Direct tax collection falls short by ₹1.75 trillion

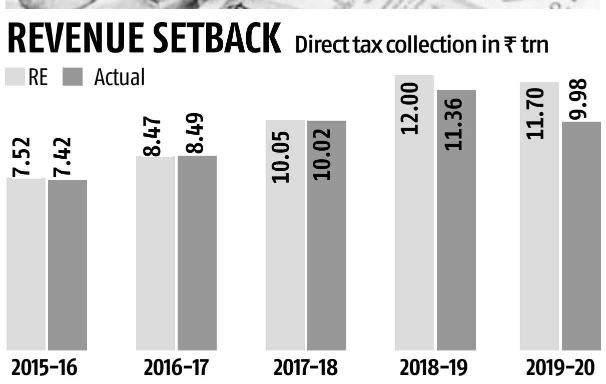
SHRIMI CHOUDHARY
New Delhi, 1 April

The central government collected ₹9.98 trillion as direct taxes during 2019-20, a record shortfall of ₹1.75 trillion, or 14.7 per cent, compared with the revised estimates (RE). This may prompt the revenue department, under the finance ministry, to reset its Budget math for 2020-21, official sources said.

According to a senior revenue official, the massive shortfall can be attributed to the overall economic slump, besides corporate tax rate cuts, the Vivaad se Vishwas tax settlement scheme proving to be a non-starter, and the ongoing Covid-19 lockdown.

Official figures showed that the gross amount collected under direct taxes as of March 31was ₹11.81 trillion. This included the tax refunds outgo to the tune of ₹1.83 trillion. The net collection, thus, stood at ₹9.98 trillion, as against the revised estimates of ₹11.70 trillion.

Of this, the Centre has received ₹5.42 trillion as corporation tax and ₹4.43 trillion as personal income tax. Other small taxes such as securities transaction tax (STT) constitute the rest. The figures could see a slight correction as some banks are yet to submit their collection receipts, but this will not make much of difference, said the official cited above.



RE: Revised Estimate
Sources: I-T dept/Budget document

The shortfall as percentage of the RE for FY20 is the highest in recent history. It was 5.3 per cent in 2018-19. In the earlier crisis period of 2008-09, it was 7.5 per cent. In the Union Budget 2020-21, the government had revised the tax collection target downwards to ₹11.70 trillion for FY20, from ₹13.35 trillion projected earlier. The government had rationalised the tax collections targets, noting the revenue forgone on account of the reduced corporation tax rate would be ₹1.45 trillion.

Mumbai, which contributes about 37 per cent to the tax revenues, witnessed a significant drop of 10 per cent compared with the RE. It collected ₹3.09 trillion against the revised target of ₹4.29 trillion, leaving a huge gap of ₹1.20 trillion. Similarly, the national capital, New Delhi, saw a drop of over 8 per cent, followed by Bengaluru, which also saw a fall of over 5 per cent.

The shortfall may widen the Centre's fiscal deficit, which is pegged at 3.8 per cent of gross domestic product (GDP) in the current financial year, said a government source. The fiscal deficit surpassed the Budget target for FY20 by 35 per cent in absolute terms by February. However, the focus of the government is now not on the economic situation but to arrest the Covid-19 outbreak, which has halted almost every economic activity.

GST mop-up slips below ₹1 trn

DILASHA SETH
New Delhi, 1 April

Goods and services tax (GST) collection fell below the ₹1-trillion mark in March after a gap of four months, even as disruptions caused by the coronavirus-induced lockdown will get captured only in the coming months.

The numbers pertain to GST paid in February but collected in March, suggesting that collections might turn grimmer going forward.

The GST mop-up in March stood at ₹97,597 crore, down 8.4 per cent on a year-on-year basis, the data released by the Ministry of Finance showed on Wednesday. The government had targeted a collection of ₹1.25 trillion in March. GST collection grew by a meagre 3.7 per cent in the full fiscal year 2019-20.

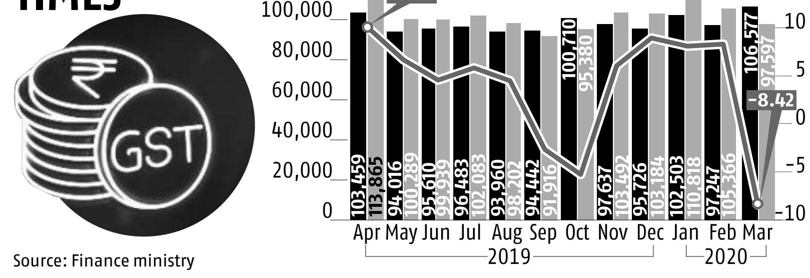
The dismal collection in March is despite the stringent anti-evasion measures introduced by the government, including the blockage of e-way bill and restricting input tax credit to 10 per cent in the case of failure of invoice uploads by suppliers.

