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CEO Confidence Takes a Hit

EMERGING FAULT LINES IN BANKING

INDIA TODAY GROUP

Business Today

January 26, 2020 ₹100

BUDGET 2020

HOW TO STEADY A WOBBLY ECONOMY

Prescriptions from top experts in business, economics, politics and taxation

P. Chidambaram on the crisis | Bibek Debroy on slowdown

From the Editor

Tackling a Wobbly Economy

"Whatever happens, it will be different from what you think will happen. Your happiness in 2020 will depend less on what happens than on how you deal with what happens" – **Buddhist Monk Ajahn Jayasaro**'s new year note is meant for humanity but it would be as much at home with India's economy.

Economy 2020 will bring uncertainties and surprises galore. Exports uptick will depend on whether – if at all – the US-China tariff war stabilises and whether the world economy will head towards recession as many economists predict; domestic private corporate investment into new capacities will depend on consumption and demand uptick in the economy; and demand, in turn, will depend not just on whether new jobs are created by fresh private investment but also on regaining consumer confidence. In short, we're in a vicious cycle of a deep, deep slowdown.

Our fate will depend on how we deal with the crises coming our way, how we minimise the collateral damage to businesses, jobs, banks, even lives. So, how should India tackle a wobbly economy? We approached two experts – one outside the government, and one inside. Who better than former finance minister P. Chidambaram, who has himself presided over eight Union Budgets. And, who better for an insider than Bibek Debroy, Chairman of the Prime Minister's Economic Advisory Council.

That's not all. *BT*'s power-packed pre-Budget panel discussion of experts from business, economics, politics and taxation debates how Budget 2020 should tackle slowdown.

Our quarterly Business Confidence Survey covering 500 of India's top CEOs and CFOs clearly indicates industry is shaken as it is convinced GDP growth will decelerate further. Expectations are so low that far from fancying miracles from Budget 2020, entrepreneurs would be happier if it didn't harm them. In the October-December quarter, BCI – on a scale of 100 – dropped to 48.6 as against 49.1 in the previous quarter. Most respondents expect the economy to worsen in January-March quarter with a negative outlook on economic situation, business, financial situation, production, order book, cost of raw material, inventory of raw material and finished goods, investment in business, sales, exports and hiring.

Meanwhile, just when it seemed Indian banking's non-performing assets crisis was abating, new fault lines are emerging. In the past, regulators and finance ministers deferred tackling the ticklish problem for decades, until it became too big to ignore. When they did, ₹10 lakh crore went down the drain, most banks were left weak and incapable and the engine of economic activity that they fund ground to a halt. New stress points in the banking sector comprising of agriculture exposure, Mudra loans and unsecured loans, among others, add up to nearly ₹30 lakh crore – about one-third of all outstanding loans. There's need to take the bull by the horns all over again. It's a political hot potato. Do we have the courage to grab this opportunity?

In the words of Ajahn Jayasaro: "In 2020, you will breathe about 7.23 million breaths, of which you will be conscious of about five million. Each breath will be an opportunity...The more you take advantage of this opportunity the better it will be for you and for all those who share your life."

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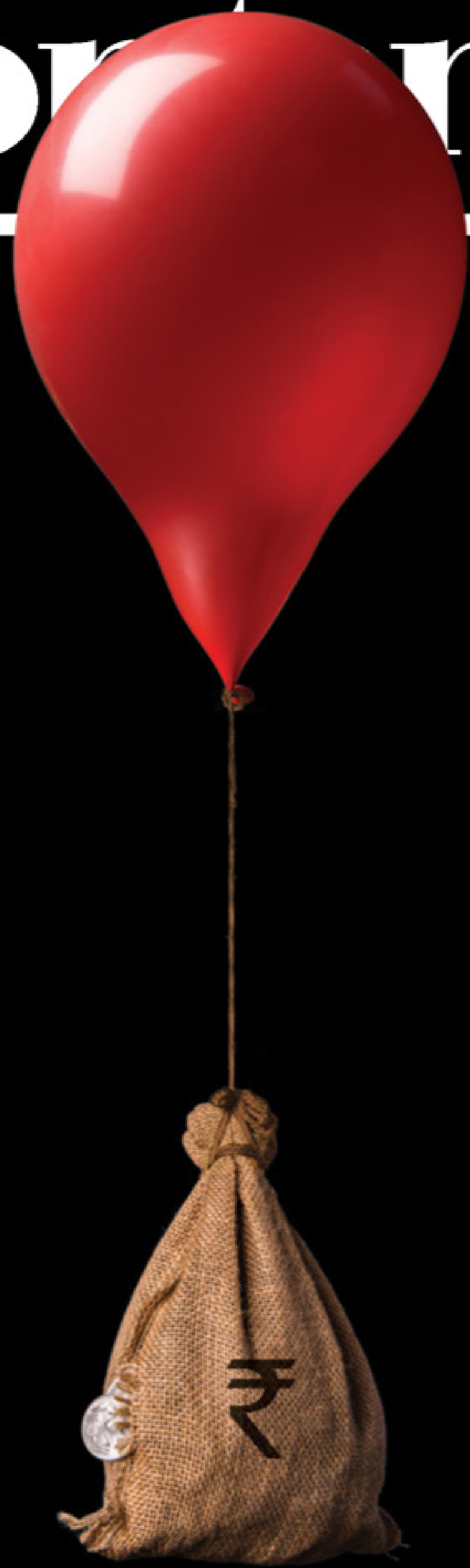

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PRESCRIPTIONS FROM TOP EXPERTS IN BUSINESS, ECONOMICS, POLITICS AND TAXATION

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The Point

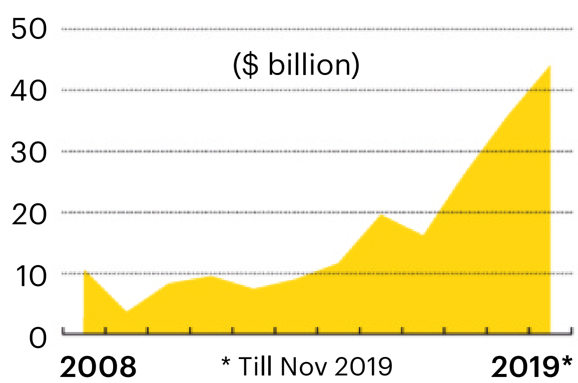
INDIA GETS RECORD PE/VC FUNDS

Till November 2019, private equity and venture capital investors pour in $44 billion. Infrastructure gets a third of the funds

BY SHIVANI SHARMA
GRAPHICS BY TANMOY CHAKRABORTY

THE FUND FLOOD

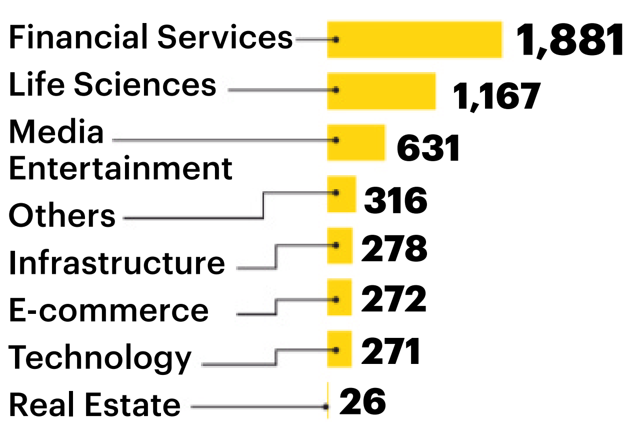
PE/VC investments have risen more than four-fold since 2008



FINANCE LEADS

Financial services got the most funds, followed by life sciences, in November 2019

($ million)

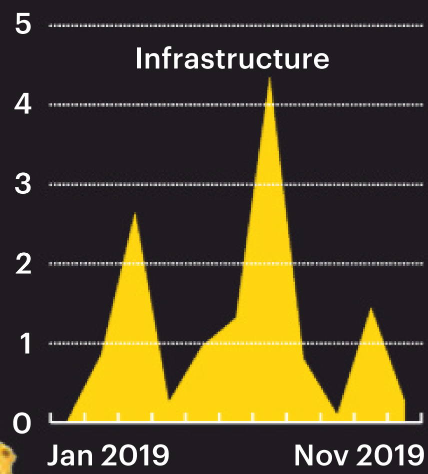


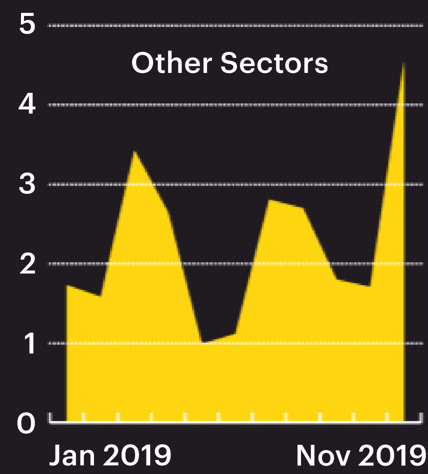
Source: Indian Private Equity & Venture Capital Association, EY Report

INFRA GETS A HELPING HAND

The sector along with real estate received $20 billion (Nov 2018-Nov 2019)

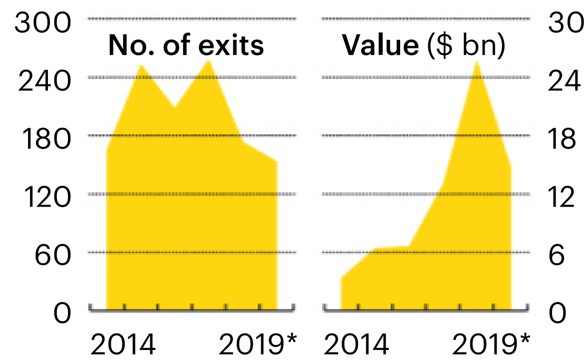
Data in $ bn





SLOW EXIT

PE/VC exits declined sharply in value, likely due to subdued market and low valuations in most market segments



* Till Nov

15

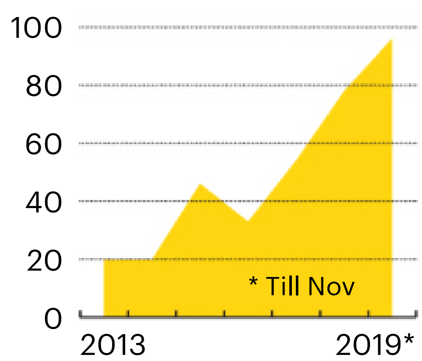
Exits worth $1.4 billion in Nov 2019, twice the value in Nov 2018

46%

Share of technology sector in all exits

THE SIZE GAME

The number of large deals – above $100 million – saw a sharp spike



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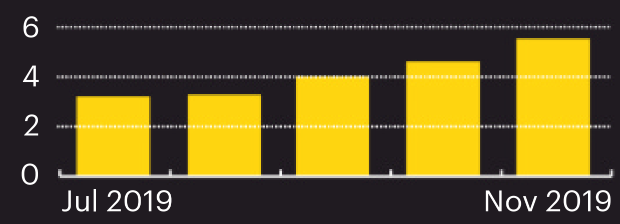
Large deals in November 2019, aggregating $3.8 billion, compared to five worth $950 million in November 2018

FOOD PRICES DRIVE UP CPI INFLATION

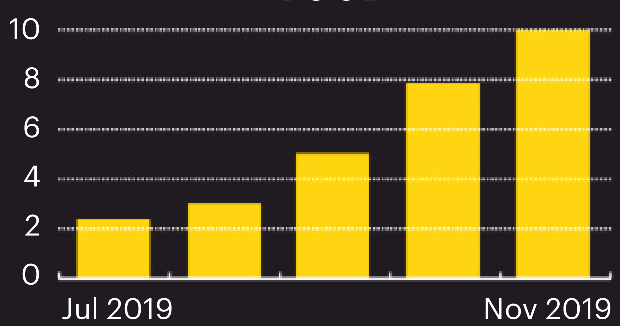
Retail price inflation, measured by the Consumer Price Index (CPI), shot up to 5.5% in November 2019, the highest since July 2019. The main driver was food inflation, which rose 10% in November from 2.4% in July

CPI inflation (%; y-o-y)

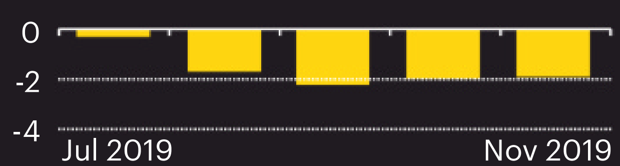
CPI



FOOD

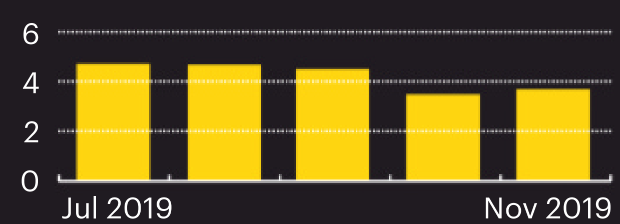


FUEL



CLOTHING

MISCELLANEOUS



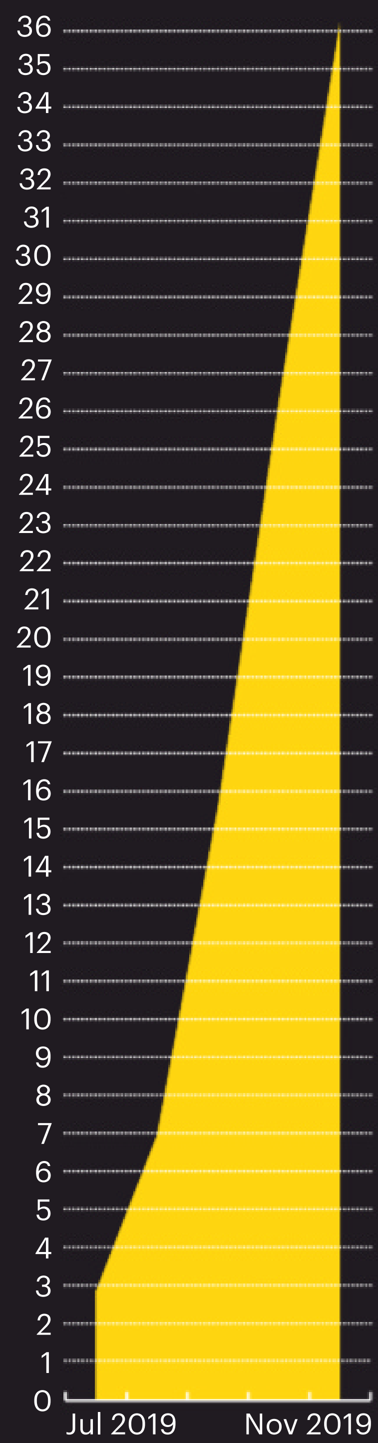
Source: CMIE

VEGETABLES: A COSTLY DISH

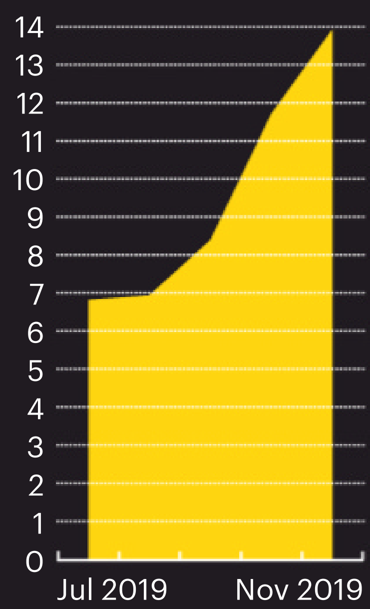
Indians had to pay more for vegetables and pulses in November as retail inflation in these segments was the highest

CPI inflation (%; y-o-y)

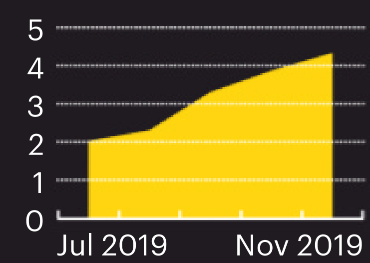
VEGETABLES



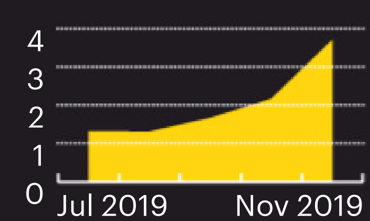
PULSES & PRODUCTS



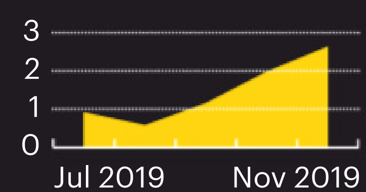
SPICES



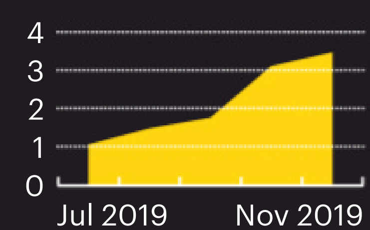
CEREALS & PRODUCTS

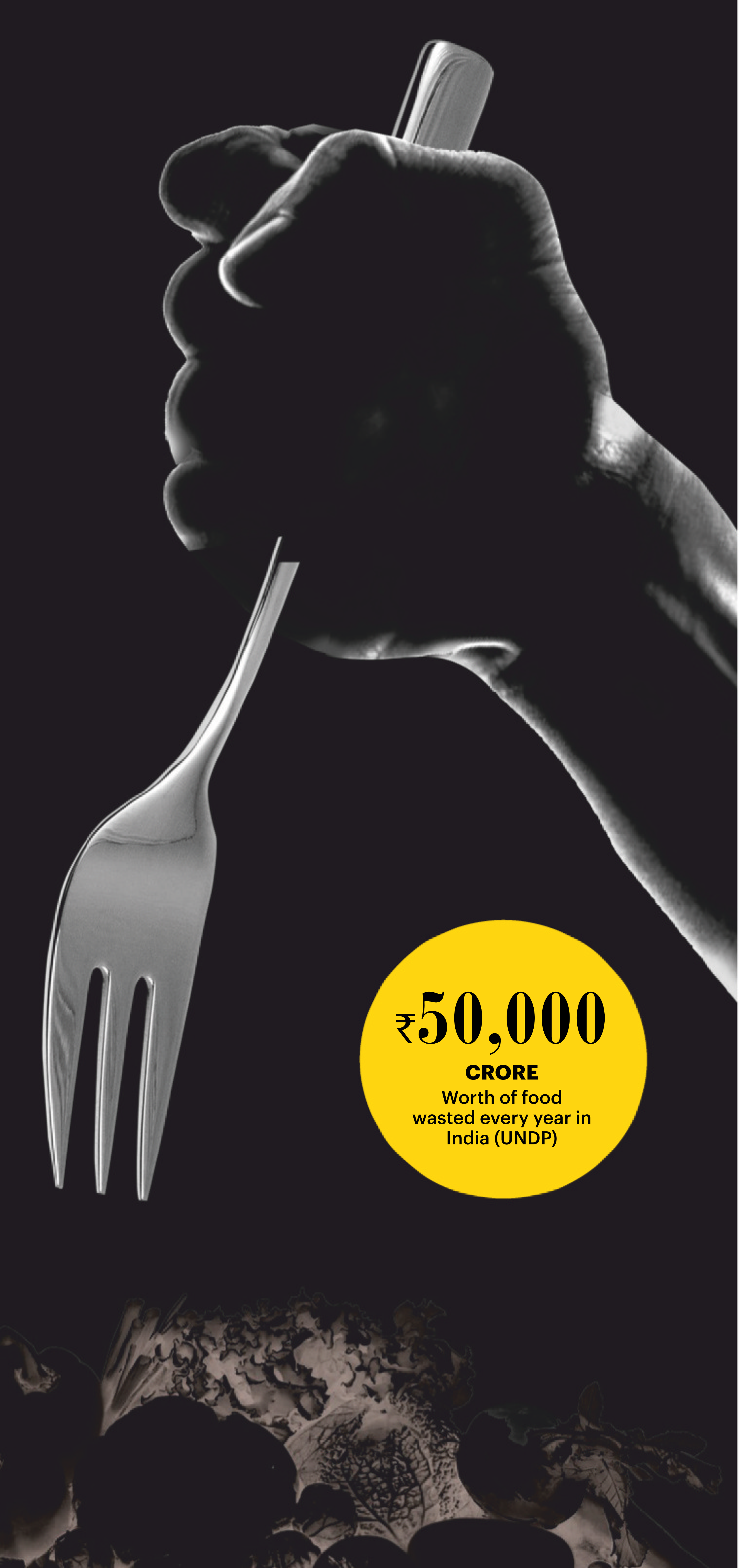


OIL & FATS



MILK & PRODUCTS





₹50,000

CRORE

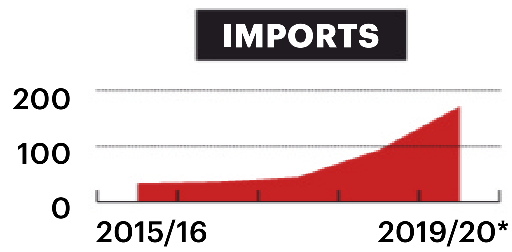
Worth of food wasted every year in India (UNDP)

