the RJD is trying to expand beyond its traditional Muslim-Yadav base. Last month, when the list of new district-level chiefs was unveiled, it surprised everyone. The party reduced the number of Yadavs on the list, from 23 to 13. The number of Muslims, too, was also brought down, from 17 to 12. Fourteen leaders from Extremely Backward Castes and eight from Scheduled Castes were included.

For the first time, the party gave three leaders from upper castes a place on the list.

"The battle lines are being drawn. Nitish is a master political craftsman. He is not going to leave the BJP, but he knows that even a small fraction of minority votes would help him keep his image of a secular leader," said Chaudhary.

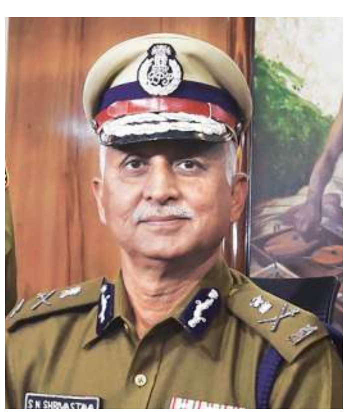
"For Lalu and his family, the polls will be a do or die battle. Yadavs had switched over to the BJP last year (in the Lok Sabha polls); this time they appear to be behind the RJD. However, Tejashwi wants to widen the field and, therefore, he is luring other castes, too. In the process, he also wants to cement his position in the Grand Alliance and his party," he added.

NEWSMAKER/ S N SRIVASTAVA

First task: Restoring belief in Delhi police

ADITI PHADNIS

Have you watched *Die Hard 4.0*? Every television channel in the US is taken over by terrorist hackers, who send the same frozen image of the White House everywhere, and the same ominous scroll at the bottom of the screen: "What if this is just the beginning? What if you are alone and dial 911 and no one answers?" it says.



This was the chilling reality for those in northeast Delhi (and elsewhere) who tried to call the police last week and no one picked up the phone. We now know from painstaking research by *NDTV* that altogether around 13,000 calls were made by terrorised people seeking police help: and no one answered.

This was not all. In some cases, policemen openly sided with the rioters. They also ignored arson and looting happening below their noses.

An investigation will reveal where the blame lies. But apathy and demoralisation of the Delhi Police are at an unprecedented low. And it is now the responsibility of the commissioner of police (CP), S N Srivastava, who took over on February 29, to wrest back the respect of his colleagues and restore the credibility of the Delhi Police.

Srivastava takes over charge from Amulya Patnaik, whose tenure as Delhi CP was tumultuous, to say the least. Recent riots have done no good to the image of the Delhi Police

It is easy to blame Srivastava's predecessor Amulya Patnaik, who was considered competent and efficient enough to be given a month's extension by the central government after he retired. There have been no cases of corruption against him in the three years that he was CP. However, in the fag-end of his career, the bad news just wouldn't stop. In January, a masked mob attacked students and faculty at Jawaharlal Nehru University, but the police failed to make a single arrest. The Delhi Police used excessive force inside Jamia Milia Islamia — officers beat up students, damaged university property, and broke CCTV cameras (this was a contributory cause to the extended anti-CAA protests by women in Shaheen Bagh who are convinced the minorities would never get justice in the tenure of the BJP-led government). Before this, in November last year, Patnaik's lower-ranked colleagues bluntly said they had lost all respect for him after a clash between lawyers and the police at Delhi's Tis Hazari, Karkardooma, and Saket courts. Despite videos and clips of police officers being assaulted, no lawyer was arrested. Instead, two senior officials — Additional DCP Harendra Singh and Special CP (law and order, northern zone) Sanjay Singh — were transferred.

There are structural problems with policing Delhi. It is closely supervised by the Union Ministry of Home Affairs (MHA). So, it is hard to blame only Patnaik for slipping up in managing the riots: It cannot be anyone's case that the MHA didn't know what was going on, especially when there is evidence of organised rioting by both Hindus and Muslims.