Already hit by an economic slowdown, the country went into a 21-day lockdown from March 24 to prevent the spread of Covid-19. All industries that were struggling have become non-operational, which will reflect in the April GST collection figures.

Kerala Finance Minister Thomas Isaac told Business Standard that the April numbers, which would essentially be transactions in March would only be about 15-20 per cent of the March figures.

Pratik Jain, partner, PwC India, said, "It seems that many businesses may not have been able to pay GST because of liquidity issues being faced after the lockdown. As the second half of March 2020 has been significantly impacted due to the Covid-19 outbreak, collections in April are likely to be substantially lower."

TAXING TIMES



Source: Finance ministry

In a major relief for businesses facing lockdown due to coronavirus, the last date for GST return filing for March, April and May 2020 has been extended to June 30, with no interest, late fee and penalty, for companies with up to ₹5 crore turnover and subsidised interest of 9 per cent, and no penalty or late fees for bigger companies.

M S Mani, partner, Deloitte India, said it was necessary for businesses to conserve cash in order to enable resumption of operations once the lockdown ends. Hence, any deferral of the GST payment timelines by a few months would significantly assist them in this process, Mani said.

Central GST collection for FY20 at ₹4.95 trillion fell ₹18,188 crore short of revised estimates for the fiscal year. The finance ministry, in Union Budget 2020-21, had lowered the CGST collection target for FY20 to ₹5.13 trillion from ₹5.26 trillion estimated in July.

Of the ₹97,597-crore revenue in March, the central GST collection stood at ₹19,183 crore, state GST at ₹25,601 crore and integrated GST at ₹44,508 crore, which included ₹18,056 crore collected on imports, the finance ministry said in a statement.

GST collection on domestic transactions witnessed an 8 per cent decline, while GST collection on imports posted a negative growth of (-)23 per cent, indicating the beginning of Covid-related supply and demand disruption.

In order to plug revenue leakages, the Council allowed blocking of input tax credit in the case of fraudulent invoices and blocking of e-way bills in the case of non-filing of returns for three straight months.

The Council in its meeting on March 14 deferred the new simplified returns and e-invoicing till October, which was to be launched from April 1. Meanwhile, in order to improve collections, the government is aiming to correct inverted duty structure. It raised the GST on mobile phones to 18 per cent from 12 per cent, bringing the rate on a par with the inputs.

Lower-than-expected revenues are also putting pressure on the Centre to compensate states for the revenue shortfall. The compensation cess collection stood at ₹8,306 crore during the month, much smaller than the approximately ₹14,000-15,000 crore compensation required by states on a monthly basis. States are up in arms with the Centre over a delay in payment of compensation dues and are planning to drag Centre to the Supreme Court.

DAY 1 OF BANK MERGER

On the day 10 PSBs merged into 4, *Business Standard* spoke to 3 anchor bank chiefs. Here's what they had to say

'Will approach markets for capital in Q3'

Emphasising that the merger of Oriental Bank of Commerce and United Bank of India with Punjab National Bank could not have come at a better time, **S S MALLIKARJUNA RAO**, MD and CEO of PNB, says the bank plans to raise capital in July, in an interview to **Hamsini Karthik**. Edited excerpts:

Will public sector banks be able to consolidate their position in the market after recent events in banking?

Absolutely. If you look at the entire ecosystem, there is high level of confidence in public sector banks, except in one parameter — the stock market. Other than that, everybody has high confidence in public sector banks.

Q&A
S S MALLIKARJUNA RAO
MD and CEO of PNB

The markets haven't made much of a difference to us, given our capital structure in which the government is a substantial shareholder. I'm not belittling the contribution of smaller investors, but stock markets need to look at the reality in assessing the public sector share position.

The ecosystem is favourable to us because of the developments over the last two months. Therefore, we will have to work in converting that confidence into business relationships.

After the merger, do you believe you are in a better position to tap the capital markets, instead of capital infusion by the government?

In the December quarter, we will tap the public for a qualified institutional placements (QIP) or a follow-on public offer (FPO).

When will you start planning for this?

After the combined entity declares its first quarterly results for FY21. So, planning should start in July. There are two dimensions to capital — one is having regulatory capital and the other growth capital.

"THERE WILL NOT BE ANY BREACH IN CAPITAL (REQUIREMENT). AFTER THE JUNE QUARTER RESULTS, WE WILL PLAN ON HOW TO APPROACH THE MARKET FOR GROWTH CAPITAL"

In December, our regulatory capital requirement stood at over 14 per cent (on a stand-alone basis), and we are sufficiently capitalised. Even Oriental Bank of Commerce and United Bank of India were sufficiently capitalised.