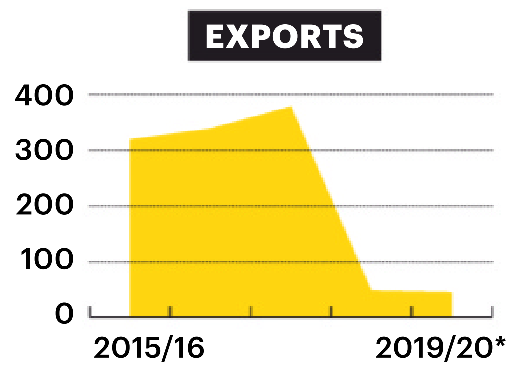
COPPER IMPORTS SHOOT UP

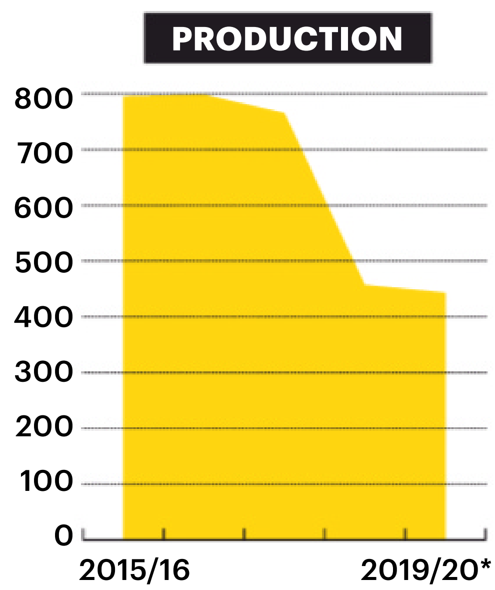
Shutdown of Vedanta's Tuticorin smelter in May 2018, which accounted for 40% of India's copper smelting capacity, has had a domino effect. Import of refined copper is expected to rise 85% in 2019/20, while exports are estimated to fall 6%

Source: Industry Outlook

('000 tonnes)







*Forecast

16%

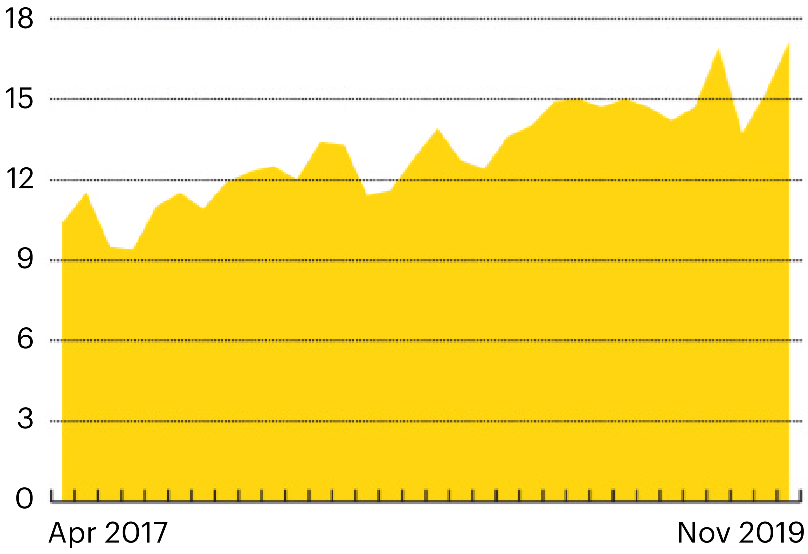
Increase in copper consumption in India to about 5 lakh tonnes in 2018/19

GRADUATION ≠ EMPLOYMENT

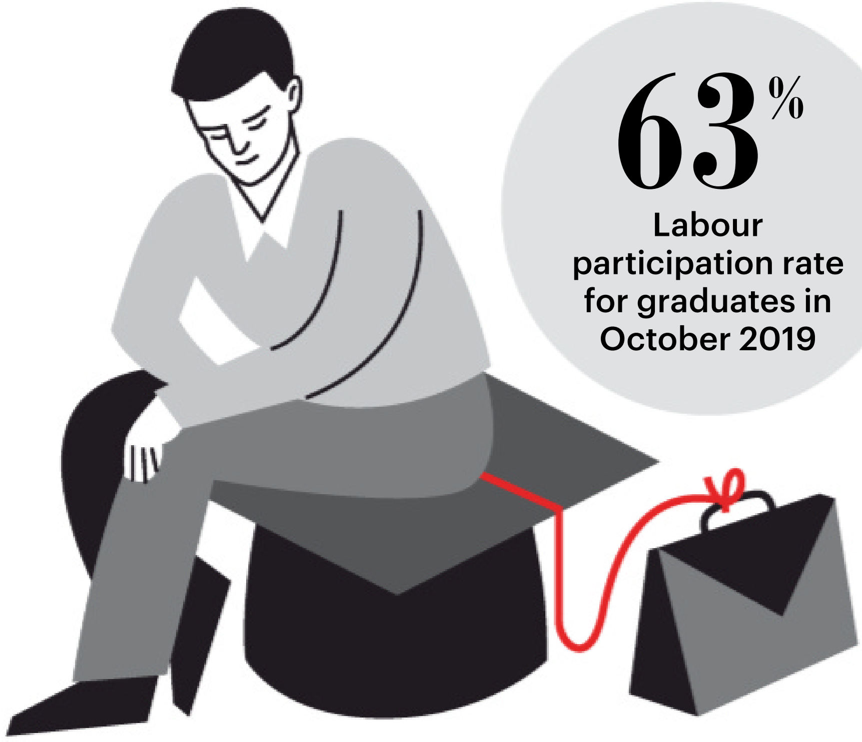
Urban unemployment among graduates is on the rise. While the level was 10.4% in April 2017, it climbed to 15% in two years and to 17% in November 2019

13.5%
Share of graduates in total employed in 2019 versus 12.8% in 2016

UNEMPLOYMENT RATE (%)



Source: CMIE



63%
Labour participation rate for graduates in October 2019

WHAT INDIA SEARCHED FOR

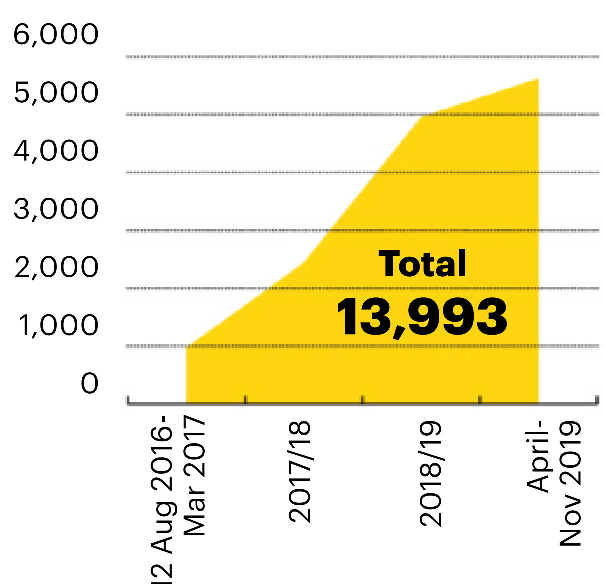
Some things don't change. In 2019, seven of the Top 10 Google searches from India were related to cricket, movies and politics. The outliers included Chandrayaan 2, the NEET results and the PM Kisan Yojana

1. Cricket World Cup
2. Lok Sabha Elections
3. Chandrayaan 2
4. Kabir Singh
5. Avengers : Endgame
6. Article 370
7. NEET Result
8. Joker
9. Captain Marvel
10. PM Kisan Yojana

ONLINE FRAUD COMPLAINTS GET LOUDER

Number of fraud dockets registered under the e-commerce platform at the National Consumer Helpline on complaints regarding online shopping

No. of fraud dockets registered



Source: consumerhelpline.gov.in

COVER STORY

BUDGET 2020

HOW TO STEADY A WOBBLY ECONOMY

Prescriptions from top experts in business, economics, politics and taxation

BY TEAM BT
PHOTOGRAPH BY YASIR IQBAL & RACHIT GOSWAMI

Panel members: D.K. Joshi, Sumant Sinha, Rahul Garg, Gopal Krishna Agarwal and Dinesh Kanabar

BUDGET 2020 WILL BE PRESENTED IN THE SHADOW OF ONE OF THE LONGEST SPELLS OF SLOWDOWN — six quarters so far — in more than two decades. That poses a host of challenges for Finance Minister Nirmala Sitharaman as slowing tax collections have left practically no leeway for fiscal stimulus out of the government's balance sheet. On top of that, exports have stagnated, private investment has ground to a halt and consumption is still reeling under the effect of demonetisation, GST, lack of jobs and public sentiment. Just public expenditure seems to be driving the economy for now.

Business Today **hosted a Pre-Budget Panel Discussion to debate how to steady a wobbly economy. The panelists were Gopal Krishna Agarwal, National Spokesperson of BJP on Economic Affairs; Sumant Sinha, Chairman and Managing Director, ReNew Power; Rahul Garg, Senior Partner, Tax and Regulatory, PwC India; D.K. Joshi, Chief Economist, CRISIL; and Dinesh Kanabar, Founder and CEO, Dhruva Advisors. The discussion was moderated by Rajeev Dubey, Editor,** ***Business Today*****. Edited excerpts:**

Rajeev Dubey: How do you see the economy in 2020? We are in the middle of one of the longest spells of slowdown – six quarters and counting.

Sumant Sinha: The ongoing slowdown is partly cyclical and slightly structural. Several things have happened over the past one-and-a-half years that hit economic growth. But now when I look at metrics coming out, my sense is that we are bottoming out. In automobiles and power demand, the rate of deceleration has decreased. We'll see a pick-up. On the headline rate, economic growth will be better in 2020. How much better, only time will tell.

The government has taken several measures that are long-term in nature. It is not as concerned about short-term results such as fiscal stimulus, as it is to get the economy structurally back on track. It will take time. One key metric moving in the right direction is NPAs (non-performing assets). It'll put more money in banks. And with the decline in provisioning, we will see more lending from banks. This will have a big impact on the economy. Coupled with front-loaded investment programmes (the recent infrastructure announcement), we should be looking at better economic growth going forward. Finally, if global factors are supportive, we'll see faster growth; otherwise it will hover around 6 per cent.

Gopal Krishna Agarwal: Challenges are always there in the economy. The government handled legacy issues between 2014 and 2019. At present, macroeconomic parameters are fine. We are in a position to leap forward.

There are global issues, too. Petroleum prices, China-US trade war, for example.

The government is focussing more on domestic demand. Export-oriented growth model may not work for us. We have to preserve our domestic market. The government has made structural reforms such as RERA and GST. We are moving fast on digital platforms also — RuPay, BHIM, FasTag. I accept that there are some implementation challenges. Once these are tackled, the economy will move ahead.

There are twin risks in the economy. We have tackled the supply side of credit availability through bank reforms (restructuring, recapitalisation, focus on repo rate), but it is not sufficient. There are risks from lenders' point of view too. The government is trying to meet consumer demand through infrastructure investment, but investment zeal is required from the private sector too. The economy cannot run on government investment alone.

Borrowers and lenders both are risk averse. We are working on decriminalising Company Law, changing the Insolvency and Bankruptcy Code (IBC) and bringing the FRDI (Financial Resolution and Deposit In-

4.55%

GDP (constant prices) growth in September 2019, the lowest since 2013

PHOTOGRAPH BY YASIR IQBAL

"On private investment, company law needs immediate de-criminalisation. The (Company Law) Committee has given its report with 46 recommendations"

Gopal Krishna Agarwal, National Spokesperson of BJP on Economic Affairs

• • • •

surance Bill) resolution mechanism on financial institutions. Negotiations on RCEP (Regional Comprehensive Economic Partnership) and FTA (free trade agreements) are going on. The government is open to suggestions.

Rahul Garg: Economic indicators show that the growth is not as good as it could be for a country like India. The growth rate may still be acceptable by some global standards, but not by the standards that India aspires for its economy. On a structural basis, fundamental things have been done over the past six quarters. So, we shouldn't get impatient. Seeing a plant everyday doesn't make it grow any faster. If you nurture it well, it will become a strong tree. A balance between long-term and short-term is needed. The balance in the current regime is leaning towards long-term. There is a lag, but with some supportive measures, we should be able to create a strong base to catapult to the next level.

D.K. Joshi: Let me point out three indicators which are turning a tad positive. The PMI for manufacturing at 52.7 in December was the highest since July. And the fact that food inflation has started rising itself is bad news from interest rate perspective, but good for farmers. The terms of trade for the farming community are becoming somewhat more favourable. The third factor is that the pace of deceleration in auto sector and exports is slowing. If you combine all these, it gives a sense that things are somewhat improving. But the picture on many other parameters remains hazy.

The pace of recovery in 2020 will be very weak. I don't think it's going to test the levels of 7 per cent (the trend rate of growth) any time soon. The financial sector is going through a clean-up phase and the cost of that is slow growth. We experienced that in the late 1990s and early 2000s. The two key instruments for firing up the economy —monetary and fiscal policies — have little juice. So, there's little space for the government to spend its way out of the slowdown next year.

The monetary policy is not effective as transmission is weak and banks are not willing to lend. The reason for that is weak sentiment and risk aversion. Unless these are sorted out, a strong recovery is unlikely.

The 2019/20 GDP is expected to be around 5.1 per

PHOTOGRAPH BY YASIR IQBAL

large conglomerates who are in steel, power, coal etc. They said they expect the next quarter to be better. If there is definite improvement in sentiment, I see hope. While some companies are yet to take advantage of the corporate tax cut to 25 per cent, they will soon move to the new regime. It will release more funds.

Besides, the effective tax rate of 17 per cent for manufacturing companies is attractive enough for many US multinationals facing heat in China to move their manufacturing base to India. Through IBC, a great platform, cases such as Essar and Ruchi Soya have put smiles on the faces of bank CEOs.

"My sense is that we are bottoming out. We'll see a pick-up. On the headline rate, economic growth will be better in 2020"

Sumant Sinha, Chairman and Managing Director, ReNew Power

cent. So the base is very weak. That will give a statistical boost next year.

In the medium-term, there are three drivers that are emerging. The corporate sector has deleveraged. It will continue to do so. And with the corporate tax rate cut, whenever the cycle turns, their ability to push investment would be better.

The second driver is the banking clean-up. The ability of the financial sector to lubricate the rest of the economy would improve.

And finally, the reforms such as GST have not added to GDP so far; once that is streamlined, it can lead to efficiency-led spurt in growth over the medium run.

Dinesh Kanabar: There are two parts — what the numbers such as GDP are talking about and the other is sentiment, that is, if the investment cycle is reviving. Recently, I happened to converse with promoters of two

4.33%

Growth in Gross Value Added (constant prices; y-o-y) in September 2019, lowest in six years

Dubey: Can we trigger growth through the four engines of the economy — exports, consumption, private investment and public investment — considering the first three are dysfunctional?

Garg: In exports, the global economy will stay like this for some time. But that does not mean that we cannot push exports further. The reduction in the tax rate to 17 per cent, hoping that American and other western companies would get attracted to do in India what they were doing in China, is a good bet. There can be state-Centre level coordination to create clusters. That would not be short term; it may be mid-term and a good way of promoting exports, because you have provided an economic playing field in the form of lower taxes. If you are somehow able to offset the higher cost of doing business in India by clustering the place together, you may be able to raise exports, not necessarily those led by Indian businesses, but those led by investments.

In public investment, we need to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focus on where the multiplier is higher and keep the balance right, be it agriculture, tourism or construction. But where are the funds for public investment? Relaxing FRBM (Fiscal Responsibility and Budget Management Act) could be considered.

In private investment, what is the sentiment? Long-term confidence is needed. Currently, beyond the policies, there are so many things on the ground where the confidence of business is shaken. Look at the recent announcement of the government on the corporatisation of ordnance factories. The whole thing is such a mammoth exercise. Everybody in any industry can participate in the projects rolled out. There is a good opportunity and market but the sentiment has to change so that people move into these with confidence.

India has a great consumption story. Having tackled many things from the supply side, this Budget will also look at things from the demand side. You need to leave money with the people rather than with the government. If DDT (dividend distribution tax) goes away, you have 20 per cent more money with the people who are shareholders. But, private investment also depends on the rigour of implementation of the plans.

An area where India has great potential is to be a financial services or a services hub. Whether we are able to export the manufactured goods or not, we can definitely export services. We have the track record of IT services. We can do it for financial services and other services as well. When the global services of a company are being rendered from India, especially from the management side, do those companies become liable to pay taxes in India? Making India a services hub for exports is a good bet. We have an amazing number of programmes for start-ups.

Dubey: Are you suggesting a tax cut?

Garg: No, not tax cut. It is basically about leaving money in the hands of people. Change in tax slabs is one option. At the time of paying tax, a person should be able to exercise his option of making an investment in government bonds, or paying taxes.

In indirect taxes, we are not in a position to reduce the tax rate. Instead of multiple tax slabs, look at combining some of them. This month over April (April-December 2019), there has been an 11 per cent increase in numbers — this is a great sign that even when tax collection has not increased, the tax payer base for indirect taxes has increased. Some of this is partly fuelled by GST bringing in more transactions into the tax net.