And yet, it was Patnaik who was singled out last Tuesday, when on his way to a meeting with National Security Advisor Ajit Doval, he was asked to return midway. Doval instead took that meeting and all subsequent ones with Srivastava, although the man in the saddle was still Patnaik.

Patnaik has retired but problems in policing Delhi remain, a job that Srivastava will now have to tackle. A 2018 report released by the Commonwealth Human Rights Initiative (CHRI) measured obedience by Indian states with six orders on police reform issued by the Supreme Court in 2006. Not even one state had complied fully. Maja Daruwala, a CHRI founder member and well-known human rights lawyer, says: "A large part of public fear and distrust of the police is fed by little understanding of levels of crime, the police response, and various reasons for perceived poor police performance. Much of this fear and distrust would dissipate if there was more transparency and easy access to information."

The real problem, of course, is the complicated relationship between the forces that control law and order in Delhi: The MHA, the officialdom, and Lieutenant Governor. People only want the reassurance that each one of the agencies will just do their job — neither more, nor less.

STORY IN NUMBERS

WHY HOUSEWIVES ARE KILLING THEMSELVES

Thirty six-year-old Shivani (name changed) had been married for 16 years. From the early years of the marriage, she had been depressed because her husband and his family ill-treated her and confined her to their house in Rohtak, Shivani said. Her husband would insult her for being overweight and falling sick often. In August 2017, Shivani took an overdose of sleeping pills in a bid to kill herself.

Shivani's mother-in-law found her unconscious with an empty pack of sleeping pills and called her brother. She was admitted to the intensive care unit of a nearby hospital, where the doctor brought her back to consciousness. Shivani lived.

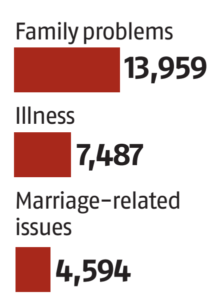
She is one of the 2,075 Indians who tried to commit suicide in 2018, but failed. These people are only a fraction of those who managed to take their own lives (134,516), according to the National Crime Records Bureau (NCRB) data. A large number of them were housewives — in 2018, around 63 housewives killed themselves every day, on average, making up 17.1% of all the suicides. Since 2001, more than 20,000 housewives have committed suicide every year in India. This is second only to daily wage earners — who killed themselves because of unemployment, the agrarian crisis, and the slow growth of the unorganised sector, putting them at risk of poverty and depression.

Over one third (36.6%) of suicides by women in the world in 2016 were in India, up from 25.3% in 1990, according to a 2018 *Lancet* report. Married women account for the highest proportion of suicides among women in India because of reasons, such as early arranged marriages, young motherhood, low social status, domestic violence, and economic dependence, the report said.

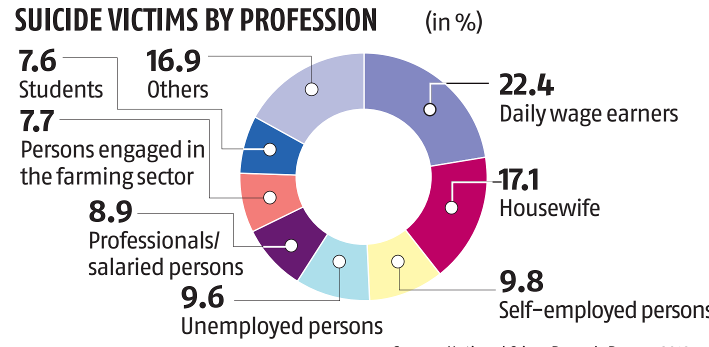
In Shivani's case, the hospital called the police but she and her family signed a letter, which stated that her husband was not the reason she tried to kill herself and no case was filed.

DATA AND TEXT: INDIASPEND

REASONS FOR THE EXTREME STEP



SUICIDE VICTIMS BY PROFESSION (in %)



Source: National Crime Records Bureau 2018

Unparalleled, unchallenged

Yediyurappa reigns supreme as the BJP hasn't raised a second-rung leadership

RADHIKA RAMASESHAN

When B S Yediyurappa had turned 75 on February 27, 2018, he refused to celebrate his birthday. Posters wishing him 'a happy 75' were pulled down but some admirers of the Karnataka chief minister second-guessed the reason for his sullenness and made him a year younger, 74, on billboards.