For the March quarter, three different balance sheets will be declared. We will then combine them and see our status. The Reserve Bank of India has also deferred the last instalment of implementation of capital conservation buffer, to September. But I don't think there will be any breach in capital. After the June quarter results, we will plan on how to approach the market for growth capital.

What about improvement in credit standards?

Creating an industry-wise skill set is typically difficult for a smaller organisation, compared to a bigger one. Capacity building within the organisation — specific to industries and various segments — is much more convenient in a bigger bank.

To that extent, after the amalgamation is completed, I believe the merged entity will have an opportunity to create capacity building, to set up a credit underwriting and risk governance framework in a more appropriate manner.

'We might raise capital via AT-1 bonds in H2'

Managing the integration of two banks — Corporation Bank and Andhra Bank — amid the nationwide lockdown poses a challenge for Union Bank of India's management. In an interview with **Abhijit Lele**, **RAJKIRAN RAI G**, the managing director and chief executive officer of the bank, says though it is adequately capitalised, the bank might raise capital in the second half of financial year 2020-21 (FY21). Edited excerpts:

Will bank look for extra capital for regulatory and growth purposes?

The combined entity, following the merger of Corporation Bank and Andhra Bank, will not raise any equity capital. We could look at raising capital through additional tier-I (AT-1) bonds. This might happen in the third or fourth quarters of FY21.

How are you going managing the integration considering the current nationwide lockdown?

These are two different things actually. The branch network is handling basic services. They will take care of those issues (about operations and payments). Large and mid-corporate credit is centralised, the matters concerning them will be dealt by the head office. We are already receiving a lot of applications for working capital limits. The merger does not affect this. Credit-related activities will be normal from next week.

Q&A
RAJKIRAN RAI G
MD & CEO, Union Bank

After the YES Bank debacle, some private banks facing pressure because of deposit withdrawals have approached public sector banks for liquidity support. Have you given money, and if yes, in what form?

Some private banks and mutual funds did face liquidity issues last month (especially in the third and fourth weeks). We have helped them as these are temporary problems.

Many government departments withdrew money so they (banks) had temporary mismatch. All large public sector banks have subscribed to certificates of deposit (CDs) floated by private banks. Mutual funds also came under heavy redemption pressure. We have provided them credit lines and have also bought bonds that they were ready to sell. We have sufficient liquidity. So, naturally, one who is surplus with fund will give money to the one who needs it after conducting due-diligence.

What will organisational structure of the integrated entity be?

We already have a new organisational structure approved by the board. However, we have not moved because of the Covid-19 outbreak. We are running with an interim structure at present, where all existing branches, regional and zonal offices work normally. We are not changing anything now because at this point we have to look after credit needs of micro, small and medium enterprises.

'Won't need more relaxation on NPA if things go as planned'

With the amalgamation of Kolkata-based Allahabad Bank with Chennai-based Indian Bank, the merged entity faces the task of sailing through tough times amid staff shortage. **PADMAJA CHUNDURU**, MD and CEO of Indian Bank, in an interview with **Namrata Acharya**, discusses the road map. Edited excerpts:

After merger, how will the first day look?

It is a new year for the bank. The government's direct benefit transfer transactions will also take place. All products have been harmonised.

How will staff shortage impact these operations?

Only 50 per cent of the employees are working in offices. Given the disbursements that are due, we have requested those who can to attend to the branch, as the workload will be high. We are looking at some kind of scheduling for customers. In rural and semi-urban areas, authorities are helping us.

When will the IT integration be complete?

We expect it to conclude in 6-9 months.

Q&A
PADMAJA CHUNDURU
MD and CEO, Indian Bank

How does it look, in terms of numbers?

With this merger, Indian Bank has doubled its size. We have over 6,000 branches and the total business is at ₹8.5 trillion. The staff count has more than doubled, from 19,000 to 43,000. There's no need to close any branch.

Allahabad Bank planned to monetise some land assets. What will be the strategy?

Allahabad Bank has some big real estate, especially in the north and east. They will be now used as either offices or training centres. Wherever we have offices that are leased, we will shift to these properties. We don't see any hurry in selling. However, we will pursue whatever Allahabad Bank has put on sale.

What is the bank's plan with its Universal Sompo stake, which Allahabad Bank wanted to monetise?

We will take it as a subsidiary. We need to have a detailed understanding of their business model. Indian Bank doesn't have an insurance business, so we will take a call. At present, we will continue with the shareholding level of Allahabad Bank.

Do you see the need for more relaxations on the bad loan front, especially agriculture, as Allahabad Bank had high farm NPAs?