Agarwal: On the export side, we need to renegotiate many of the FTAs. They have definitely created certain problems for domestic industries—small, medium and large. They have to be renegotiated. We should look at the way Chinese manufacturing is shifting so that our domestic industry can grow into the global and regional supply chain. We have to develop clusters of industries which can integrate because now the industrial structure across the globe is more of a collection of various countries.

On public investment, disinvestment has to be taken. There is no alternative. If you talk of Air India, the problem is not that it can go through IBC; it has a debt of more than ₹50,000 crore. The issue is who will take that cut? If you remove debt from Air India, it has a full chance of being a viable, running airline. IBC is effective only if an entity is interested in running the business. If IBC is seen as an instrument to recover money, it will fail completely. Public investment will come through disinvestment and fiscal expansion.

On private investment, company law needs immediate de-criminalisation. The (Company Law) Committee has given its report with 46 recommendations. The sentiment in the private sector is being hurt because white collar activities are being made into criminal activities.

The bond market is required because we don't have private capital. Only bank loans will not help. The focus of the whole financial sector is only on equity markets. Globally, financial markets have more vibrancy with bond markets.

Private investment can come through a level playing field. But land is an issue. Cost of land is too high. In our projects, 50-60 per cent of the cost is land.

Joshi: There are three sets of factors that are responsible for slowing exports. One is the global environment which is becoming more inward looking and outside our control. Two, we've lost competitiveness. Three, GST has also created hassles for exporters, particularly because of the refund issue. That hit hard because of the tight liquid-

3.3%

Central government's fiscal deficit target for 2019/20

3.41%

CPI inflation in 2018/19 (urban and rural)

ity scenario. Part of it has got corrected but it needs to be streamlined further.

To be competitive, you cannot have a closed mindset; you will have to look at treaties like RCEP. That will allow you to be part of supply chains. The fear from RCEP is that it will flood us with imports. That's because we lack competitiveness. That needs to be addressed. It's not something we can do in a day. It requires reforms in land, labour, and many facilitations. India ranks 163 in contract enforcement and that needs to be the focus of improving ease of doing business and promoting manufacturing and exports.

Finally, since the government has come out with such a large plan for infrastructure spending, without the active role of private sector, it will be very hard to deliver on that. For the last four to five years, the share of private sector in infrastructure has been sliding down. That needs to be reversed by balancing the risk sharing mechanisms between government and private sector.

Kanabar: We don't need new initiatives. What we need is implementing what's already on the table. There is an issue with the bureaucracy. There is more power with the bureaucracy than it has probably ever had in the past. There is also reluctance on the part of bureaucracy to make decisions.

The 17 per cent tax rate (for manufacturing companies) is a great platform. Somehow, as a nation, we have understood that lowering the rate of tax is tax reform. It's an important aspect but a tax reform is all about implementation. And I still see a lot of gaps out there. For example, revenue officers are chasing targets. In that process, they make additions. One of the reasons behind reluctance to make new investments is this inherent fear that everything we do is being challenged. There is nobody to help in the process but everything is being questioned. There was a committee set up for Direct Tax Code. How does one resolve tax disputes?

I will narrate a specific instance. Immediately after the corporate tax rate was lowered, I met the global CEO and CFO of a Fortune 500 company, which has a huge manufacturing base in India. I told the CEO that with reduction in rate of tax, I was sure he would expand their manufacturing base in India. He looked at the CFO with a smile and the CFO produced a paper with some 62 long-standing tax litigations that they had.

If we are able to successfully implement this 17 per cent tax regime, then people will use India for manufacturing. The moment you do that, you're creating employment, capital investment and you're going to kick-start the economy.

In the last Budget, we saw a 43 per cent rate of tax. For corporates it was reduced to 17 but for individuals you've gone all the way to 43. There is a particular point of time where people may start looking at ways and means of avoiding a higher rate of tax.

Sinha: One issue is of interest rates, which is not in the hands of the government, but of the RBI. When we have inflation of 3.5-4 per cent, we are supposed to have an accommodative interest rate policy. Yet our repo rate is

"At the time of paying tax, a person should be able to exercise his option of making an investment in government bonds, or paying taxes"

Rahul Garg, Senior Partner, Tax and Regulatory, PwC India

PHOTOGRAPH BY YASIR IQBAL


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5.15 per cent. Why should we have a leverage of 2 per cent when we have a slowing economy?

If transmission is not happening then offer larger cuts. We have had an interest rate reduction of only 1.35 per cent. I can't understand that. At this point we should have a repo rate of 2-3 per cent. That will certainly drag down the cost of borrowing, which is constraining both investment and consumption demand.

There has been a big improvement in corporate taxes. There has to be further tinkering to revive consumption demand, whether through higher fiscal deficit or some other way.

There has to be some sort of massive privatisation drive. Privatisation of a strategic nature takes time. If you start something now, it may be completed by the end of the fiscal. The stock market is doing very well. So, we can also privatise through the stock market.

Dubey: Taking cues from the past five-and-a-half years of this government and the finance minister's recent moves, what is likely to be the orientation of this Budget?

Agarwal: Some of the areas that are important with respect to the Budget, and which the finance minister will definitely focus on, because everybody agrees that the government needs resources for the outreach and for the infrastructure investment focus include bond market reforms and debt management. We don't have a vibrant debt market and the government needs it to supplement its own investment. We have even been talking about fiscal expansion as a need of the current situation because of resource constraint. Reforms and disinvestment of PSUs is one major resource area which will see more focus, whether it is Air India, BSNL or any other company. The problem with private investment is seed capital requirement. IBC and NPA issues have deleveraged the corporate sector.

We need certain measures for capital formation in the private sector. In sectoral initiatives, first time on the party platform, we have taken a big initiative, to meet individual sectoral leaders and associations, and we are compiling their requirements to find out the areas where policy decisions can be taken outside the Budget. Some sunrise sectors such as pharma, where India has a lot of potential, are facing various issues, which can be tackled by the government, without facing any financial obligations. Even the automobile and real estate sectors can have sector-specific reforms. We have identified the sectors that we think have strong potential for growth. We will compile those suggestions and send them to the finance minister and the government. Resource generation, disinvestment, bond market reforms, debt management and fiscal expansion are also some of the issues that we are looking at, along with some measures of private capital formation like reforms in the company law. The government wants to bring changes to company law because we find there is a bottleneck in private capital formation. The Budget itself is not only about matching expenditure and revenue, but is becoming more of a policy statement. We will see a lot of new initiatives.

Garg: On the supply side, there have been specific interventions. On the demand side, government spending would continue and perhaps get focused in areas where money is reaching the people. Everybody would get something because any class that gets something has a ripple effect on other classes as well.

A little bit of balancing will be required between rural economy versus agriculture versus investments — which will be a higher multiplier for the economy. As we know that not all infrastructure creates a similar multiplier effect, so some attention has to be paid as to where the investment should go.

Sinha: I don't know if the FM has so much room in the Budget. The biggest action will be micro reforms across different sectors to make sure that the investment environment in those sectors improves. Those are the things that can be done and should be done outside of the Budget. The government is trying to do these, but a lot more can be done. In the power sector, a lot can be done. Those don't require the Budget but can unleash a large volume of new investments in the country. In power and other sectors too, like textiles, tourism or automobiles, the government needs to find a way of identifying issues and then making sure that those are resolved quickly and accurately.

In terms of fiscal deficit, should the FM say, look, I'm going to take 1 per cent extra this year, as a deviation from

₹11.2
LAKH CRORE
Total indirect tax collection estimate for 2019/20; till November, ₹6.1 lakh crore was collected

₹6.6
LAKH CRORE
GST collection estimate for 2019/20; till November ₹3.98 lakh crore was collected


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PHOTOGRAPH BY RACHIT GOSWAMI

"The pace of recovery in 2020 will be very weak. The financial sector is going through a clean-up phase and the cost of that is slow growth"

D.K. Joshi, Chief Economist, CRISIL

the FRBM, and spend that? The 1 per cent would be about $25 billion. It's not insignificant. It can be used in multiple areas. But it would have to be clearly articulated as being a one-time exemption.

Kanabar: It is expected that over the next three months, multiple committees will be set up specifically to focus on certain sectors — steel, cement, power, etc, — with participation from industry as well as bureaucrats, who will take specific feedback. It's a great initiative. But we have to see how well we implement the strategy.

It is one thing for the finance minister to talk about projects worth ₹1.02 lakh crore being taken up for implementation, but where are the resources to take those projects to a logical conclusion? So, rather than announcing a slew of new projects, the government needs to focus on implementing many of the very good projects that have already been announced, and taking them to fruition. In taxation, some very specific things can be done, which will impact the economy and not be mere tinkering. The first thing is long-term capital gains. For example, if the IPO market were to revive, you will see many companies accessing capital markets. A few basic things need to be done to create the (right) environment. For example, there is a negative perspective among promoters looking at IPOs because they don't get the grandfathering that other investors gets. We have a very complex regime of long-term capital gains... we have multiple rates, multiple years. The finance minister has spoken at length about the need to do away with the DDT. She said it was a regressive tax introduced by the predecessor government, etc. It should be looked at because it will give money back into the hands of corporates. Leave it to the recipient to pay tax. To my mind, this is a virtually revenue neutral measure but will ensure that money goes into investment.

Joshi: Let me deglamourise the central Budget a little bit. What is going to happen outside of it is more important as the state governments spend more than the central government. Having said that, there are some key areas that the Budget can look into. One is reviving demand, which essentially means making PM Kisan (Yojana) more effective, (increasing the) social safety net through MGNREGA in rural areas, and finally (boosting) the construction/real estate activity, which absorbs a lot of unskilled and semi-skilled labour from the rural economy, whether it is irrigation or housing, or roads or rural infrastructure. The kitty is limited so we need to create more revenue and in a slowing economy, generating tax revenue is a tough job. In the previous fiscal, we did well in non-tax revenue; this fiscal, we are lagging. A focus on faster divestments will allow you to channelise the money towards these activities in the coming fiscal.

$184bn

India's trade deficit in 2018/19

The Budget can focus on some

sort of a plan for de-stressing the financial sector so that it can lubricate the economy. It's going to be a very tough journey without de-stressing the financial sector.

Joe C. Mathew (BT): The Budget is also about messaging. What would you like to hear from the Budget speech? Are more Direct Income Transfer schemes possible?

Garg: The message in this Budget is going to be about inviting businesses. It will say, look, we are there with you, please go ahead and play fully in this economy. The key part of the messages would be to change the sentiment in the mind of private investment and private consumption. And in terms of direct income transfers, it will depend on if there is enough kitty available. In my mind, it is not there. In terms of expanding the tax base, the government already has very extensive programmes of using GST data and analytics. It will take some time but you will have a much larger part of the economy formalised. Whether you recognise it or not, the collection of direct tax is getting impacted by a larger formal economy coming in through the GST net.

Sinha: The messaging has to be very deep. This government is very focused on economy. It is their single biggest agenda point right now. As the Prime Minister said in his Red Fort speech, that wealth creation is not a bad thing, it is essential for the country and the economy that wealth creators be celebrated rather than penalised.

Agarwal: I would say that hand-holding is a message that the Budget needs to convey; that the government supports the private sector in every nook and corner. The Budget should also acknowledge some of the challenges in the economy. Instead of targeted tax collection, the Prime Minister's focus on technological

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A road safety initiative by Hyundai Motor India Ltd. in partnership with India Today Group

DRIVING ETIQUETTES 101

It is an established fact that Indian roads are nothing short of a nightmare. Most people who have driven abroad simply cannot fathom the chaos and consequent risks that road users in India take daily. We, on the other hand, have somehow managed to desensitise ourselves from the bedlam and grown quite a thick skin to being inches away from grim death. To that end, being the better guy is not just about how you treat other road users but about how you educate your passengers through a diligent attitude to safety.

Passengers not wearing seatbelts

Since the inception of the three-point harness, the seatbelt has saved hundreds of thousands of lives across the globe and can be counted as Sweden's most significant contribution to the automobile. However, with the advent of technologies like the airbag which works alongside the seatbelt, its applications have grown exponentially. And as opposed to what Indian law might suggest, it's not just passengers in the front seats who have to worry about belts! Seatbelts are even more important for those perched at the back. So for the sake of understanding, let's imagine a crash situation and see what happens to each passenger in each seat of the car, with and without a seatbelt to fully understand its importance.

Wearing a seat belt reduces the risk of a fatal injury

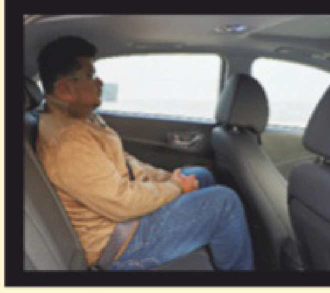
Up to 50% for front seat occupants

Front seat passengers buckle up

In a car equipped with airbags, depending on the severity of the impact the bags will deploy. Now at this moment, a car travelling at, say, 40kmph has come to a halt instantly, but the human in the passenger seat not directly connected to car is still moving at 40kmph. An airbag which has gone off correctly must inflate fully in about half of the .001 seconds it will take the passenger's body to hit the dashboard, using an explosive to deploy quickly. The body moving toward the airbag without restraint can have severe if not lethal consequences that could range from whiplash to a broken neck. Consequently, in a car without airbags this impact is that much more severe, the 40kmph speed exponentially acts on the momentum of the car and your own body, and the result is certain death. That is if you stay inside the car and aren't flung through the windshield into whatever rigid object your car crashed into. Most modern cars have seatbelt warnings on the two front seats, which can be annoying but if paid heed to will most definitely save your life!

Wearing a seat belt reduces the risk of a fatal injury

Up to 75% for rear seat occupants



Rear seat passengers are not exempted from wearing seat belt

I don't know why, most people who haven't spent/dedicated their lives to the automobile, are under the impression that seat belts are most effective in the front seat and that rear belts are at best, optional. On the contrary, the front occupant has the luxury of being flung through easily breakable glass and then away from the crash. In the back, the first thing you will meet in the event of a crash is the back of the front seat, with no airbag to arrest the motion and most of the time this impact is fatal. In case of a roll, the consequences are that much worse. So to that end, we can amend the concept to say that seatbelts are always required and as the pilot, it's your duty to ensure that everyone in your car belts up before you get rolling, in the unlikely event of a crisis you'll thank yourself for it!

driven compliance is a message this Budget can give.

I may not call fiscal expansion a reform, but that is the need of the hour. FRDI should be a major reform at this point. With labour reform, the government may face resistance but it is needed.

Kanabar: One thing which worries me (is the policy flip flop). I was in Singapore recently and was talking to the government there and the single largest negative was what happened in Amravati, Andhra Pradesh. A total flip flop of policy. We saw something similar in the bullet train project. The Maharashtra government is saying that it wants to take a relook at it. So, the message that the government needs to give out, which will give confidence to foreign investors and revive investments, is that there will be no flip flop on policy.

Joshi: I would agree that the passage of FRDI Bill is critical. The issuers in the corporate bond market, the financial institutions, contribute almost 70 per cent of the subscription. They also need a resolution process.

As far as the direct benefit transfer kind of schemes are concerned, I would still prefer a targeted approach, which is being done currently, rather than a universal approach. We are not ready for it as yet.

The third thing which we need to introspect on is what kind of fiscal targets we want to keep. I have been hearing about 3 per cent of fiscal deficit of GDP (for many years). That target has only been met once in 25 years. Is it correct to keep chasing that? Maybe we need to rethink.

The fiscal deficit road map is proposed by the N.K. Singh committee. They are talking about looking at targeting overall debt levels. If that is the case, it should be something which is attainable.

"If we're able to successfully implement the 17 per cent tax regime (manufacturing companies) you're creating employment, capital investment"

Dinesh Kanabar, Founder & CEO, Dhruva Advisors

PHOTOGRAPH BY RACHIT GOSWAMI

Dubey: States would actually be spending more from hereon than the Centre is spending. How can resource generation and resource sharing be more synergetic?

Agarwal: The problem is coming from GST. The higher commitment of 14 per cent growth every year should be linked to the economy or revenue growth across segments. The issue is also about implementation of GST. The whole cycle is getting out of the GST network. Therefore, there is an issue of input tax credit. A lot of demand on the credit side is coming where the audit trail is incomplete. The industry demand is that if you delay the credit cycle, there is a larger working capital requirement. If the government goes for ad hoc credit allocation, then the question will be who is ultimately responsible for the gap in the credit. So the government needs to be more focused on establishing a complete audit trail.

The reconciliation of input tax credit, cycle of credit and certain segments that want themselves out of the GST network is a challenge. The efficiency of GST is based on everybody getting into the system; then online credit allocation and other things can happen. But the government has to focus more on GST network and that will support the transfer to states from the Centre.

Garg: We shouldn't disturb the logic of the full chain being maintained. To make life easier for those people whom we want to support, let there be somebody on an outsourcing basis who does that.

Joshi: If you look at the revenue and the expenditure behaviour of the central government and the states, the revenue position is bad for both. For the state, it's a double whammy as part of the taxes are shared. If the central kitty reduces, the share to states also comes down. The central government has been maintaining its expenditure and has not cut capital expenditure, according to October data. But state governments have harder budget constraints. They have cut capex and their revenue expenditure is sticky. The slowdown has brought the Centre-state tax sharing issue to the front again. The casualty is capital expenditure, particularly at the state level, and that accounts for the bulk of the capital expenditure from the government.

Dubey: What is a realistic fiscal deficit target?

Joshi: It is hard to say. The government can always meet the target by cutting expenditure. That is what happened in the last fiscal. It can inch closer to 4 per cent for 2019/20, if the current expenditure momentum is maintained. You can achieve the number or reduce the slippages by postponing expenditure or delaying payments or whatever. There are various ways Budgets have done that in the past. Maybe it is time now to look at how Budgets are made. BT

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Interview

GOVERNMENT DOESN'T HAVE THE BENCH STRENGTH TO HANDLE THE ECONOMY"

The Indian economy is going through one of its longest spells of slowdown — six quarters and counting. Even as government and independent commentators are groping in the dark for possible ways to turn around a decelerating economy, *Business Today*'s **Dipak Mondal** and **Joe C. Mathew** caught up with **P. Chidambaram**, who has presented eight Budgets as finance minister. Excerpts from his analysis of the crisis:

PHOTOGRAPH BY BANDEEP SINGH

What is your diagnosis of the problems the Indian economy is facing?

My overall assessment of the Indian economy is on the same lines as (former Chief Economic Adviser) Arvind Subramanian's paper jointly with (IMF's former India head) Josh Felman, which was published in December 2019. The economy faces serious problems, both structural as well as cyclical. The structural problems are deeper and more serious. This government believes that the problems are entirely cyclical and therefore they come up with what they consider solutions to the cyclical nature of the problems. As a result, the crisis has worsened.

Let me just tick off a few heads where the crisis has

deepened — non-food credit, exports, NPAs, stalled projects, fiscal deficit, revenue collection, and expenditure constraints. In each of these heads, the crisis is deeper today than what it was three-four months ago. There is simply no improvement.

How many of these can be attributed to global factors and how many to domestic factors?