The Bharatiya Janata Party (BJP) had unofficially imposed an age cap of 75 on holding public offices. By the unstated norm, which led to the creation of a *margdarshak mandal* for those who crossed 75, Yediyurappa could have been pensioned off that year. But he lived to see another day. Last Thursday, two years older, he was beset with no such worry.

Yediyurappa hosted a grand birthday bash at Bengaluru's Palace Ground to which his predecessors, including S M Krishna, H D Kumaraswamy, Siddharamaiah, Jagadish Shettar, and DV Sadananda Gowda, were invited. Rajnath Singh, defence minister, was the chief guest.

Captain Ganesh Karnik, former political aide of Yediyurappa, spoke effusively of his ex-boss as *anarghya*, which in Kannada means "priceless". "He proved he's invaluable in the BJP when he delivered 12 of the 15 seats (in the December Assembly by-polls) despite obstacles," said Karnik. "All those who won sought Cabinet berths, but he managed that exercise deftly."

A source close to the chief minister put paid to the periodic speculation arising over Yediyurappa's continuance in the government. "He shouldn't make an egregious blunder. Otherwise, the high command won't disturb him because it has not raised a second rung leadership."

There's more than a grain of truth in the observation. Just as the Bihar BJP remains yoked to Sushil Kumar Modi, deputy CM, the party's search for another chieftain in Karnataka remained futile. However, Yediyurappa's "centrality" has not rendered him the most popular person in the Karnataka BJP.

The optics that leapt up during his birthday jamboree revealed one major problem and that was his younger son, B Y Vijayendra. To some, Vijayendra, who is 37 and state general secretary of the BJP's youth wing, is the veritable CM. Guests scrambled to click selfies and kowtow to him.

A grand event on B S Yediyurappa's 77th birthday was attended by Rajnath Singh and Siddharamaiah PHOTO: PTI

"Yediyurappa reigns, his son rules. Vijayendra runs the government. Senior ministers stand in his presence," noted a Bengaluru-based political observer. Haveri-Gadag MP Shivkumar Udasi pointed out not for nothing the Yediyurappa scion was hot property. "Vijayendra was in charge of the recent by-elections. Under his stewardship, we won three seats that had a Vokkaliga (a dominant caste, which is traditionally loyal to the Janata Dal-Secular) majority electorate. Young Vokkaliga voters shifted to the BJP. Had he been given the ticket against Siddharamaiah from Chamundeshwari (in the 2018 state election), he would have won and got the BJP three or four additional seats in the Mysuru region," Udasi claimed.

While campaigning in Mandya's K R Pete, Vijayendra projected himself and his father as the "sons of the constituency" because K R Pete is Yediyurappa's birthplace. The pitch resonated with the voters.

The second big fault line showed up when Yediyurappa expanded his Cabinet on February 7 after holding several "consultations" with Amit Shah, the Union home minister. He inducted 10 of the 12 who won the by-polls and all of them were defectors from the Congress and the JD(S) whose support facilitated the way for forming a BJP government in Bengaluru. The "reward" unsettled the BJP's old-timers who chafed on not being accommodated.

Around 20 "disgruntled" legislators called on senior minister Shettar. Their visit coincided with the buzz that the Delhi bosses were considering replacing Yediyurappa by Shettar. Umesh Katti and Shankar Patil Munenakoppa, MLAs from Hukkeri and Navalagund, were among those who met Shettar and articulated their resentment. The next day Shettar visited the CM to clarify that the reports suggesting a "revolt" were "far from true".

"Shettar is a nobody in politics. Nobody will stake his future on him. These disgruntled legislators used the meeting as a ruse to draw Yediyurappa's attention to their problems," the political observer said. The ploy worked, as last week the CM said he would absorb three veterans in the government. Among the challenges in the government that confronted Yediyurappa were a less-than-robust exchequer, high expectations from the Budget among farmers, development slowdown, and inadequate use of the previously allotted Budget funds to various departments.