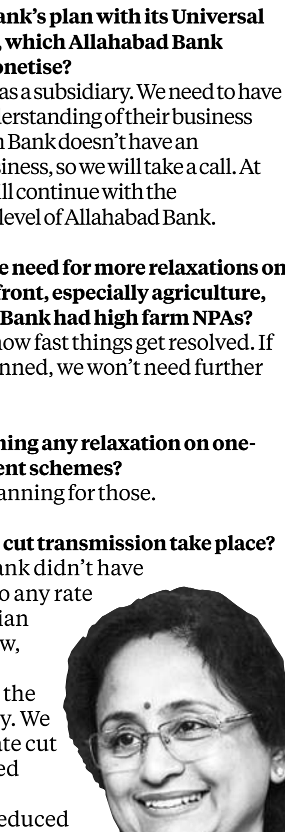
Depends on how fast things get resolved. If they go as planned, we won't need further relaxation.

Are you planning any relaxation on one-time settlement schemes?

Yes, we are planning for those.

How will rate cut transmission take place?

Allahabad Bank didn't have the need to do any rate cut; only Indian Bank did. Now, the rate is applicable to the merged entity. We did a 75-bp rate cut on repo-linked loans.



We have reduced rates on both term deposits and to some extent on small amount savings accounts too.

Moratorium on term loans may hurt biz

SUBRATA PANDA & ABHIJIT LELE
Mumbai, 1 April

The moratorium granted by the Reserve Bank of India (RBI), both on term and working capital loans, to provide a helping hand to corporates and customers struggling with inadequate liquidity, may become a cause for concern for them later.

Under the RBI scheme, there is a three-month moratorium on the interest payment on working capital loans.

So, after the end of three months, the deferred interest (of three months) will be collected immediately after the moratorium ends. Hence, corporates may end up paying four months interest on their loans together.

This could come as a blow to companies, given the current situation. C S Setty, MD at SBI, told the media on Wednesday that if anyone is unable to pay the amount after the moratorium period, it will not immediately impact the asset quality though the account will become special mention account 1 (SMA 1).

Even if they delay the payment by another 60 days, it will be a SMA 2 account and not a non-performing asset.

SMA 2 accounts are those where repayment has been delayed by between 61 and 90 days. If an account sees repayments delayed by 90 days, it turns into an NPA.

Setty said businesses may face difficulty in paying four months interest immediately after the end of moratorium. "We may speak to the Indian Banks' Association and get clarification from the RBI if such loans can be restructured." Similarly, those who opt for moratorium may end up paying more. Any deferment of interest by borrowers under the scheme will add to the total cost paid by the borrowers, Shetty said.

If customers have the ability to pay the EMIs, then they should shy away from availing the scheme because the cost will add up, he added.

"Unpaid interest amount on your loan account during this period will be capitalised, that is, added to your outstanding principal amount. To keep your instalment at the current level, the tenor of your loan will be enhanced accordingly. As a result, while your EMI amount will remain same, the amount of interest cost on your loan will increase due to extension of the remaining tenor," Bajaj Finserv said in a note to its customer.

SBI has also extended the timeline for payment of settlement amount under the one-time settlement (OTS) scheme by three months. Also, in keeping with the RBI's moratorium of repayments, a lender will refund the EMI. If it has already been debited for March, it will be refunded.

"The scheme is for everyone and the customer has to just send an email to the bank saying they want to avail it (options)," Shetty added.

Sanjiv Chadha, MD and CEO, Bank of Baroda, said it will not raise demand on the customer. They have the option to discontinue the standard instruction (for deduction of EMI).

If some customer wants to reverse the transaction for March, the bank will do it, Chadha said.

The flexibility on both counts — OTS and EMI — comes in the backdrop of the current disruption in the market and the 21-day lockdown.

SBI said customers on boarded under settlement scheme SBI OTS 2019, Rin Samadhan 19-20 and General Compromise can meet payment obligations by June 30.

Under OTS 2019, the extension will be available only to those where the first two instalments of 5 per cent/15 cent and 20 per cent/25 cent have been received within the stipulated time of 30 days and 60 days, respectively. The balance OTS amount can be paid by June 30. The bank will not charge any interest on the amount for this extended period.

Y S Chakravarti, MD & CEO of Shriram City Union Finance, said, "We are giving a moratorium but we suggest it is better for you to pay."

Those who are in the manufacturing sector may be opting for it and it may take around three to four months for them to bounce back to normalcy. "For trading and services, which comprises majority of customers, it would be a faster recovery. I expect around 50-60 per cent of our customers to go for moratorium," he said.

Rajiv Sabharwal, MD & CEO of Tata Capital, said retail borrowers will have the option of moratorium. For large-value (corporate) clients, it will ask for extra information on how the Covid-19 and its aftermath impacted business.

With inputs from T E Narasimhan