Exports can be attributed to global factors. (But) even in this scenario, there are countries with export surpluses. We are not even touching the level of exports we had in 2013/14 or 2017/18. Of the other indicators that are pointing southwards, you can attribute FDI to global factors to some extent, though it has been reasonably good this year. But apart from exports and FDI, I can't think of any other indicators that are affected by global factors. These are all caused by domestic factors and developments, and domestic policy failures.

What are these domestic policy failures?

The first is that they have not addressed the question of investment. The private sector in India is not willing to invest. There are several companies that are sitting on piles of cash but not willing to invest. Even public sector companies are sitting on piles of cash but are loath to invest unless pushed by the government.

They are not addressing the issues of demand; why is there such a demand constraint? Perhaps, closer studies will reveal the real reasons. Rural wages have fallen, rural incomes have fallen, prices of agricultural produce have fallen. So rural demand is principally lower than what it was. And that was revealed in the NSSO survey, which they suppressed. So, the only way you can reignite the economy is to address both investment by the Indian private sector and somehow push up demand in the economy, specially rural demand. They have done neither.

Does this government have any leeway in this Budget to boost consumption?

None. The new expenditure secretary has already limited the last quarter's expenditure to 25 per cent (of Budgeted Estimate) as against the traditional 33 per cent. They have no leeway now to spend anything more in the last quarter.

Technically, April 1 is the new (financial) year. You can have an entirely different set of priorities for expenditure, and an entirely different set of instruments to raise revenue. What those will be, I do not know. But technically, you're starting with a clean slate.

What according to you is the real growth rate of the economy?

The real growth of economy comparable to the pre-methodology change and base change regime is perhaps about 3-3.5 per cent. This is not my view alone. Former CEA Arvind Subramanian feels the same.

How can the government get us out of the situation given that three of the four engines of GDP growth — exports, private consumption and investment — have slowed down considerably? (Government consumption is relatively high.)

The government has four years and five months remaining. So, we can't think beyond that. It'd be naive to think that the government will change; it will not change. If this government is going to be there for another four years and five months, it better hire talent. It simply does not have the bench strength — within the government or the party — to handle the economy.

The government is saying that a lot of the problems are legacy issues, and that it is now in the correction mode, hence the slowdown...

These are lame excuses. The UPA can turn around and say we had legacy issues of (Atal Bihari) Vajpayee; Vajpayee can say he had legacy problems of (I.K.) Gujral and Deve Gowda. Where do you take this argument, back to Jawaharlal Nehru? They are in office for five and a half years. It's their business to set things right.

As far as lending (bank NPA crisis) is concerned, I asked a pointed question to (Arun) Jaitley (former finance minister) in Parliament. I said, please break up the NPAs into three categories. How many loans were given during Vajpayee's period, which were rolled over during the UPA period and have become NPA? How many were given initially in the UPA period, which have become NPA? And, how many were given in the Narendra Modi government, which have become NPA?

There's been no answer so far. He didn't give an answer in Parliament, nor has the government ever given this answer. I've raised this question in several fora. Break it up and let us see what the numbers are. The government doesn't put out the numbers, yet you believe all this is legacy.

I don't think we have seen the worst of demonetisation. The worst impact was unemployment. We have not recovered from that blow

Have we seen the worst of demonetisation, because even the government agrees that both demonetisation and GST had an impact on the economy?

The government has reluctantly and partially conceded. But even in the last session of Parliament, the finance minister declared on the floor of the house that demonetisation is a great thing. So I don't believe the government has had a change of heart.

I don't think we have seen the worst of demonetisation. The worst impact was unemployment. And that continues. Demonetisation, within just weeks and months cost jobs and then it shut down micro, small and medium enterprises. We have not recovered from that blow.

And GST...

GST was flawed. On the day they passed the Bill, I pointed out in Parliament that this is wrong. Have one rate, and they flatly refused. Now they're coming around to the merits of one or two rates.

There is a proverb in Tamil that says, you do *Surya Namaskar* after you have lost your eyesight. Now they're trying to correct the flaws. But in the process of correction, they're committing more mistakes.

What are your views on the rift between states and the Centre on the issue of compensation?

States are bound to ask (questions). In the GST Council, the finance minister talks about consensus, but the Council is dominated by BJP chief ministers/finance ministers. So, whatever the central finance minister says is what it approves.

The then central finance minister persuaded nearly all state finance ministers to agree on a particular GST structure. The central finance minister cannot shift the blame to the States; the blame is squarely and entirely on their shoulders. If revenues are not forthcoming, how can the states be blamed? This is not because the GST is inherently wrong, which it is, it is also because the economy is doing badly.

What would be your suggestions to revive consumption cycle, and improve exports?

It's a wrong question to put to an Opposition MP because if I must answer the question, I must have full information. I must

PHOTOGRAPH BY VIKRAM SHARMA

We never had a situation where our data was suspect in the eyes of most people. The current government has changed both the base year, which is normal, and the methodology. And I'm told they have changed some of the deflators they use for calculating GDP.

Unless we are told what the old deflators are, what the new deflators are, what the old methodology was and what the new methodology is, sitting outside the government, what can I say? All I can say is that a number of economists think our data is flawed. They have all the indicators, which are pointing southwards; how can GDP alone point northward?

We understand that from time to time adjustments and corrections have to be made in how data is gathered and statistics are reported because the underlying economy is undergoing changes. We understand that. If what you are doing is right, go ahead and do it. What we are pointing out is for comparability purposes. Why didn't you publish the data under both methodologies, old and new?

In a time series, you can see how the old data under the old methodology yields what results, and what results the data under the new methodology yields. We can then draw our own conclusions whether the changes and adjustments they have made are justified.

Why don't you publish data under 'old methodology' as well as under 'new methodology'? Do it at least for some years until the new methodology stabilises, and gains credibility.

Another number that people suspect now is the fiscal deficit.

No country has become an economic power without a strong manufacturing base. You cannot build an economy on Uber and WeWork

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have all the information which is available to the finance minister. I don't have that information. In fact, whatever information is available is suspect. Because they themselves have now conceded that their data is suspect. They have appointed the Pronab Sen committee (Standing Committee on Statistics to be headed by the former Chief Statistician) to revise data and statistics, but unless I have full information about revenues, expenditure, current account deficit, fiscal deficit and borrowing, it's difficult to answer the question. We can give the theoretical options. Which is the desirable and practical option will depend upon full information on full data, which we do not have.

What according to you is the problem with India's economic data?

During your time, people said you try to hide some bit of it. Even now, people are saying that fiscal deficit number is much more than 3.3 or 3.4 per cent. Economists say the government should be more transparent about this.

For many, many years, some off-Budget borrowings were there. Nobody is denying that. We corrected it and brought nearly all to the Budget. But I can see, there could have been one or two borrowings which were shown as off-Budget on the balance sheet of either the Food Corporation of India, or some oil company. I'm not denying that. We never denied that. We accepted it. Yes, there are borrowings that are outside the Budget, and economists and analysts factored that in when they decided the true fiscal deficit.

But as far as the reported fiscal deficit is concerned — the Budget Estimate and Revised Estimate of the fiscal deficit — the question is did we adhere to the glide path more faithfully or have the NDA adhered to the glide part more faithfully? They missed the target every year. This year also they will miss the target.

What is your realistic assessment of the likely fiscal deficit?
Keeping aside the off-Budget, they'll end up probably at 4 per cent. Now with a new expenditure Secretary (T. V. Somanathan), who is a bit stringent, they will probably end up with 3.7-3.8 per cent. But they will certainly cross 3.3 per cent, which is their Budget target.

What do you think of the current disinvestment policy?
If you have genuine disinvestment, we welcome it. But what is the use of asking one public sector to buy the government's shareholding in another public sector (company)? Not that no other government has done that before, I'm not saying that; but don't call it disinvestment. It will drain the resources of public sector companies, and drain the cash holdings of cash-rich companies. ONGC's resources have been drained; Indian Oil's resources have been drained.

What should be the industrial policy in India? Is manufacturing the way to go when it comes to exports?
No country has become an economic power without a strong manufacturing base. You cannot build an economy on Uber and WeWork. You need three dimensional factors which produce goods and equivalent, and which produces services.

We missed the first Industrial Revolution. We have tried to catch up in some areas like automobiles. We are a major manufacturer of automobiles today, especially two-wheelers, but we lost out of the electronics manufacturing. Now, I'm afraid, we are losing out on artificial intelligence, robotics...

This government is completely clueless about how to make India a manufacturing hub. My best experience has been bringing the automobile majors to India — 1992 onwards.

If they roll out NPR on April 1, against the wishes of 10-15 states and a large section of people, it will bring down growth rate further

The government says that the spate of free trade agreements (FTAs), and the liberal reduction in tariffs even when not required, has resulted in India missing the bus in manufacturing of products, including electronics goods.
Wrong. All the Asian tigers, Germany and Japan benefited and became major centres of manufacturing by reducing tariffs. When you reduce tariff, you don't do it only for the final product. You're doing it for inputs, parts, accessories and technology also.

This government doesn't believe in reducing tariffs. In fact, it is increasing (tariffs). It is becoming protectionist. It doesn't believe in WTO either. It's more in the category of (Donald) Trump.

So, what should be our industrial policy focusing on?
First of all, in the past six years, both the DIPP (Department of Industrial Policy & Promotion) and the administrative ministries have become more like controllers. Sebi (Securities and Exchange Board of India) has gone back to the pre-1999 days. It's become a very stern control. The RBI has acquired more control.

No industrial policy can succeed if controls have come back. You must first believe in the market and start with light regulation. Allow the market to decide what will be manufactured, who will manufacture, where will it be manufactured and sold. Yes, there will be some mistakes, but I think a freer market makes fewer mistakes than the joint secretaries sitting in the government.

How will the Citizenship Amendment Act (CAA) protests impact the economy?
CAA has created greater uncertainty. No economy will flourish if there is uncertainty in people's mind. Firstly, investments would not happen. Tourism has already taken a hit; footfalls at the Taj Mahal have come down. This means jobs will not be created, at least, new jobs will not be created. Social conflict will rise. You and I would start looking at each other with mutual suspicion.

If social conflict and mutual suspicion rises, how will it benefit the economy? If these guys roll out the NPR (National Population Register), it will affect the economy quite badly. If these guys roll out the NPR across states — and states are resisting — there will be Constitutional crisis in some states. There will be law and order problem in many states, and there will be resistance from government servants.

If they roll out the NPR on April 1, against the wishes of 10-15 states and of a large section of the people, it will bring down the (economic) growth rate further.

Is there is a case for an income tax rate cut?
No, this is a wrong tax to cut. If you have to cut taxes, you should cut indirect taxes. Whenever there is a demand constraint, you cut indirect taxes.

If the government is thinking of increasing GST rates, they are wrong. In his presentation, former CEA Subramanian has said that if you want to cut taxes, cut the indirect taxes... and he is correct. BT

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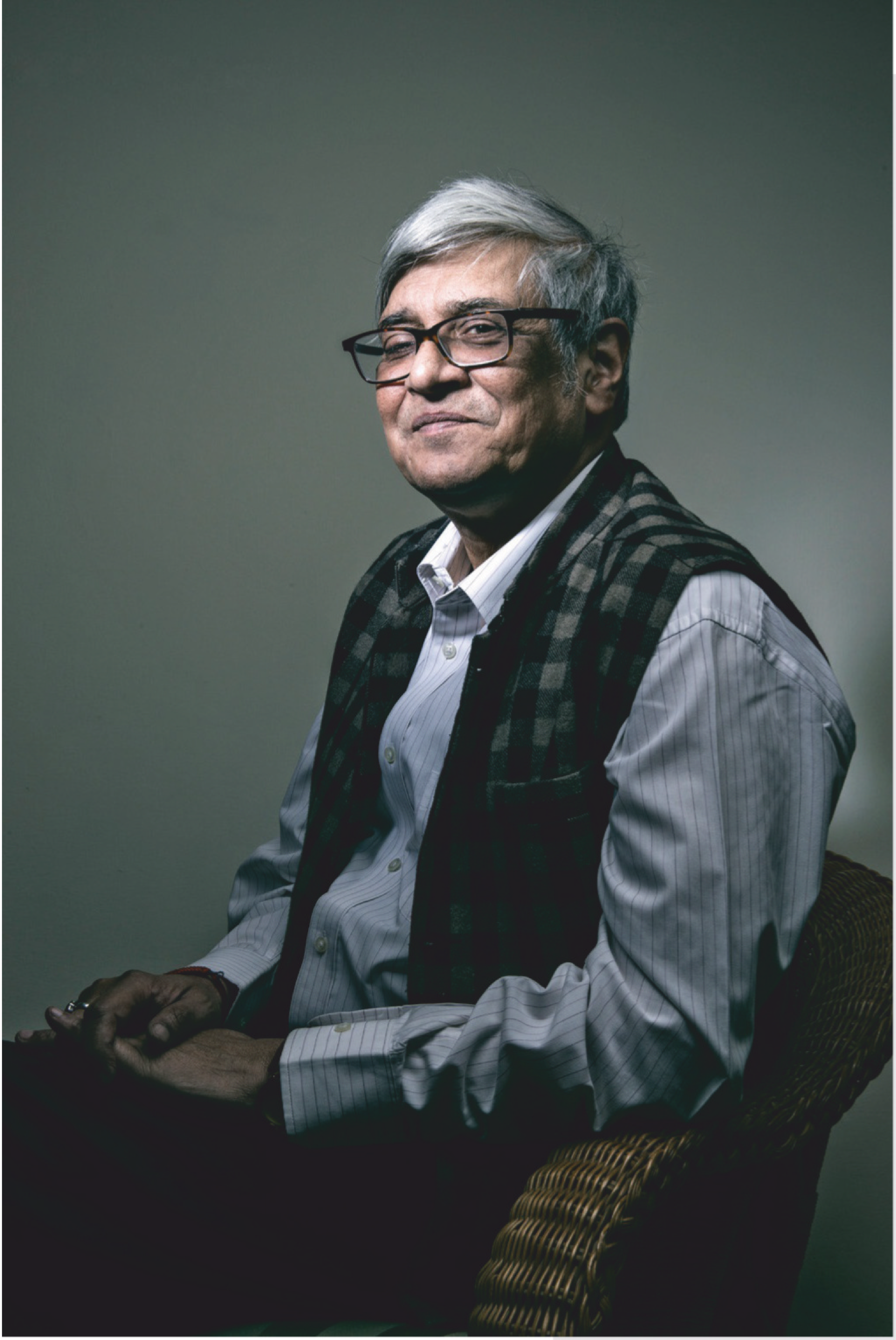

"THE SLOWING ECONOMY WILL REMAIN SO FOR SOME TIME"

Will the Narendra Modi government announce a populist Union Budget to arrest the economic slowdown? Will Budget 2020 offer tax sops and income tax relaxation to stimulate demand? Unlikely, says **Bibek Debroy**, Chairman, Economic Advisory Council to the Prime Minister (EAC-PM). Debroy tells *Business Today's* **Joe C. Mathew** that a stimulus is neither feasible nor desirable and a clear and credible roadmap for fiscal consolidation is the need of the hour. Edited excerpts:

PHOTOGRAPHS BY YASIR IQBAL

How bad is the economic slowdown? Is the lack of structural reforms the root cause?

This year we are going to have GDP growth of about 5 per cent. I expect next year to be about 6 per cent. If one is talking about structural reforms, there are all kinds of people, particularly from my fraternity, who keep coming up with an agenda for structural reforms. If you look at those items, they have been on the reform agenda since 1991 or 1993. So, no one is denying the importance of those structural reforms. They have been pending, and there are reasons for that. Most of the pending reforms are actually state subjects, and there are legislative issues with some others.

There was a period when India grew 9 per cent for four successive years. If you look at those years, the export to GDP ratio was about 20 per cent, and exports grew some 15 per cent in dollar terms.

A back of the envelope calculation would say exports added at least 3 per cent to GDP. If you take out that 3 per cent, you are doing 6 per cent (in GDP growth).

There is no reason to suddenly expect that exports will take off. At 6 per cent, exports will depend on the exchange rate, the supply side, and the demand side. On the supply side, the government has taken measures. On exchange rate, unfortunately, there are pressures, because if you mess around with the exchange rate, it would be seen as currency manipulation. So, the story is that in exports, you can't do very well. You are back to 6 per cent. A lot of people say it doesn't matter, we have plenty of indigenous sources of growth, so we should be able to do 8-9 per cent. But all-India growth rate is an aggregation of state-level growth rate. If you take out defence and railways, 90-95 per cent is state. Therefore, if half the states are doing 6 per cent and some are doing more, we are on a band of 6-6.5 per cent in the next couple of years. Maybe inching up to 7 per cent, but that is the kind of band we will be in.

What has been the impact of some policy interventions by the government?

Several of the government's initiatives have been an attempt to clean up the system. These are also structural changes, depending on how you define structural change. If I have an old way of doing business with a nexus of the politician, the businessman and the bank manager, and I am breaking that, that is also structural. If a lot of businesses function on the basis of *kutcha* receipt and I am breaking that, that is also structural. It's a myth to say that structural reforms do not have short-term growth costs. They lead to efficiencies in the longer run, and they have led to a short-term growth cost. It is not quantifiable, but still, if we are talking about the possibility of a 6-6.5 per cent growth band and a current growth rate of 5 per cent, maybe that 1 per cent is where we are bearing the cost of structural growth.

Give it another quarter or two, GDP will grow up to 6%-plus from 5%. The moment that happens, some of the negative sentiment... will go away

Another point, rarely stated, is that financialisation has to be in tandem with what is happening outside, whether you argue about the lack of financial penetration or agree with the creation of a bond market. In the last two decades, growth of the financial sector has been disproportionately high compared to growth elsewhere. Many say that the financial sector is getting a reality check; you cannot expect the financial sector to grow like that.

The Finance Minister has been hinting at a fiscal slippage.

Everyone is expecting a fiscal slippage. Even the markets are expecting it. The reason is simple. Fiscal deficit is expressed as a ratio of GDP. Revenue growth is not as high as budgeted. So, even if I don't compress my expenditure, the ratio will be lower. Whether it is going to be 3.8 per cent or 4 per cent, I don't know. We will have to wait for the Budget numbers. No one will probably bother too much if there is a credible roadmap for fiscal consolidation at the time of the Budget. I don't think there will be a violation of the FRBM (Fiscal Responsibility and Budget Management) Act as such.

The critical issue is that having stated that this is the fiscal deficit, and this is the plan to reduce it in three or five years, the Budget should very clearly have the fiscal map – one that is believable, that is credible.

What should be the Budget's thrust?

Traditionally, we have looked at the Budget because it announces changes in tax rates and changes things in expenditure. But today, expenditure is almost frozen in the short run. Since 2014, centrally sponsored schemes have also been on the basis of a basket agreed upon with states in a committee chaired by the then Madhya Pradesh Chief Minister Shivraj Singh Chauhan. These would have normally come to an end on March 31, 2020, but since the 15th Financial Commission has got a six-month extension, these would also be extended. So, expenditure is more or less already known.

On taxation, indirect taxes are under the purview of the GST Council.

The government has already stated clearly that it is going to privatise. But it is a process, and there is a timeline. For the budgetary process, I need receipts. For most public sector enterprises (PSEs), the most valuable asset is land, but land typically is not owned by PSEs, but leased out by states.