"Governance is about the political leadership ensuring that budgetary allocations are properly used. On this score, the Yediyurappa government has been a let-down," a BJP source said.

All eyes are on the Budget, which will be presented on March 5. "Yediyurappa always gives soft focus to his Budget. It may be called populist. But populism, sops, and freebies help when the economy is not doing well," a BJP source said.

"The latest Oreo campaign urges the consumer to disconnect from the screen world and spend quality time in the real world with your family"

SUDHANSHU NAGPAL
Director, marketing (biscuits), Mondelez India

"It is not enough to produce a truck. You have to take care of the entire ecosystem, find like-minded partners and show all this makes sense to the customer"

MARK FREYMUELLER
Chief executive, Hyundai Hydrogen Mobility

"We will not increase prices of our products for now because we want to stay affordable... We are disappointed by the import tariffs"

PETER BETZEL
India managing director, Ikea

The right click?

Here are the nuts and bolts of Paytm's latest bet to boost merchant retention and revenues

SHUBHOMOY SIKDAR

It's been around a month that digital payments and financial services platform Paytm formally launched its all-in-one payment device for merchants, a subscriber group it has for a while identified as the main driver to its journey towards profitability. Founder Vijay Shekhar Sharma sees this as a strategy wherein his firm offers convenience and flexibility in payment management in exchange of merchant retention and hopes to bring this captive subset under the ambit of Paytm Payments Bank. The representatives engaged in the distribution of the devices are trying to get the adopters to open current accounts in Paytm Payments Bank to help it scale up.

If and when that happens, the revenue would be consolidated. However, the other aspect of the strategy — widening the payment ambit and pocketing more revenues — is replete with challenges even if one takes Paytm's claims on market share on face value (Sharma says it holds a 54 per cent share in peer-to-peer payments and an even skewed 66 per cent in the merchants category.) Sharma sees potential in a huge base and repeated transactions. The company aims to distribute these devices so Paytm enables the merchants to use those for any kind of payment — from wallets and UPI using its own platform or those of rivals such as Amazon Pay and PhonePe, and also credit and debit cards — to a million merchants (from a total base of 16 million) by the end of this calendar year.

"Right now, the digital payment market is evenly distributed among wallets, UPI and credit or debit cards being used through point of sale or PoS machines. Our machine allows them to do all that on a single device and we look to earn commission wherever possible," says Sharma.

Raj N Phani, founder of Zaggle, a fintech company, says UPI has almost killed the wallet. "So no one is inclined to make a wallet payment and pay a commission. You (a fintech player) don't make money on UPI transactions. Only cards are left then and hence the possibility of cornering significant revenues is really small."

> **Paytm founder Vijay Shekhar Sharma says the product was developed keeping the unique Indian needs and the current market dynamics in mind**

Sharma explains the card transaction math. For transaction worth every ₹100 via card payment facility added in these devices, Paytm pockets 30 paise (barring RuPay card transactions which are free). "Also, it prevents the entry of our fintech competitors into those outlets for they are not providing an integrated payment solution that we are." Again, the sheer number is where Paytm sees the opportunity but Phani fears it will not affect the coffers significantly as there are chances that the total number of those using PoS machines at present is a fraction of the one million that Paytm has in mind.

Then there is the mammoth challenge of convincing the one million small and medium enterprise (SME) owners to get these machines installed at their outlets replacing the earlier QR codes and in many cases, PoS machines made by other manufacturers. It may be added here that the merchant has to pay a certain amount (₹12,000-15,000) upfront to acquire one such machine. This covers the hardware and cloud software installed and additionally, brings in a subscription fee of ₹500 per month to Paytm. A business owner is given the choice to pay the subscription fee either per month or make bulk payments in advance. Phani sees this as an additional deterrent and believes that the shopkeepers may be unwilling to pay and recommends that Paytm distributes these machines for free to start with.

Sharma rejects such apprehension. He says that in his initial experience, when as many as 150,000 all-in-one machines were provided to merchants, the merchants readily accepted them for the convenience they offered. "So we found that for those who did not have a PoS machine, we became the default choice. Those who had another, started using our machine because it could be used for all kinds of transactions. So the second machine is expected to die a natural death."

When *Business Standard* asked the well-travelled Sharma whether he or his research team came across any such device elsewhere on the globe, he said the product was developed keeping the unique Indian needs and the current market dynamics in mind. These machines have been codeveloped by Paytm with some international players, says Sharma while withholding the partners' names due to "competitive reasons". "Additionally, since we realise that there is still a lot of cash being used, we have provided the option of a ledger entry which will help them with better accounting. Though that does not bring any money, we expect to bring in a behavioural change once they see the convenience in digital," he says.

But Phani does not see cash being replaced anytime soon. "Imagine a small shop full of customers during the hot and humid Indian summer. Can you see a machine taking the load of so many repeated transactions? Maintenance would be a huge challenge going ahead. Plus cash is very entrenched in our system. A demonetisation-like factor can spark only a temporary change. I don't see that windfall happening for Paytm again. Revenue goals are not realistic," he sums up.

For every transaction worth ₹100 via the PoS facility Paytm pockets 30 paise

FRESH SWIPE

- Paytm feels that while peer-to-peer transactions widen the base, they don't bring much revenue. It also finds it tough to keep up with discounts offered by new players
- It is offering the all-in-one machine to its merchant base. It aims to distribute machines to 1 million merchants by 2020 end
- Bringing cards, mobile payments and UPI under one umbrella and enabling payments through competing products in the spaces it operates in allows the company to be flexible and adapt to the market demand
- This step, if successful, will help company to open more accounts for its Payments Bank
- Experts see the road to revenue conversion a tough ask because of the continuing dominance by cash, possible reluctance of merchants to invest in new machines and difficulty in maintaining them

Trust lies within the network, say millennials

Social commerce, community circles that help with everything from bargain hunts to waste management are among the major factors shaping consumer behaviour: Kantar

YUVRAJ MALIK

How do you reach out to the young, wary shopper in 2020? Talk to their friends and family, get into local community networks and messaging boards and get social. A recent report on consumer behaviour by Kantar, a research and data insight consultancy, indicates that almost every big behavioural trend that will define the year ahead, stems from a growing reliance on trusted cohorts.

The consumer wariness on account of an economic slowdown is evident in the two big top trends the report finds (waiting to spend and waiting for deals to make a necessary purchase). However what is interesting is that almost every other behavioural signs that make the list, show a growing proclivity among Indian consumers, to lean in on friendly networks. Be it choosing what to buy, when to make the purchase and even resolving daily problems such as managing waste and traffic, community networks are likely to be the big influencers in 2020.

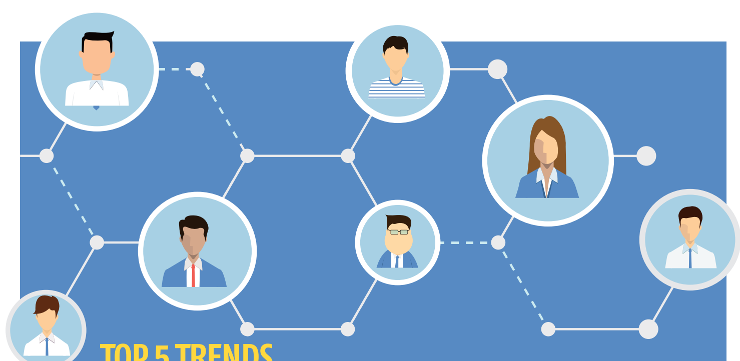
Consider the spate of social commerce apps that have opened shop, in barely two months into the new year, there are four new entrants into the market with Paytm, Sheroes, ShareChat and Instamojo throwing their hat into the ring. Social commerce, as the name suggests, works within the social network of apps such as WhatsApp, Instagram and Facebook to deliver a payments system that uses a combination of methods to acquire and engage customers and it is among the top five trends that Kantar predicts will define customer behaviour in 2020.