Essentially, one is looking at the Budget not for tinkering, but in terms of what the

government is planning to do – on deficit, fiscal consolidation, privatisation... all of that.

What about direct taxes?

If the corporate tax rate has been reduced, it stands to reason that at some point, personal tax also will be reduced because unincorporated enterprises pay personal income tax. However – and this a big however – on the corporate side, you have a choice of tax with exemptions or (lower tax) without exemptions. Most personal income tax payers want both. But, logically, both cannot happen. FM is the best person to decide this. The fiscal situation is a bit difficult now, but whenever rates reduce, it will have to be along with withdrawal of exemptions.

How can the economy be revived? In what ways can tax collections be increased?

The slowing economy will remain so for some time. Anything artificial we try can be counterproductive. I may decide to give sector specific exemptions, but these are counterproductive as they lead to distortions. As an economist, I say let us not have any sector specific exemptions. There is a certain macro, and there is a negativity that is over and above that. Data is two or three months old as it comes with a time lag. There are sufficient indicators to show that the worst is over. Not enough months have passed for it to be robust enough, but several indicators say that from November, there is improvement. I am stretching it too much as I myself said data is not robust at the moment. Give it another quarter or two, GDP will grow up to 6 per cent-plus from 5 per cent. The moment that happens, you'll find some negative sentiment – which is more than what is warranted by the actual state of the economy – going away.

It was supposed that the average GST rate could be revenue neutral, 16%. Today, it is 11.6%. So, obviously revenue has taken a hit

Is a tweak in GST needed?

When GST was introduced, it was supposed to be such that the average rate could be revenue neutral. And at that time the assumption was that the average revenue neutral rate would be 16 per cent. Today it is 11.6 per cent. So obviously revenue has taken a hit. There have been reports countered by the FM that GST rates are going to be hiked. A hike in GST rates will lead to further slowdown. It is a realignment of GST rates that is needed; 11.6 per cent is not tenable. It is primarily happening because compensation has been guaranteed to states and states have no problem having a large number of items in the zero per cent category. All the rates should be rationalised, though not in the midst of the slowdown.

Revenue compensation has created a perverse incentive and many state finance ministers want the present condition to continue indefinitely. That is an untenable proposition. This is for the GST Council to decide.

Shouldn't we have more items under GST?

Eventually, one would want everything under GST. The most obvious things being fuel and real estate, and I would even say liquor and tobacco. But GST (adoption) has taken many years in many countries. So GST will take many years (to stabilise). It cannot happen overnight.

So you don't want to raise GST rates, or tinker too much with the economy.

Yes. It will return by itself.

What about asking banks to transmit rate cuts to consumers?

I do agree that the real interest rate is too high. Therefore, the real cost of capital is too high. On the same note, for inflation we have got a band of 4-6 per cent. I don't see any serious inflationary cost if one says let's recognise this is the band and that monetary policy has been unnecessarily tight even though central banks are overly cautious.

We have a problem with the financial sector, banks as well as NBFCs. We also have a credibility issue. We also have an issue because the RBI has an imperfect regulatory oversight over them. So this is a medium-term thing. The limited issue that the government can look at is to identify specific NBFCs and ensure that they don't go under. The NPA (non-performing assets) problems of NBFCs can't be as large as that of banks.

But in lending rate, there is a risk-free lending rate, and a risk premium. So, the rate at which a bank will lend will differ. The band of the risk premium has increased. This is over and above the core real cost thing. There is risk aversion, so the lending rate is high. That really is a commercial decision. The problem with what I say is that even if it is a public sector bank, it is a commercial bank. What business do I have saying lend at this or at that, to so and so. It is no different than saying give loan to so and so.

Do you want to set Budget expectations low from the consumer and industry perspective?

Yes. Industry wanted a reduction (in taxes); then they quietened down because they figured that tax rates with exemption were low enough. Similarly, in personal income tax, if the FM could say I am giving you a choice – present rates with exemption or lower rates without exemptions – most people would go for exemptions. If you remove the exemptions, there won't be much of a revenue impact, but there would be political flak. BT

@joecmathew

Anil Rai Gupta with Dr TR Paarivendhar and R. Nandakummar

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LtoR: Rahul Kanwal, Kenichi Ayukawa, Suresh Narayanan, Sandeep Sancheti, Anil Rai Gupta and Bhaskar Bhat.

Sandeep Sancheti addressing the panel.

Anjali Bansal, S. Ganapathy, Director Communivcation, SRM, Kartik Reddy, Rehan Yar Khan and Tej Kapoor.

Fitness experts Vesna P Jacob and Nawaz Modi Singhania in conversation with Shwweta Punj.

LtoR: Ashima Goyal, Samiran Chakraborty, Dr TR Paarivendhar, Baijayant Panda; Mahesh Vyas and Soumya Kanti Ghosh.

Dharmendra Pradhan, Union minister for petroleum and natural gas and steel and Dr TR Paarivendhar, Chancellor, SRM Institute of Science and Technology.

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Sundar Mahalingam, Chief Strategy Officer, HCL Corporation and SNF receiving the Lifetime Achievement Award on behalf of Shiv Nadar, Founder & Chairman, HCL.

Author Ashwin Sanghi addressing the audience on Digging for Gold- Lessons from Mythology.

Anil Rai Gupta, CMD, Havells India.

SRM Institute of Science and Technology stall at BT MindRush.


Dr TR Paarivendhar with Kenichi Ayukawa.


The CEOs having dinner with Dharmendra Pradhan, Aroon Purie, Raj Chengappa and Dr TR Paarivendhar

Kavil Ramachandran, Executive Director of Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business

Kenichi Ayukawa, MD & CEO, Maruti Suzuki India.

Nikhil Meswani, Executive Director, RIL receiving the Champion of Champions Award on behalf of Mukesh Ambani, Chairman, RIL.

Finance

New Fault Lines in Banking

Even as banks lower their NPAs for the year, new areas of stress are emerging that may create headaches for the financial sector and the RBI

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

- ***Punjab National Bank, India's second-largest public sector bank, has gross NPAs of 22.71 per cent in small Mudra loans in September-end 2019***
- ***State Bank of India's agriculture NPAs have risen from 5 per cent three years ago to 14 per cent in the first half of 2019/20***
- ***The telecom sector, which has seen two bankruptcies in as many years, is staring at another big liquidation after the Supreme Court ruling on payment of ₹92,641 crore AGR dues in January***
- ***The RBI has warned about the possibility of rising defaults in unsecured retail loans as growth slows***

For the banking sector, just looking to come out of the NPA crisis – gross NPAs fell after seven years, from 11.2 per cent in 2017/18 to 9.1 per cent in 2018/19 – the good news may be short-lived. More stress is emerging in agriculture, Mudra small loans, unsecured retail loans and telecom where banks and non-banks have as much as ₹27-31 lakh crore locked up (See *New Stress Points*). The total balance sheet of banks and non-banks is ₹190 lakh crore, equal to India's GDP, and any blow-up in these segments could threaten the stability of the

₹190

LAKH CRORE
The total balance sheet of banks and NBFCs, which is equal to the GDP of India

financial system as well as the already vulnerable economy.

"TBS-II (the second wave of the twin balance sheet) crisis is the reason for the current economic troubles," Arvind Subramanian, former chief economic advisor, has argued in a 38-page paper titled "India's Great Slowdown: What happened? What's the way out?" India, according to Subramanian, is facing a four balance sheet challenge. Non-banks and real estate firms have joined the earlier two villains, banks and infrastructure companies, under TBS-I. "TBS-II will lead to an even bigger damage to the economy," warned Subramanian, who has co-authored this paper with Josh Felman, former India head of the International Monetary Fund.

Economic growth is slowing. Worse, policymakers are still to figure out if the problem is structural or cyclical. Any delay or confused response will compound the problems. A case in point is the recent ₹1.45 lakh crore corporate tax cut, which addresses supply-side issues but leaves demand-side problems unaddressed. To top it up, there is no room for either monetary easing (inflation is rising, rate transmission is in a mess and government interest rates are sticky) or fiscal stimulus (government revenues are well short of the target, mainly due to the slowdown). According to Uday Kotak, MD & CEO of Kotak Mahindra Bank: "Savers in India are not used to lower interest rates because of higher small savings rates. How will they accept the dramatic lower bank deposit rates?"

Net-net, banks have little to look forward to in 2020 in terms of asset quality. Subramanian, in his paper, has highlighted another dangerous sign — the interest on corporate debt is accumulating much faster than the revenue the companies are generating. "The corporate cost of borrowing now exceeds the GDP growth rate by more than four percentage points," he said. Clearly, this stress will, finally, show up on bank balance sheets, and especially vulnerable will be small enterprises which have taken Mudra loans, agriculture sector (rural distress, farm loan waivers), the struggling telecom sector and, in case of big job losses, unsecured borrowers, too. The RBI's latest financial stability report warned that gross banking NPAs could spike to 10 per cent in the next nine months from the present levels of 9.3 per cent if the situation deteriorates further.

PHOTOGRAPH BY CHANDRA DEEP KUMAR

Rising default risk in new segments creates another **headache for Finance Minister**

New Stress Points

₹27-31

LAKH CRORE

Combined exposure under watch

Agriculture

EXPOSURE:

₹13-14

LAKH CRORE

REASONS FOR STRESS:

Loan waivers by states just before elections, farm distress, low inflation regime, fewer rural jobs because of lesser infra and construction work

Mudra Scheme

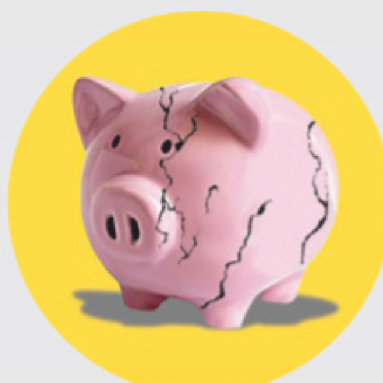
EXPOSURE:

₹7-8

LAKH CRORE

REASONS FOR STRESS:

Forced lending, the first three-five years loan cycle is ending, flawed lending model of PSBs and slowdown in some big sectors of the economy



Mudra Loans – Chickens Come Home to Roost

Pune in Maharashtra is bearing the brunt of cautious financiers. Many banks and non-banks have either stopped or reduced lending to small and micro entrepreneurs in this automobile hub. "Factory shifts are down to three a week. Ancillary units are sacking temporary workers. The entire ecosystem of suppliers and dealers has been hit," says a banker. The situation is the same in other industrial hubs. The worst-hit are entrepreneurs who have taken collateral-free Mudra loans of up to ₹10 lakh.

For SBI, gross NPAs in the Mudra category touched 18.5 per cent in September 2019. For Punjab National Bank, the figure was 22.71 per cent, while for Union Bank of India, it was 18.50 per cent. "While such a massive push (under Mudra) would have lifted many out of poverty, there have been concerns about the growing level of NPAs among these borrowers," RBI Deputy Governor M.K. Jain said at a microfinance conference in Mumbai in last November. The deputy governor told bankers that they need to focus on repayment capacity at the appraisal stage and closely monitor these loans through their life cycle.

Interestingly, official data tells a different story. The government has put gross Mudra NPAs at 2.86 per cent of the amount disbursed in 2018/19. Is it hiding the true extent of Mudra NPAs? Partially, say experts, adding that the correct denominator should be loans outstanding as old loans get repaid and new ones are added. Secondly, the deputy governor is probably more concerned about public sector banks (PSBs) than private sector banks, NBFCs and small finance banks as the private players are giving Mudra loans profitably. Thirdly, the average hides the fact that the PSBs have higher NPAs. Lastly, the higher lending target year after year increases loans outstanding, the denominator, which gives a lower NPA figure. The target for Mudra loans was ₹1.80 lakh crore in 2016/17, ₹2.44 lakh crore in 2017/18 and ₹3 lakh crore in 2018/19. A similar issue had distorted the picture between 2004/05 and 2010/12, when huge year-on-year rise in corporate lending led to banks showing low NPA ratios. The real position came out when lending slowed drastically.

The weak link in the chain is the flawed PSB model of tapping individual banking correspondent agents (bank Mitras) for sourcing the Mudra business. Private sector banks use their corporate banking correspondent model. Another weakness of PSBs is their inability to evaluate a project and underwrite based on risk, a point highlighted by the RBI's Jain in his microfinance speech.

To escape the coming crisis, PSBs need to learn from private sector banks and microfinance players, which are successfully lending to micro entrepreneurs based on customer segmentation. "They follow a joint liability group (JLG) of mostly women entrepreneurs, a Mohammed Yunus Model," says Sudip Bandyopadhyay, who runs a fast-growing microfinance business – Intitrade Capital – with operations in eight states. Many private sector banks start with loan exposure of ₹10,000 or ₹15,000 and slowly build a database of creditworthy customers. "Micro lending will always be susceptible to economic cycles whereas the JLG model provides a cushion because of the nature of the business and social pressures to pay up," says a private sector banker.

One can say in defence of PSBs that they have legacy issues and have to focus on liabilities (opening bank accounts) as part of the government's financial inclusion drive. "Micro lending is not their cup of tea," says a micro lender. At present, a large part of Mudra loans are less than ₹50,000. Most PSB Shishu loans go to first-time entrepreneurs or those with limited track record of business. "This is a relatively risky space," says a private sector banker. Also, in branch bank-

₹48
LAKH CRORE
Retail loans offered by banks and NBFCs between 2013/14 and 2018/19

Unsecured Retail Loans

EXPOSURE:

₹6-7
LAKH CRORE

REASONS FOR STRESS:
Job losses, stagnant incomes, rising household debt, rise of risky small personal loans and lending by fintech and NBFC players to new customers

Telecom

EXPOSURE:

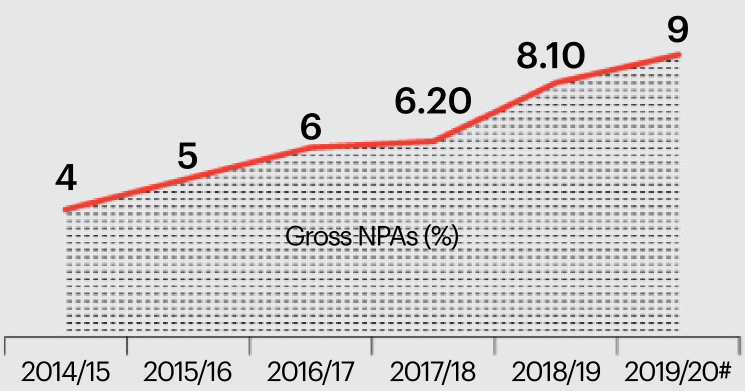
₹1-2
LAKH CRORE

REASONS FOR STRESS:
Huge AGR liability, losses of telcos, low tariffs and continuous investments for upgrade of network

Figures for 2018/19; Source: Market

Betting the Farm

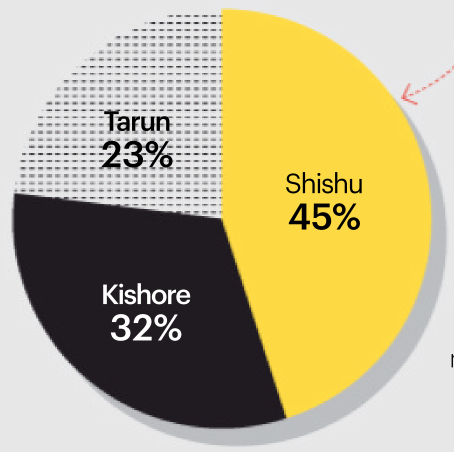
Farm distress bites; loan waivers also behind some intentional defaults



till September 2019; Source: RBI

Mudra Risk

The big share of small-ticket Shishu loans is a concern



% share based on ₹ 3.11 lakh crore disbursement in 2018/19; Source: Central Government

ing, PSB staffers tend to lend to those who have deposits in the branch. There is also a geographical bias. For example, Rajasthan is emerging as an upcoming centre for many NBFCs and private sector banks for financial services business. "The local political community also puts pressure on banks. We try to withstand these pressures but PSBs have nowhere to go," says the private sector banker.

A research by Bank of America says though Mudra loan NPAs do not appear to be a meaningful threat at current levels, a severe deterioration in asset quality could have a significant impact on banks if macro risks go up. And the macros, as we know, have been turning for the worse. GDP growth has fallen for eight straight quarters now.

Unsecured Retail Loans – A Ticking Bomb

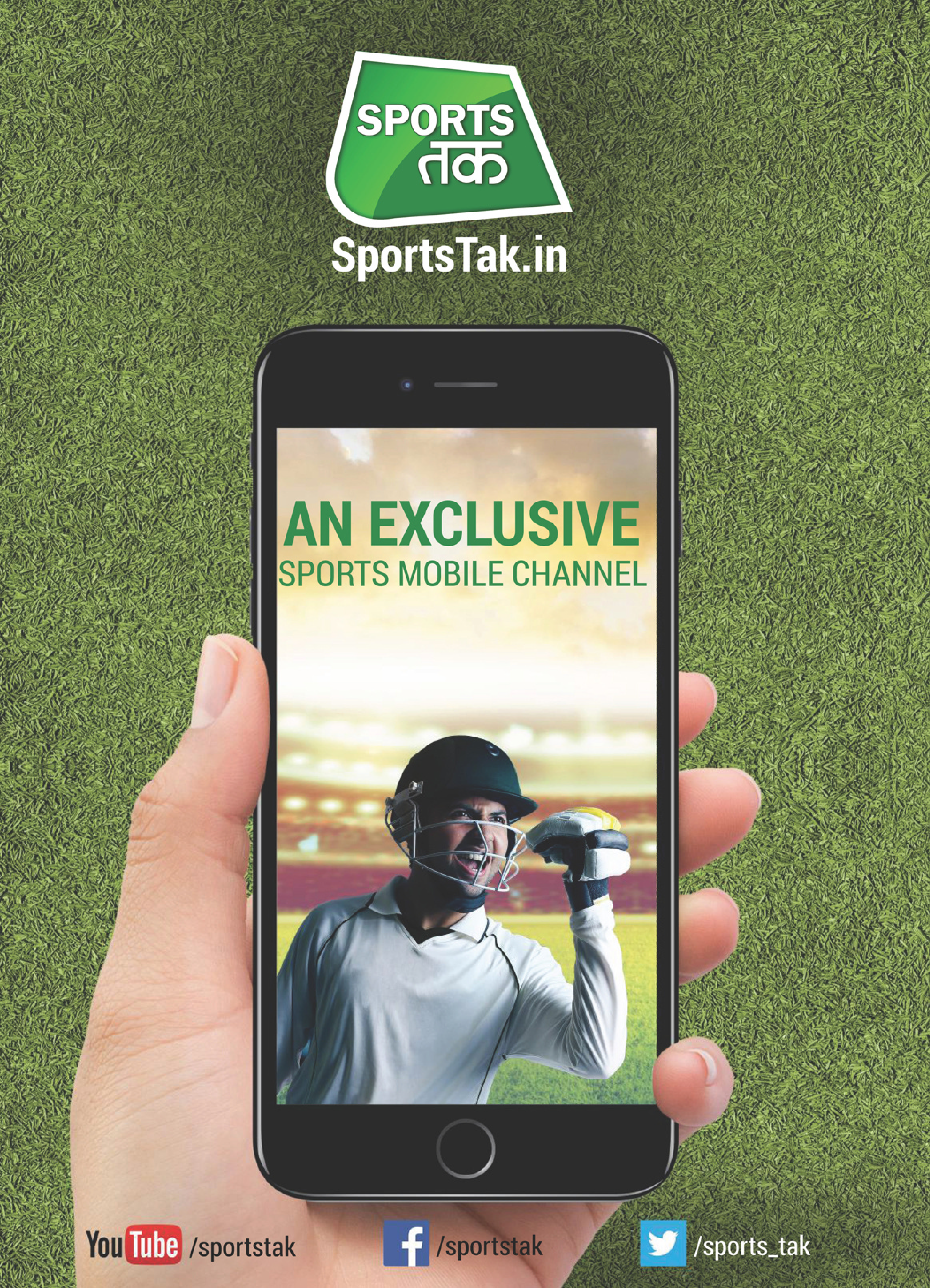
A year before the government went into the Mudra loan overdrive, banks, facing the prospect of big corporate loans turning bad, started building retail assets as the segment had low NPAs historically. Between 2013/14 and 2018/19, retail loans of banks and non-banks doubled to ₹48 lakh crore. But what is worrisome is the rising share of unsecured retail loans in bank credit which jumped from 24 per cent in 2014/15 to 33 per cent in 2018/19 (₹7 lakh crore out of ₹22.20 lakh crore retail loans). While unsecured loan data for global banks is not available, the higher share of household debt to GDP in the US, the UK and China shows rising unsecured retail loans. The household debt in India is 11-12 per cent of GDP. This is 87 per cent in the UK, 75 per cent in the US and 54 per cent in China.