Meesho, the top-funded startup in the category and backed by Facebook, uses a referral model. It lets sellers put up their goods and connect with re-sellers, essentially homemakers who agree to use their own WhatsApp network to sell these items for a commission. It now has two million re-sellers across 700 cities.

"Social commerce is a new way of leveraging a traditional practice in consumer behaviour — personal referrals," said a spokesperson from Kantar. Such engagement creates entirely new purchase behaviour and what social commerce leverages is trust — both in individuals and communities, the report said. It offers small and medium businesses, as well as individuals starting out with their new offerings — a platform to quickly reach a community, and engages them in conversations where referrals play a massive role.

"Regular e-commerce works on search — you type in what you want and it shows up — or scroll through or click on a picture," says Sajith Pai, a director at Blume Ventures. He believes that social commerce has helped remove some of friction in ecommerce. Now content-commerce will remove some others. "It is almost as if, the expanding e-commerce landmass needs new hooks to connect with audiences," he adds.

Big venture capital (VC) investors such as SAIF Partners, Accel, Omidyar, Naspers and Sequoia are among many others have pitched for social commerce. By some estimates, over $300 million has been poured across social commerce investments in the past few years. Apart from a referral system, the apps are also using video and vernacular to expand their user base. Take BulBul.TV and SimSim for example, they use videos to pitch and sell products. Another social commerce platform Mall91 combines live videos-based shopping, local language voice recognition-based catalogue discovery and Whatsapp like chat/messaging checkouts — features it claims directly work with the 'Bharat' audience.



TOP 5 TRENDS

- A wait and watch year, consumers are likely to defer big purchases or look to fund them by paying in instalments
- Online sales, special offers and deals will bring in the crowds
- Hyperlocal social commerce platforms will do well, opening up new markets for brands and new brands for consumers
- Rise of app-based, community-led business models for infrastructure and environmental problems as people look for local solutions for global issues

MY FAVOURITE CAMPAIGN

A timeless bond

MY TAKE
It combines hyperbole, juxtaposition and humour

BRAND: FEVICOL
YEAR OF LAUNCH: Continuing
AGENCY: O&M

MEGHNA CHADHA

What is your favourite campaign?
My favourite campaign is Fevicol. It is a 60-year-old brand that was quiet and almost invisible until the Ogilvy campaign made it so famous. Adhesives is a difficult category because you think of adhesives only when you need them. You don't think of them every day like you do with a toothpaste or a soap or your morning cup of tea. That makes the task for advertising all the more difficult. It is therefore the degree of difficulty with the breakthrough creative that makes Fevicol a really great cut through and memorable campaign.

On what parameters did you base your decision?
First, it is a campaign that has stood the test of time. It has an idea that is campaignable in the long term. And it inspires an infinite number of pull-outs although the fisherman film is one of my favourites. I think it is quite a generic product that got transformed into a brand. Also adhesives are not a top-of-mind category, so to raise the awareness of such a product and category is a Herculean task. Not to mention the fact that the advertising makes it come through as the most unassailable adhesive. I think when advertising makes you feel that this is the numero uno brand in a category, then advertising has succeeded.

What do you think was the key idea the campaign was trying to drive home?
The key idea was the incredible power of the glue and that was demonstrated using vivid metaphors. Another classical ploy in advertising is to use hyperbole which the campaign did effectively. This combined with humour made it a powerful and memorable campaign.

Did this campaign inspire any of your work? What are your takeaways from the campaign?
My takeaway is that the classical tools of advertising are irrefutable. When used properly they can create great campaigns. An advertising idea is either a vivid demonstration of what the brand does, or a vivid metaphor of what the brand stands for. Just like grammar, advertising has its own figures of speech. Using this, advertising can take a variety of shapes. 1. Personification (make a brand come to life). 2. Parody (humour) 3. Juxtapositon (comparing: black vs white, big vs small) 4. Hyperbole (exaggeration) 5. A moment of captured reality. Ideas that fail are usually called slice-of-life in the advertising business.

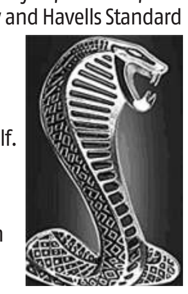
The reason the Fevicol campaign is so successful is because it uses parody, hyperbole and juxtaposition all together. That is an extremely powerful combination. In what they call the Fish Catcher film on YouTube, which I prefer to call The Angler, juxtaposition is expressed by the gentleman angler versus the priest who is a casual angler. It is a parody because the gentleman angler has waited for hours without success. The casual angler beats him with the simple use of Fevicol. And it is a hyperbole because using Fevicol to catch fish is real exaggeration. You can't exaggerate any more than that.

PRABHAKAR MUNDKUR
Brand strategy advisor

More on business-standard.com

QUIZ 654

1. From 2021, this company will not market its foods and beverages products to kids below 12. It has also announced that it won't direct any PoS communications to children below six. For television and other measurable mediums, it won't advertise on platforms/channels where kids constitute more than 25 per cent viewership. Name it.
2. Connect Elvis Priestly's *Lonesome Cowboy* and Roberta Flack's *Killing me softly* with a 1970s' bank. What do you get?
3. What is a marketing strategy that creates enough buzz to convince consumers to pre-purchase a new product in order to be amongst the first to own it rather than get a discount.
4. Connect the companies Bolt Beranek and Newman Inc that was incorporated in 1948 with email addresses.
5. This index helps determine how the average citizen is doing economically and is calculated by adding seasonal unemployment rate to annual inflation rate. Name the index and the person who coined it.
6. Name the commodity of which India became the largest producer in 2018-19 and which was discovered around 5th century AD during Gupta period. Buddhist monks carried it to Far East and Arab entrepreneurs to West Asia and Europe.
7. He studied at University of Milan and Atlanta University. He was a pilot for the Italian air force during WW-II and close to Benito Mussolini's eldest daughter. He was also a member of the Italian Winter Olympics team in the '30s. Name the brand founded by him.
8. Connect Caprese Handbags, Philips Hair dryers, PhonePe, Garnier hair care, Sunfeast Dark Fantasy and Havells Standard fans and what do you arrive at?
9. On Valentine's day a biscuit brand from India approached Tinder on Twitter and sought its help to find it a match for itself. What was the resultant or consequence and name the brand involved?
10. Name the brand and the company from its logo.



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

ANSWERS TO THE STRATEGIST QUIZ 653

1. The McDonald's Monopoly, a sales promotion of McDonald's and Hasbro based on the latter's board game Monopoly. The names listed are rare winning pieces. The docuseries is *McMillion's*
2. Safe Water Releaser (SWAS), Safe Thermite Cracker (STAR) and Safe Minimal Aluminum (SAFAL) are green fire-crackers invented by CSIR-National Environmental Engineering Research Institute. It impacted the traditional firecracker industry in India.
3. Tata SmartFoodz Limited
4. Yu'e Bao, managed by Alibaba's Ant Financial
5. They were both the inventions of Hero of Alexandria, aka Heron (10 AD to 70 AD)
6. The distress signal Mayday. The Mayday button on Amazon's fire devices can be used to seek live help. It was the idea of Frederick Mockford, who was a senior radio officer at Croydon Airport in London
7. The tea plantations in Assam follow Baagan time or teatime.
8. Kurkure
9. Reebok
10. Jagatjit Industries Limited, makers of King Henry VIII Scotch whisky

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 3 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 were two correct entries to Quiz number 653. The winner is V Srinivasa Murthy from Hyderabad

Trump: After India, I might not be excited about a crowd

US President Donald Trump on Sunday PHOTO: PTI

BARC says the event at Motera had 11.69 billion viewing minutes across India

AGENCIES
Washington, 1 March

US President Donald Trump has said he would "never be excited about a crowd again" after his visit to India where he addressed a rally of more than 100,000 people.

During his maiden visit to India on February 24-25, Trump and First Lady Melania were given a rousing welcome at the Motera stadium in Gujarat's Ahmedabad city.