"There is easy availability of credit from non-banks and fintechs. There is also a mindset change among people towards credit," says Harshala Chandorkar, Chief Operating Officer, TransUnion CIBIL. Anup Bagchi, Executive Director (Retail), ICICI Bank, says the segment per se is not bad. "Banks have large databases. We look at transaction data extensively apart from the credit bureau score," he says. Banks say they mostly tap existing customers with a good repayment record. At the largest private sector bank, HDFC Bank, unsecured personal loan and credit card book is 27 per cent of retail assets. Similarly, the portfolio of small finance banks is mostly unsecured. NBFCs and fintechs, too, are taking big positions in unsecured loans.

Among these players, non-banks are taking a bigger risk by giving small loans, tapping new customers and lending to even gig workers and those with low credit rating. "For the first time, NBFCs are facing challenges on both sides of the balance sheet. There has been shrinkage across sectors on the assets side even as the liabilities (funds) market has dried up after the IL&FS debacle," says a market expert. If the growth cycle stops, there could be a situation of low credit growth, falling incomes and rising de-

"While such a massive push (from Mudra) would have **lifted many beneficiaries out of poverty**, there have been concerns about the growing level of NPAs among these borrowers"

M.K. JAIN
Deputy Governor, RBI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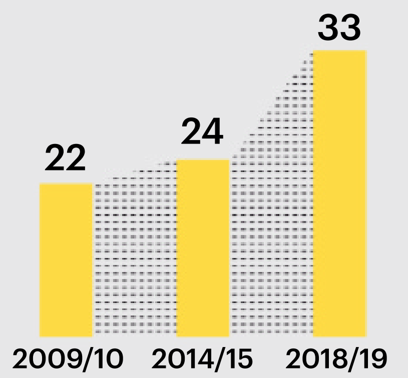
linquencies. The RBI's recent report on "Trends in Banking" has warned that the slowdown in consumption is expected to restrict growth of retail assets "even as the possibility of defaults in the retail segment rises as growth slows down". At a macro level, there is also an issue of growing household debt. In the last six-seven years, there has been a rise in financial liabilities of households as percentage of GDP from 3.3 per cent to 4.3 per cent. Net financial savings fell from 7.2 per cent to 6.6 per cent of GDP during the period.

However, Chandorkar of TransUnion CIBIL doesn't see huge delinquencies in unsecured loans. "The higher growth or denominator certainly has a part to play at the moment (in showing lower NPAs), but we don't see any sign of alarm," says Chandorkar. Similarly, Ramesh Iyer, Vice Chairman and MD, Mahindra Finance, whose company operates in rural areas, says customers are willing to discharge their liabilities by paying on time but they are not ready for acquisition of assets at the moment.

For banks and non-banks, the unsecured loan segment has been a saviour in the absence of huge demand from companies as well as secured retail segments such as auto and real estate. A recent ICICI Bank report on retail assets powered by ratings agency CRISIL says retail loans of banks and non-banks are estimated to double from ₹48 lakh crore to ₹96 lakh crore in the next six years. Interestingly, just the three unsecured segments – personal loans, credit cards and consumer durables – are expected to show a compounded annual growth rate of 20 per cent-plus in the next six years. This will substantially increase the share of unsecured loans in retail assets. And if the economy goes further down, mass retail defaults may become a reality. "Flat growth in income will not trigger massive defaults. What can trigger defaults is sources of income getting choked," says Shyam Srinivasan, MD & CEO, Federal Bank. ICICI's Bagchi agrees. "There can be some impact if there is a prolonged slowdown," he says. Retail NPAs for banks were around 1.8 per cent in 2018/19. The figure is low because of high share of secured housing loans. This might change as unsecured loans emerge as a new growth engine for banks.

Not Secured Anymore

The share of unsecured retail assets rises at a fast pace

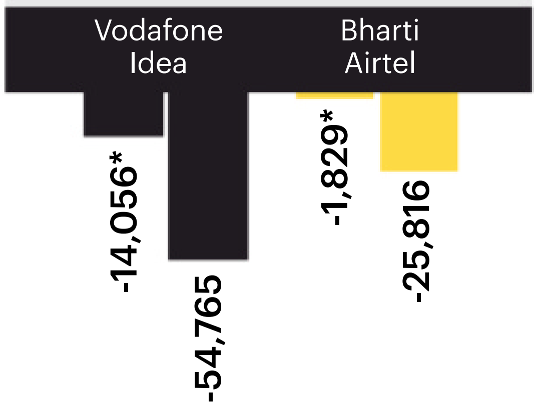


% share of unsecured loans in banks' retail assets

Source: RBI

Telecom's Distress Call

Bankruptcy seems round the corner



Figures in ₹ crore; *Losses in 2018/19 and H1 of 2019/20 Source: BSE

"Banks have large databases. **We look at transaction data extensively,** apart from the credit bureau score"

ANUP BAGCHI
Executive Director (Retail), ICICI Bank

Agri – Loan Waivers Spoiling Credit Culture

"If there is a fantastic crop, it is a sign of disaster for us lenders. The farmer doesn't get the right price and there is wastage because of inadequate post-harvest infrastructure."

That used to be the common grievance of bankers for a long time. But now a bigger worry is farm loan waivers. "It is becoming a pattern in state elections. The farmers are happily defaulting on expectation of relief from governments," says a banker. A couple of weeks ago, the newly-elected Maharashtra government joined the loan waiver bandwagon. In the just concluded Jharkhand elections, the Congress had promised a waiver of farm loans up to ₹2 lakh. An RBI report has revealed rise in NPAs in close to a dozen states that have promised farm loan waivers in the last three years. "The waiver could be indicative of the presence of moral hazard with borrowers defaulting in anticipation of a waiver," states the RBI report. The report adds that this behaviour adversely affects credit history of borrowers and their prospects of getting fresh loans.

Right now, at stake is ₹13-14 lakh crore agriculture loans. Gross sector NPAs shot up from 4 per cent five years ago to 9 per cent in the first half of 2019/20. For PSBs, the situation is worse. SBI's farm sector NPAs rose from 5 per cent three years ago to 14 per cent in the first half of 2019/20. Bank of India ended the first half of the year with a figure of 17 per cent. IDBI Bank's farm sector NPAs have touched 15 per cent. Rural distress and lack of post-shipment infrastructure are adding to the crisis. PSBs are worse off as they are given targets for lending to the agriculture sector. The government recently increased the collateral-free farm loan limit from ₹1

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PLOT NO. 106, PU-3, SCHEME NO.54, RASOMA SQUARE, AB ROAD, INDORE (M.P.) | CALL : +91 9826-333-333 lakh to ₹1.60 lakh in what cannot be good news for banks.

The banks' agriculture portfolio, which historically has had high NPAs, also suffers from structural issues. The RBI report pointed out diversion of farm credit for other purposes. It mentioned that states such as Kerala, Tamil Nadu, Telangana and Karnataka got more agricultural credit higher than their farm sector GDP.

Similarly, bulk of agri loans are for the pre-harvest period. Post-harvest is one area where the government is yet to provide enough incentives. "There is a huge anomaly in the market with credit largely going for pre-harvest activities," says Sudip Bandyopadhyay. The RBI report suggests direct benefit transfer. Another solution is giving loans with gold as collateral.

Telecom Sector – Bankruptcy Looms Large

The bankers are staring at huge haircuts in Aircel and RCom. Two years ago, Aircel, with dues of ₹45,000 crore, had filed for voluntary liquidation. Similarly, RCom was dragged to bankruptcy by operational creditor Ericsson in May this year. The telecom arm of the Anil Ambani group owes close to ₹50,000 crore to financial creditors. The banks have already made a provision of 40 per cent for these two accounts. They will have to write off a substantial amount in 2020 in a 60-70 per cent haircut scenario.

As if this was not enough, the new AGR liability of ₹92,641 crore has come as a death knell for the other telecom players, especially Vodafone-Idea and Bharti Airtel, both of which are anyways spending huge amounts to counter the Reliance Jio juggernaut. "If a default happens in the current lot of telecom players, we won't recover anything," says the CEO of a large public sector bank.

He has a point. The presence of RJio is forcing Vodafone-Idea and Bharti Airtel to keep investing in upgrade of towers and spectrum in spite of cash flow pressures. Vodafone Idea booked a loss of ₹54,765 crore in the first half of 2019/20 due to provisioning for AGR dues. Bharti Airtel reported a loss of ₹25,816 crore due to the same reason. The stock of Vodafone-Idea has tanked, which closes the option of raising money by selling equity shares. "We will shut shop if we don't get relief...because I think there is no company in the world that can pay that kind of fine in a few months. Just doesn't work like that," Aditya Birla Group Chairman Kumar Mangalam Birla had said after the AGR ruling. Vodafone-Idea's AGR liability is ₹28,300 crore while Bharti Airtel has to cough up ₹21,700 crore.

Probably aware of the implications of a big default, the government has provided some relief to the telecom sector by offering a two-year moratorium on spectrum fee, which is about ₹42,000 crore. In addition, the telecom players have agreed to increase tariffs. The government is even talking of setting a floor tariff to prevent predatory pricing. As per the RBI, banks have a fund-based exposure of over ₹1.30 lakh crore to the sector. The bankers, however, argue that their major concern is bank guarantee which they have given on behalf of the operators to the DoT for payment of licence fees. "I hope my bank guarantee doesn't crystallise," says a banker. The auction of 5G spectrum will put further pressure on the companies due to prohibitive pricing.

The danger signs have been visible for long. The number of telecom players is already down to four from over a dozen a decade ago. Tata Teleservices, Aircel, Videocon, RCom are all gone. In case of a bankruptcy, the bankers' worry is the eventual liquidation considering they don't have any collateral except spectrum. As per the RBI guidelines, they have to make 100 per cent provisioning in case of liquidation. The only positive here is the NCLT ruling that the banks can sell spectrum in the Aircel case. The DoT, however, has challenged this in the appellate tribunal.

One can only hope that the economy recovers sooner than expected and these risks don't materlialise. **BT**

@anandadhikari

Lowering Guard

Regulatory relaxations are another potential risk

Risk weight for consumer loans reduced from **125 per cent to 100 per cent**

Bank NBFC exposure limit hiked from **15 per cent** of Tier-I capital to **20 per cent** of Tier-I capital

Relaxation of external commercial borrowing guidelines for **NBFCs and corporates**

Lower credit rating for pool asset sale by **NBFCs to banks**

One-year deferment of deadline to build capital buffer. Minimum capital conservation ratio of **2.5 per cent** would be applicable from March 31, 2020. At present, it is **1.85 per cent**

Increase in collateral-free agriculture loans from **₹1 lakh to ₹1.6 lakh**

Economy

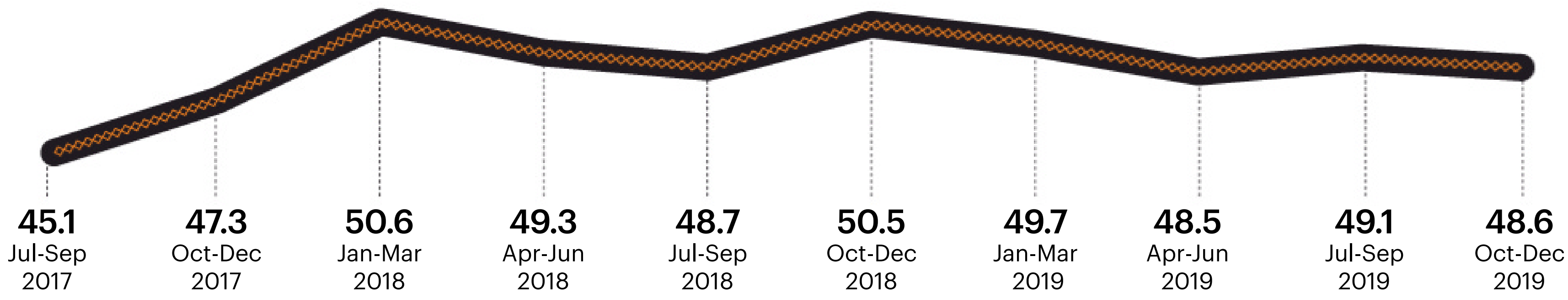
Knocked Out

PESSIMISM RULES AS CORPORATE LEADERS EXPECT A DULL BUDGET AND BELOW 5 PER CENT GROWTH IN 2019/20, FINDS THE LATEST *BUSINESS TODAY-C FORE* BUSINESS CONFIDENCE SURVEY

BY MANU KAUSHIK
ILLUSTRATION BY RAJ VERMA

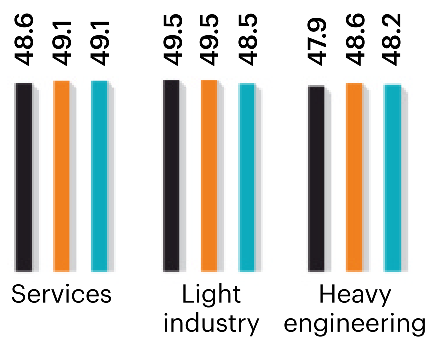
A Dampener

BCI has been below 50 for four straight quarters



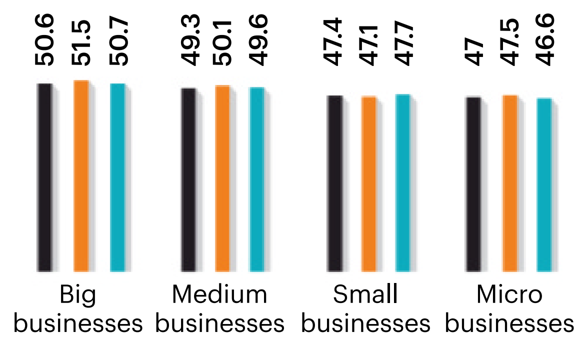
BCI by Sector

Services is the most upbeat



BCI by Size*

Only big businesses show a reading above 50



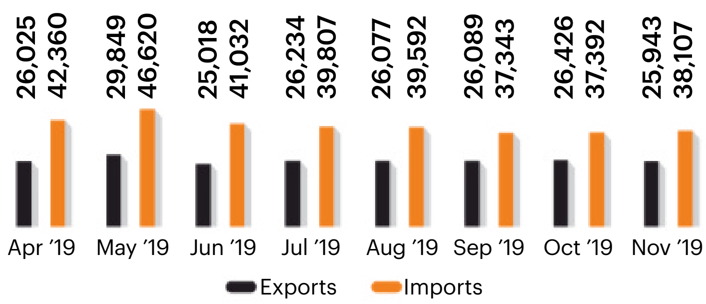
*Big businesses: Turnover > ₹500 crore; Medium businesses: Turnover ₹100-500 crore; Small businesses: Turnover ₹5-100 crore; Micro businesses: Turnover < ₹5 crore

Apr-Jun 2019 Jul-Sep 2019 Oct-Dec 2019

Macros Worsen

Both inflation and industrial production present a worrying picture

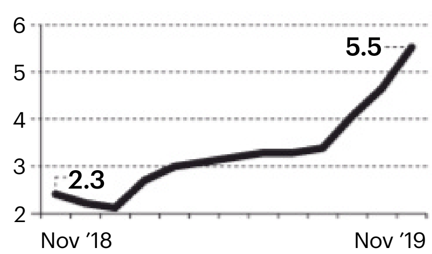
Exports decline, imports rise



Figures in $ million

Inflation inching up steadily

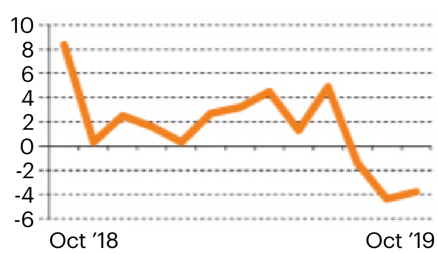
CPI Inflation (%)



Consumer Price Index; (YoY change)
Base year 2012

IIP remains in the negative territory

IIP growth (%)



(YoY change); Base Year 2011/12
Macro data source: CMIE

The fear of further decline in GDP growth and low expectations from the upcoming Budget dragged down confidence of corporate leaders in the October-December quarter. The Business Confidence Index (BCI), which has been moving within a three percentage point bracket for the last nine quarters, fell further in October-December. The BCI – on a scale of 100 – was at 48.6 compared with 49.1 in the previous quarter and 48.5 in the quarter before that. Market research agency C *fore* quizzed 500 CEOs and chief financial officers across 12 cities for the survey.

The survey shows that majority of respondents are despondent about the economy and issues facing their businesses. The previous survey had shown a similar trend. Most expect the situation to worsen in the January-March quarter. They show negative outlook in areas such as economic situation, business situation, financial situation, production level, order book, cost of raw material, use of production capacity, investment in operations, sales, exports and hiring. Take economic situation, where 31 per cent expect things to worsen in the current quarter. In the last survey, 14 per cent had expected this for the October-December quarter. Similarly, 28 per cent think production will fall in January-March as against 17 per cent in the previous survey. A total of 51 per cent respondents believe that GDP growth in 2019/20 will be below 5 per cent. Just 28 per cent hope it will be above 5 per cent and 21 per cent think it will be 5 per cent. GDP growth tanked to a multi-year low of 4.8 per cent in the first half of 2019/20, a sharp drop from 7.5 per cent a year ago. "Some high-frequency data show that the speed of slowdown has reduced, but GDP is still decelerating. I expect a mild upturn in the second half driven by better rabi crop prospects and low base of last year. Moreover, expectations of business leaders are shaped by what they observe. The third quarter numbers present a hazy picture so far," says D.K. Joshi, Chief Economist, CRISIL. The ratings agency's full-year GDP growth forecast is 5.1 per cent.

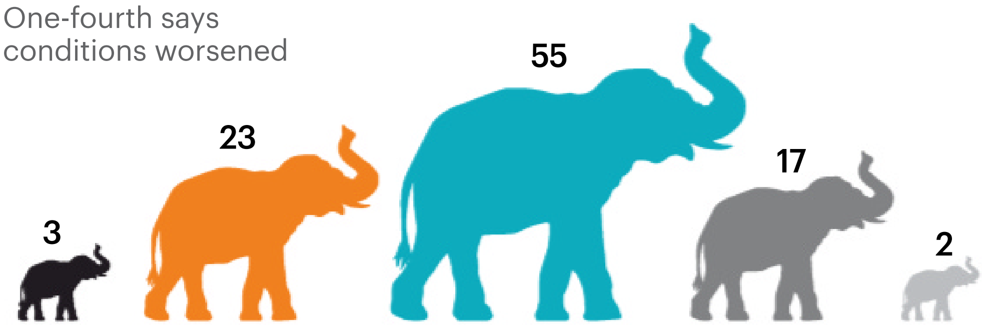
Sujan Hajra, Chief Economist and Executive Director, Anand Rathi Securities, says GDP may still be able to rise above 5 per cent. "The biggest problem with the economy is the huge funding crunch post the NBFC [non-banking financial companies] crisis. Credit growth continues to fall. Yet, there are some good signs. I don't see overall growth below 5 per cent for the full year," he says, adding that the first pre-condition for turnaround is restart of lending by public sector banks. "The second issue is government maintaining a significant payment backlog because of fiscal constraints, which is increasing receivables of companies. The companies, in turn, are not being able to clear payments to suppliers. This has become a vicious cycle which needs to be broken. While the RBI has cut lending rates sharply, this hasn't translated into the weighted average lending rate coming down significantly," says Hajra.

In the survey, 49 per cent respondents do not hope that Budget 2020 will revive the economy. Most economists *Business Today* spoke to say the government has limited fiscal space due to lower revenue collections. Since GDP growth has fallen, the top line of the economy hasn't grown, which has resulted in lower tax revenues. "It is certain that GST [goods and services tax] collections will be short of the budgeted figure. If revenue collections remain weak, the government's ability to spend will go down. Unless the government decides to raise the fiscal deficit target, its ability to spend will remain quite constrained," says a research analyst. "Direct budgetary support will be difficult but the government can provide

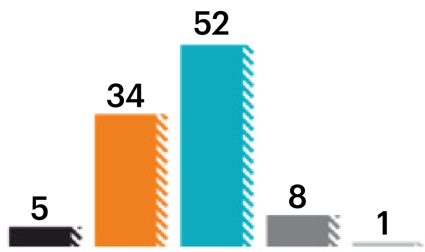
Overcast Mood

Most businesses would like to forget the Oct-Dec quarter

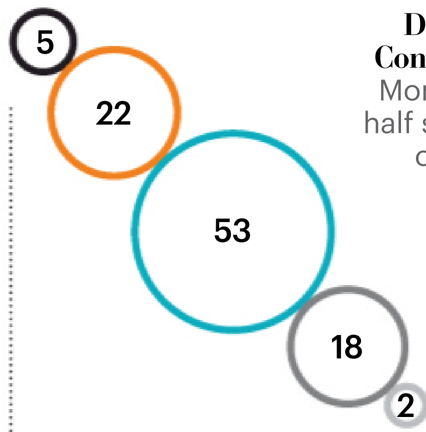
Overall Economic Conditions
One-fourth says conditions worsened



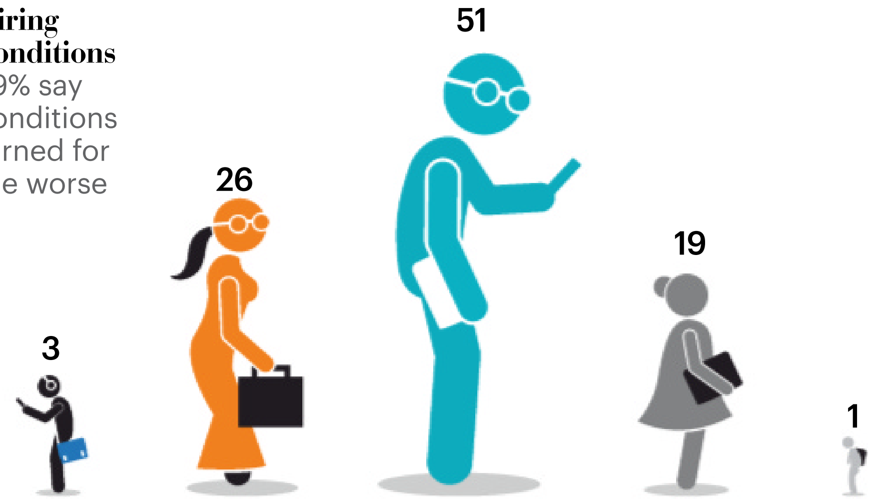
Availability of Business Finance
39% say the situation became worse



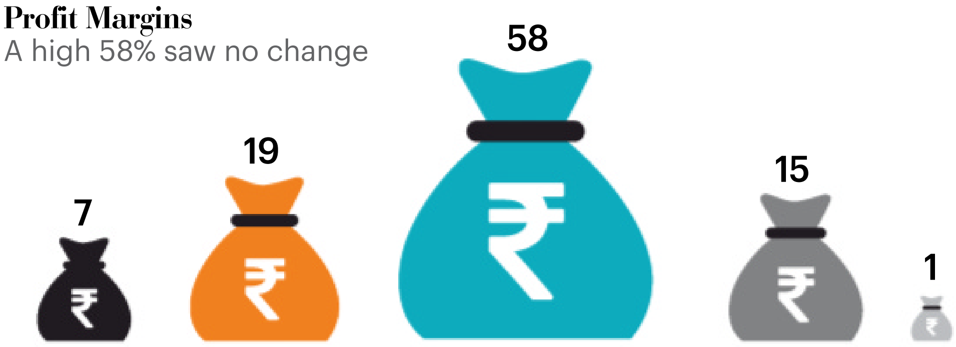
Demand Conditions
More than half saw no change



Hiring Conditions
29% say conditions turned for the worse



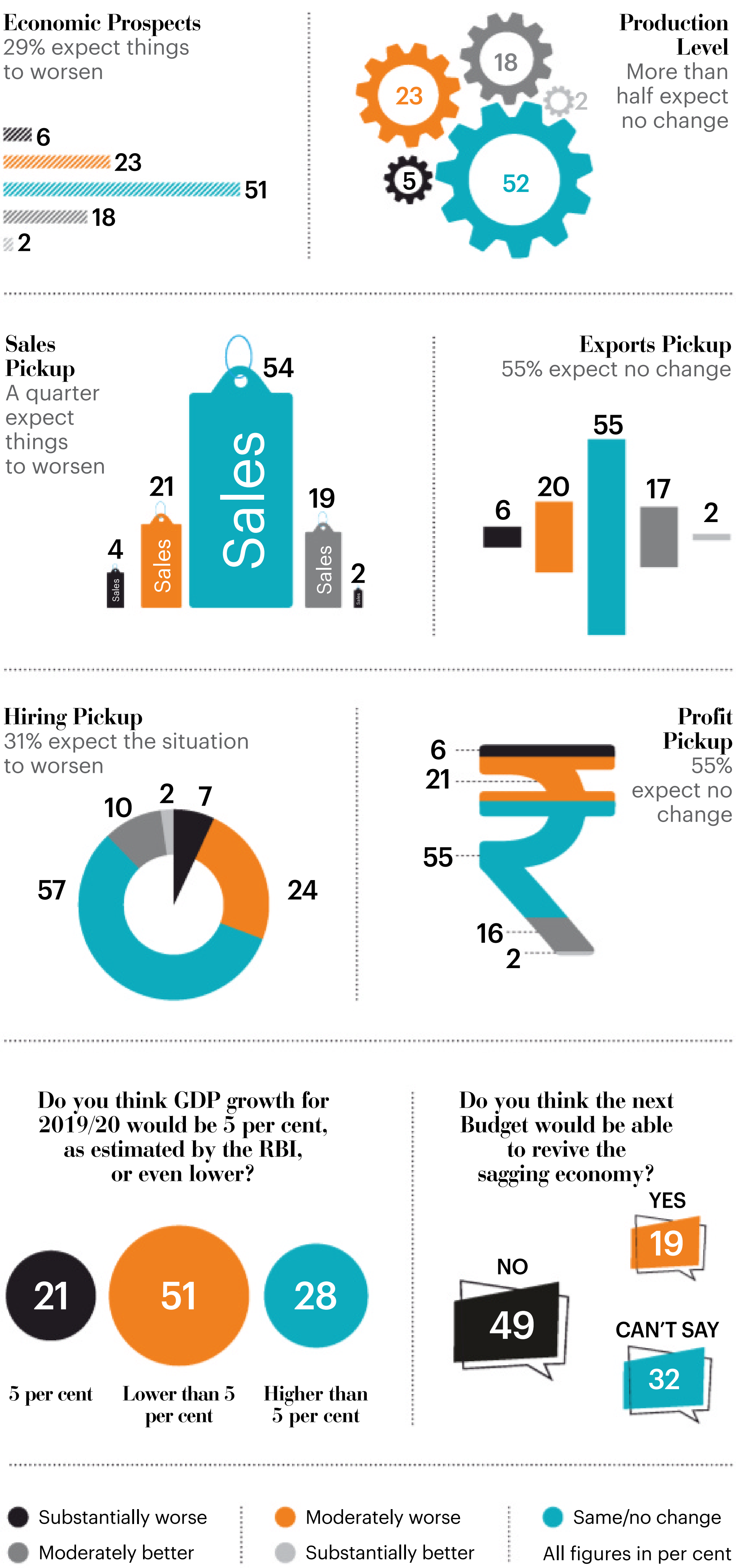
Profit Margins
A high 58% saw no change



● Substantially worse ● Moderately worse ● Same/no change
● Moderately better ● Substantially better All figures in per cent

Future Not Bright

Most respondents see a slim chance of any improvement in the Jan-March quarter



indirect inducements to industries. The sharp cut in the corporate tax rate, which is 15 per cent for new companies, is a big boost," says Hajra of Anand Rathi Securities.

The survey highlights that 46 per cent corporate leaders don't intend to make fresh investments over the next two quarters, a trend the BCI has been capturing for the last few quarters. Initially, the poor private investment cycle was primarily led by lower capacity utilisation, but in recent quarters, the slump in consumption has contributed to low private investments.

It's believed that companies may hold back on investments and use the surplus from the corporate tax cut to retire debt or increase savings, though a handful of sectors are likely to see some investments. "Some indicators suggest a slight pick-up in investments. It's not across the board but sectors such as chemicals, food products and fuel are seeing traction," says an economist. The respondents expect things to improve in just a few areas such as selling prices, imports, profits and stock prices. For example, 18 per cent corporate leaders expect profits to improve in the current quarter as against 14 per cent in the previous survey.

As a supplement to the survey, we do an assessment of other economic indicators. These include export-import, index of industrial production (IIP) and consumer price inflation (CPI). The numbers are bleak. While IIP shrunk 3.8 per cent in October, its third consecutive monthly fall, CPI rose 5.5 per cent in November, much above the RBI's comfort level of 4 per cent. The situation on the export/import front is not healthy either.

BCI has captured the ground realities of the India Inc over the past nine years – the first survey was conducted in January-March 2011 – for the country's decision-makers. It will not be out of place to hope that the latest results, which are far from satisfactory, will act as a wake-up call. BT

@manukaushik

100 Years of ASSOCHAM

Celebrating 100 Years

THE KNOWLEDGE CHAMBER

Annual Conference

New India: Aspiring $5 Trillion Economy

As India sets its eyes firmly on becoming a $5 trillion economy, the need for the Government and Indian corporate sector to work closely to achieve this dream has become more pertinent.

The Government has taken some bold policy initiatives to catapult the country's economy into a high-growth orbit. The challenges and risks that will come along the way can be mitigated by the collective wisdom of industry and the Government.

Apex industry body ASSOCHAM has taken the initiative by choosing the theme 'India Moving Forward: Journey Towards A $5 Trillion Economy' to commemorate its 100 years and the Annual Conference held on 20th December 2019 that was inaugurated by Prime Minister Narendra Modi. A galaxy of Union Ministers led by Minister of Finance and Corporate Affairs, Mrs Nirmala Sitharaman, Minister of Railways and Commerce & Industry, Mr Piyush Goyal, Minister of Road Transport & Highways and MSME, Mr Nitin Gadkari, Minister of Law and Justice, Communications, Electronics & Information Technology, Mr Ravi Shankar Prasad and Minister of Textiles and Women & Child Development, Mrs Smriti Zubin Irani addressed plenary sessions. The Union Ministers reiterated the Government's commitment to make necessary policy changes, be an enabler for the industry and lend a patient ear to inputs from the industry to remove regulatory, non-regulatory, judicial and other hindrances.

ASSOCHAM - Primus Partners, exhaustive and insightful report 'India Moving Forward: Journey Towards a $5 Trillion Economy' points out to the need for the Indian corporate sector to come together and take the lead in making India an economic powerhouse. ASSOCHAM has identified four trajectories for the next surge of economic growth – Transforming agriculture and doubling farmers income, future-ready manufacturing, playing to India's strength in Services, Leveraging technology to drive growth. Other key areas identified for propelling the country's economy are: Infrastructure Development, Policy Reforms & Governance, Climate & Sustainability, Job Creation and Social Environment.

"The government has introduced various reforms that will drive long-term growth. Despite initial challenges, transformational reforms such as GST and IBC would go a long way in changing the economic landscape of the country. India's infrastructure base is being enhanced and the country is becoming accessible for global businesses," says Mr Balkrishan Goenka, outgoing-President of ASSOCHAM in the foreword of the report.

The services sector has been at the heart of India's economic growth that at present contributes over 50% to the country's GDP. But without a robust manufacturing ecosystem, it will be difficult for India to accelerate economic growth to the levels that will help achieve the $5 trillion economy target. The country has to become an industrial powerhouse as manufacturing provides maximum employment and with millions of young people joining the workforce every year, services sector alone cannot provide the number of jobs required. The government needs to continuously provide policy framework to strengthen the manufacturing sector as it will help the country manifold – provide more employment opportunities, attract global investors into setting up manufacturing facilities in India and service the increasing domestic demand for quality products.

The Economic Survey of 2019 stated that India needed to invest 7-8% of its GDP towards infrastructure development annually that roughly translates into an annual investment of $200 billion but the current investment is only $100-110 billion annually. The Government needs to embark on an ambitious programme of Public-Private Partnership (PPP) through innovative business models that have clear revenue streams and are also bankable for the private sector. Other important infrastructure areas that will propel the country's economic growth are the digital infrastructure, logistics and warehousing.

But the foremost and most vital factor for India's overall and inclusive growth has to be creation of an economic ecosystem through structural reforms in government policy and governance framework. The Government must assume a frontal role to bring about institutional change, particularly in complimenting industry's efforts to develop free and fair market institutions, in restructuring and disinvesting inefficient state-owned companies, strengthening the banking system and establishing a market-oriented legal and regulatory policy.

The government has taken a slew of path-breaking measures to cut red-tapism and discretionary powers of government authorities, there is still lot of government intervention and licence/permit systems. The current government must take advantage of its political majority in Parliament to further improve the governance systems at a fast pace including raising the number of Judges to serve the large Indian ecosystem.

One of the biggest challenges is creation of jobs in India that has the largest percentage of young people under the age of 30 years in the world. It is essential to empower India's labour force with the right skills for a rapidly changing environment. The Government must create a policy framework that focuses on job creation based on appropriate skilling, especially in MSME, healthcare and travel and tourism sectors.

The Government should also invest in managing climate change and explore PPP model for faster implementation of initiatives in this area.

"The government has introduced various reforms that will drive long-term growth. India's infrastructure base is being enhanced and the country is becoming accessible for global businesses."

Mr. Balkrishan Goenka, President, ASSOCHAM

The much-needed surge in the growth will have to be focused on the following:

ASSOCHAM believes that the technologies that will form the basis of the manufacturing revolution will be Internet of Things, Big Data Analytics, Augmented Reality, Cloud Computing, Additive Manufacturing, Robotics and Cyber Security.

ASSOCHAM
Celebrating 100 Years

"As Mr Deepak Sood sums up aptly, "ASSOCHAM is aligned to contribute towards the transformation that the country will have to undertake to create a New India and we look forward to assisting the Government in realising the economic and social vision for the country."

Mr. Deepak Sood,
Secretary General, ASSOCHAM

"Commenting upon the 100 years of ASSOCHAM, the new incoming President, Dr. Niranjan Hiranandani reiterated the positioning of ASSOCHAM as a knowledge chamber and looks forward to working on critical issues that help in the growth of India."

1. Tech-enabled disruption will be a dominant theme in navigating the growth trajectory. New age service sectors will be driven by many factors such as complex data and advanced analytics, automation, holistic view of factors and historical context.

2. Creation of new age infrastructure by building networks and platforms that provide support for innovation in services and business models as well as up-gradation of traditional infrastructure that enables the service providers to remain competitive.

3. Securing India's knowledge base by increasing investment in knowledge-based assets and nurturing the country's innovation ecosystem by creating and leveraging a strong IP framework.

4. The service sector has not contributed significantly to creation of jobs. Future-ready service models will revolve around leveraging skilled labour packaged with disrupting technology.

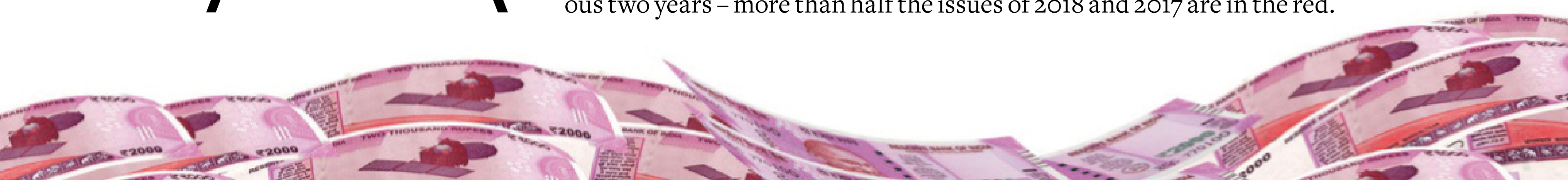
GOING WITH THE TIDE

MARKET BUOYANCY LED TO A STELLAR SHOW BY IPOs THOUGH FUNDS RAISED WERE LOW

BY NITI KIRAN
ILLUSTRATION BY RAJ VERMA

A **rising tide lifts all boats**, and the recent buoyancy in the stock market boosted the post-listing performance of 2019 initial public offerings (IPOs). The equity market, which was otherwise drooping since June, rose by around 14 per cent, year-to-date. This led to a stellar show by IPOs which hit the markets in 2019.