Addressing a rally in South Carolina, the US President recalled the 'Namaste, Trump' event and said: "In India, I hate to say this to you, they actually have 129,000-seat stadium. Did you see it? The place was packed, and they did better than most. They gave me credit for 100,000. That was not bad. It's 129 (thousand)... The stadium holds 100 (thousand). They had a field that's about three times...it's cricket. It's the biggest stadium..."

"We had an amazing thing. And I went in, and here's the problem. This is a big crowd and normally, I like talking about my crowd because I get the crowds like nobody. But, I just got back from 140 or 50 or 60,000 people and now I am coming here. What does this place hold, 15? It's hard to be enthused. I may never be excited again about a crowd after going to India."

"Think of this, they have 1.5 billion people. We have 350, so we are doing pretty well, I will tell you what, but I love this crowd and I love that crowd too," he told his supporters amid a rousing applause.

Trump told the rally that Indians "have a great leader, and they have a great love for the people of this country (US)."

According to data by Broadcast Audience Research Council (BARC), the mega event at the world's largest cricket stadium on February 24 had a total of 11.69 billion viewing minutes across India. The BARC estimated that 46 million people watched the event on 180 television channels across the country.

'Will be meeting Taliban leaders'

Trump has said he planned to meet Taliban leaders soon, asserting that it was time that the war against terrorism was fought by someone else, particularly the countries in the region. "I will be meeting personally with Taliban leaders in the not-too-distant future. And we will be very much hoping that they will be doing what they say they are going to be doing: they will be killing terrorists. They will be killing some very bad people. They will keep that fight going," Trump said at a White House press conference. PTI

Ram temple's basic structure to be ready before 2024 polls: VHP

Working president of the Vishwa Hindu Parishad's Ram Janmabhoomi Nyas, Ram Vilas Vedanti, on Sunday said he felt that the basic structure of the Ram temple in Ayodhya would be ready before the 2024 general elections.

"After the formation of the (Ram temple) trust by the Centre, the process of building the grand temple has begun. I feel that the basic structure of the temple will be built before the 2024 elections," he said. "Sixty-seven acres of land at the birth place of Lord Ram campus will prove to be inadequate as it would be the biggest temple in the world and an international tourist place as well. It is possible that the government-formed trust will have to acquire more land from around for building the grand temple," the former BJP MP said.

Vedanti reiterated that according to the wishes of saints and seers, the temple should be 1,111-feet high. "The Ram temple should be so high that it is visible in Islamabad, Colombo and Kathmandu. In consonance with our wish, Home Minister Amit Shah announced that the Ram temple will be sky-high." PTI

Non-subsidised LPG price cut by more than ₹50

SHREYA JAI
New Delhi, 1 March

The price of non-subsidised liquefied petroleum gas (LPG) cylinder was reduced on Sunday to ₹805.5 in New Delhi, with effect from March 1. The price of a non-subsidised LPG cylinder was ₹858.5 earlier.

The government gives subsidy for 12 refills of 19 kg cylinder to those to those with annual income of more than ₹10 lakh. The price of 14.2 kg non-subsidised LPG cylinder in Delhi, Mumbai, Kolkata, and Chennai will be ₹805.50, ₹776.50, ₹839.50, and ₹826, respectively, from March 1. For the 19 kg commercial cylinder, the new prices will be ₹1,381 in Delhi. For Mumbai, Kolkata, and Chennai, the revised prices of commercial cylinders will be ₹1,331, ₹1,450 and ₹1501, respectively.

In February, the price of non-subsidised LPG cylinders was increased by ₹144.50, which was the sixth hike in as many months. That hike was the steepest since January 2014, when non-subsidised LPG cylinder prices had gone up by ₹220.

PETROL, DIESEL PRICES CUT

After a slump in global oil prices, the government on Sunday cut petrol and diesel prices sharply. In metros, the petrol rates were lowered by 15-18 paise per litre. Prices were also cut on Saturday. Diesel rates in metros were cut by 20-26 paise. Price revisions are implemented at the fuel stations with effect from 6 am after oil marketing companies review them.