The markets are scaling all-time highs – the Sensex delivered over 3 per cent returns in September and October and close to 2 per cent in November. In December, it rose around 1 per cent. According to data compiled by Prime Database, of the 16 main-board IPOs of 2019, 15 have been listed so far. Of these, about 81 per cent are trading over 20 per cent of their respective issue prices (based on market price of December 23). This is in stark contrast to the previous two years – more than half the issues of 2018 and 2017 are in the red.



The leaders in the 2019 pack were Indian Railway Catering and Tourism Corporation (IRCTC), which is trading above 170 per cent its issue price of ₹320, and Indiamart Intermesh, which is up by 120.3 per cent. Five IPOs are trading above 50 per cent while six have risen 20-40 per cent higher than their issue prices. Stock prices of only two issues in 2019 – Sterling & Wilson Solar and Xelpmoc Design & Tech – are below the issue prices. They have declined 61.2 per cent and nearly 4 per cent, respectively.

Year 2018 was different. It saw 24 IPOs, 13 of which are trading way below their issue price. Some of the worst performers include Indostar Capital Finance (-69.3 per cent), Varroc Engineering (-56.8 per cent) and Karda Constructions (-44.6 per cent). The preceding year was not an exception either with almost 64 per cent of issues that hit the market in 2017 currently underperforming their issue price. Two IPOs are trading below 80 per cent and eight below 50 per cent their issue prices. From a disappointing show of approximately 42 per cent issues trading below their issue price to above 20 per cent returns by 54 per cent of them, the IPOs listed in 2016 were a mixed bag.

Overall, of the 102 issues listed since 2016, 49 are trading below their issue prices.

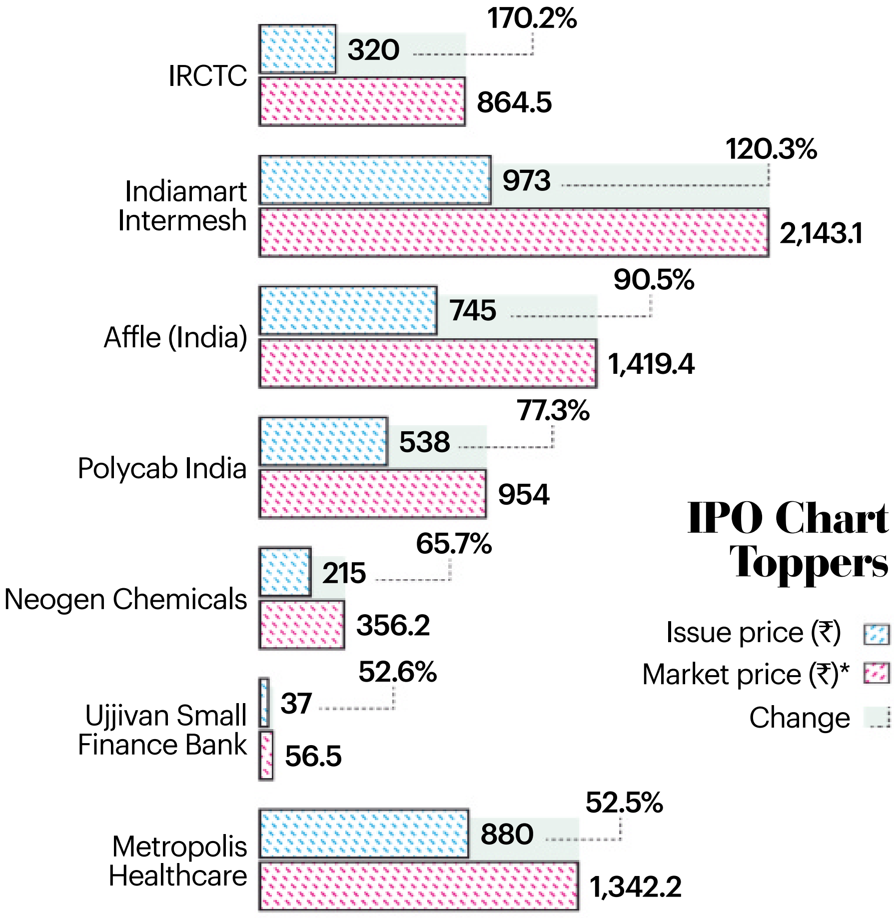
High Demand

Overall response from public to the main-board IPOs of 2019 was good too. Seven IPOs received a mega response of more than 10 times; IRCTC at 109 times followed by Ujjivan Small Finance Bank (100 times), CSB Bank (48 times), Affle (48 times), Polycab (36 times), Neogen

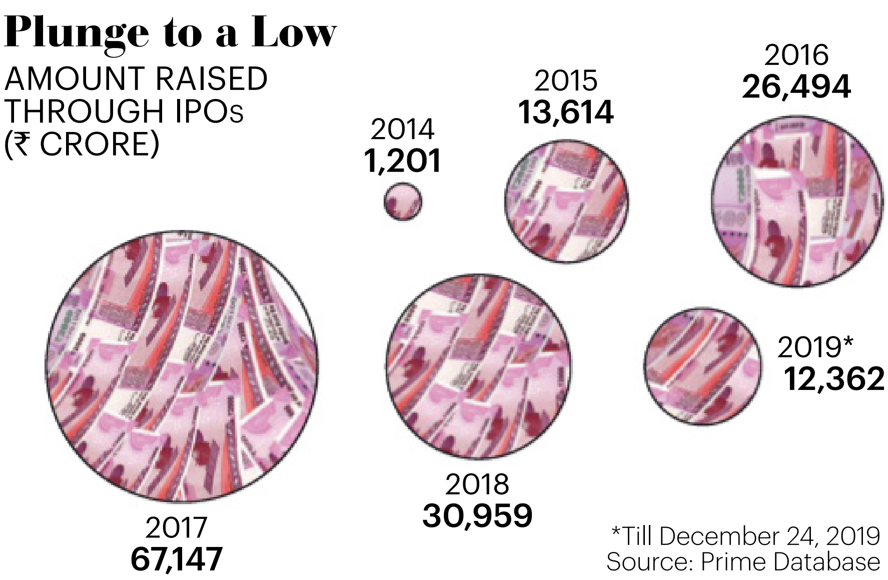
Good Show by 2019 Debutants

Share of IPOs trading over 20% their issue prices

Source: Prime Database



*As on December 23, 2019. List is not comprehensive. Source: Prime Database



*Till December 24, 2019
Source: Prime Database

Chemicals (29 times) and Indiamart Intermesh (20 times). One was subscribed by more than three times and the balance seven IPOs were subscribed one to three times.

Retail investors were enthusiastic participants as well. Ujjivan Small Finance Bank received the most applications at 14.36 lakh, followed by 12.94 lakh for IRCTC, 11.37 lakh for Polycab and 9.2 lakh for CSB Bank.

"The response to IPOs was further buoyed by strong listing performance of IPOs of the year," says Pranav Haldea, Managing Director, Prime Database Group. Of the 15 IPOs that got listed, seven listed with over 10 per cent gain from their issue price (based on closing price on listing date). IRCTC gave a stunning return of 128 per cent followed by CSB Bank with 54 per cent.

Small Purse

The popularity that IPOs enjoyed in 2019, however, is not the whole story. Funds raised through these IPOs plummeted to a five-year low in the year.

One of the reasons is that the number of IPOs was lesser this year – only 16 main-board IPOs hit the market this year versus 24 in 2018. The amount declined sharply by 60 per cent from ₹30,959 crore in the previous year to ₹12,362 crore. The year 2017 was good for the IPO market when 36 main-board IPOs came out, collectively raising ₹67,147 crore, almost double the amount raised in the previous high of 2010. The IPO market revived in 2015 and a total of ₹1,07,255 crore were mobilised between 2015 and 2017. But it failed to garner a similar response the following year when the amount raised declined 54 per cent.

The largest IPO in 2019 was from Sterling & Wilson Solar for ₹2,850 crore, though the average deal size was ₹773 crore. Only three out of the 16 IPOs that hit the market had a prior PE/VC investment, a notable change from previous years. Offers for sale by such PE/VC investors at ₹803 crore accounted for just 6 per cent of the total IPO amount. Offers for sale by promoters at ₹7,513 crore accounted for a further 61 per cent of the IPO amount.

According to Haldea, the recent buoyancy in secondary markets as also the listing performance of IPOs in the last few months has provided some impetus to the primary market. The IPO pipeline continues to remain strong with 21 companies with approval from the Securities and Exchange Board of India (Sebi) wanting to raise nearly ₹18,700 crore. Another 13 companies wanting to raise nearly ₹18,000 crore are awaiting Sebi approval.

However, during 2019, 47 companies that had received a green signal from Sebi to raise over ₹51,000 crore, allowed it to lapse, despite approvals being valid for a period of one year and after having incurred a lot of time and cost.

Year 2020 will continue to see a strong IPO pipeline and improved expectations of earnings growth. This may well lead to good performance this year, too. BT

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Corporate

BAYER-MONSANTO POWER OF TWO

HOW THE MERGER OF MNC GIANTS BAYER AND MONSANTO IS LIKELY TO PAN OUT IN INDIA

By P.B. JAYAKUMAR
ILLUSTRATION BY RAJ VERMA

₹120cr
Annual revenue/cost efficiencies expected from the merger by 2022

₹180cr
Likely one-time integration costs

As far as mega mergers go, the one between Bayer and Monsanto did not get off to a great start. Just months after Bayer bought Monsanto in a $63 billion deal, its shares were battered after a Northern California jury asked it to pay more than $2 billion to a couple who said they developed cancer after using the company's glyphosate-based weedkiller Roundup, part of the Monsanto portfolio. Though a court later reduced the penalty to $86.7 million, the damage had been done, with Bayer losing almost 30 per cent market capitalisation since the merger. The allegations around Roundup have triggered thousands of cases against Bayer across the world, mainly in the US.

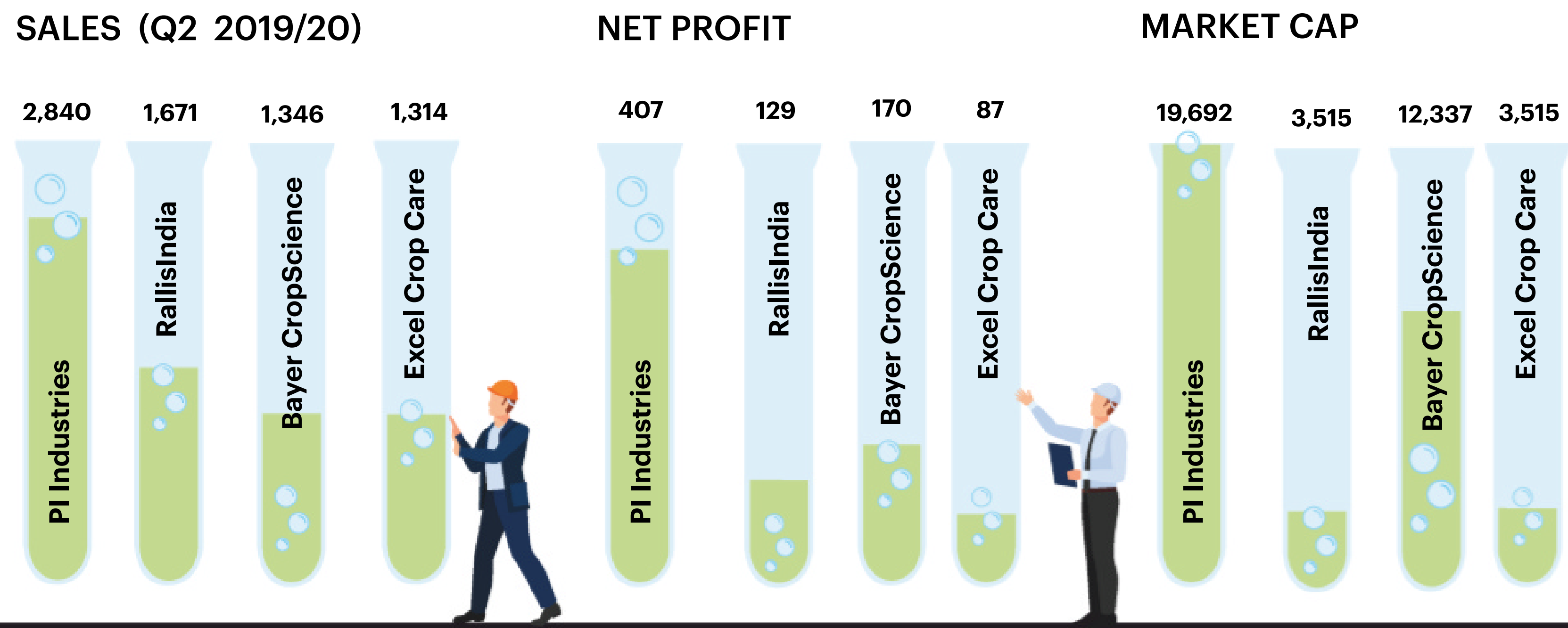
In India, the world's fourth-largest producer of agrochemicals, things have been calm. The merger, in fact, is progressing smoothly, with Bayer and Monsanto managements expecting substantial savings from synergy and a big impact in the $4 billion (₹28,000 crore) Indian agrochemical market (where the top five-six players account for majority market share) that the merged entity — with 14-15 per cent market share of the organised crop protection market — hopes to dominate. The market is expected to double to $8 billion by 2025, according to a Ficci report. Bayer and Monsanto, with a number of complementary strengths, are seeking to make the most of this high growth.

Bayer's crop science business in India has four manufacturing sites, including a global site at Vapi and a multi-crop breeding centre in Chandippa, Hyderabad. It

BAYER FACTS

Bayer would like to use Monsanto to improve its India rank

₹ crore; Source: BSE

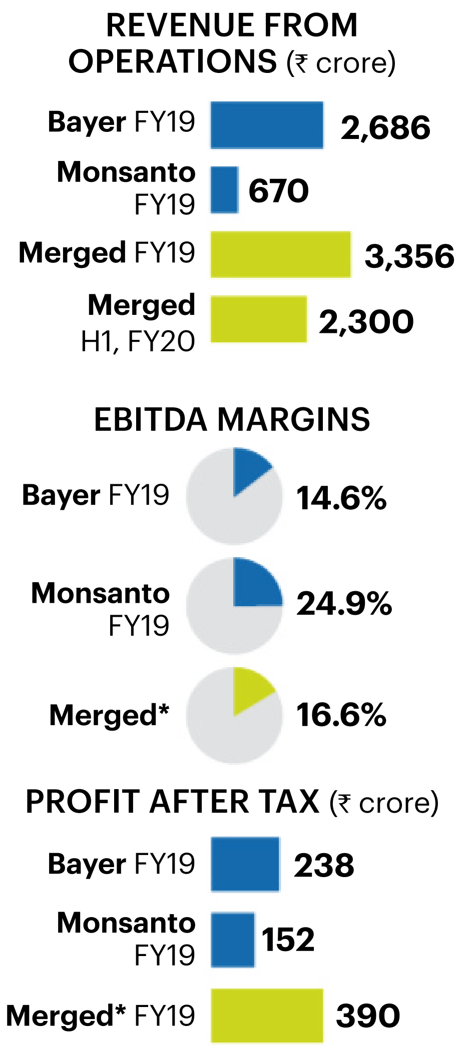


is strong in crop protection products such as Infinito (fungicide), EverGol Xtend (seed growth), Velum Prime (insecticide), crop nutrient supplement Ambition, herbicides Alion Plus and Council Activ, hybrid seeds like Arize and vector control (mosquito management) insecticide Aqua K-Othrine. It has strength in plant and soil health, chemistry skills, and has a solid biologics platform.

Monsanto, on the other hand, has three manufacturing facilities in India — a herbicide plant in Silvassa, a corn conditioning plant in Shamirpet, Telangana, and a vegetable seed production plant in Deulgaon Raja in Maharashtra, besides three breeding sites, including a station focused on corn and vegetables in Kalinayakanahalli, Karnataka, a corn breeding station in Udaipur and a global R&D centre in Bengaluru.

This is apart from strength in seeds with leading brands like Dekalb, one of India's largest selling hybrid maize seed brand and India's largest selling glyphosate herbicide Roundup, besides vegetable seeds under the brand Seminis. Besides, Monsanto is good in R&D in breeding, improving yields, digital farming and next generation technologies. Though their market share varies from product to product, both have multiple leading brands in different crop protection and seed segments. Both have been listed in India for decades.

THE MERGER IN NUMBERS



Merged figures taken from restated accounts; *Before eliminating transactions between Bayer & Monsanto; Source: Companies

A 'Safe' Merger

In India, the 'Scheme of Amalgamation' of Monsanto India Ltd with Bayer CropScience Ltd became effective on September 16. The integration is on. Will it be a safe 'marriage' in India considering the trouble the merged entity is facing elsewhere due to glyphosate and other issues? After all, in the US, the merger had faced intense regulatory scrutiny and was approved only after Bayer agreed to sell its competing Liberty herbicide business, cotton, canola, soyabean and vegetable seed businesses, some R&D projects, and its digital agriculture business, so as not to create a monopoly. Competitor BASF bought these for $9 billion.

"Unlike many global mergers, we don't see any cultural integration or other issues here. Both Bayer and Monsanto have been in the Indian agricul-

PHOTOGRAPH BY RACHIT GOSWAMI

"Indian farmers have known both Bayer and Monsanto for decades and **coming together of the two will help them access a better and** larger portfolio of crop protection products and seeds"

D. Narain, Senior Bayer Representative, South Asia; and MD, Bayer CropScience

ture space for decades and are truly Indian than MNC subsidiaries," says Simon Wiebusch, Chief Operating Officer, Crop Science Division of Bayer for India, Bangladesh and Sri Lanka. "Indian farmers have known both Bayer and Monsanto for decades and coming together of the two will help them access a better and larger portfolio of crop protection products and seeds, next generation agricultural practices, and improve their yields and profits," says D. Narain, Senior Bayer Representative, South Asia, and Managing Director, Bayer CropScience.

Bayer CropScience has considerable strengths in crop protection and environmental science products and hybrid seeds. The Vapi site, where it has invested over ₹860 crore, produces active ingredients and intermediates for application in crop protection, animal health as well as home and garden applications. Bayer Cropscience had a total income of ₹2,787 crore in 2017/18 and ₹2,722 crore in 2018/19. Besides Bayer CropScience, Bayer has third-party manufacturing arrangements for pharmaceutical, animal health and consumer health products in India and a joint venture in pharmaceuticals with Zydus Cadila, called Bayer-Zydus Pharma.

Monsanto has also been present in India since 1975. Monsanto India (MIL) focuses on corn seeds, formulation and sale of glyphosate-based herbicide and has an IT-based mobile platform that provides farmers information on agronomic practices. Besides, Monsanto operates a private company Monsanto Holdings, which sells vegetable seeds and offers contract research and shared services. Monsanto Holdings also has a joint venture with Maharashtra Hybrid Seeds Company (Mahyco), Mahyco Monsanto Biotech, which licenses cotton traits to various Indian seed companies. For half year-ended September, the combined entity of Bayer CropScience and Monsanto had revenues of ₹2,296 crore, compared to ₹2,140 crore in the corresponding period a year ago, and PBT of ₹497.8 crore, compared to ₹491.3 crore in the year-ago period (after regrouping accounts to align with the global merger on June 7, 2018).

₹186cr

Sales of Roundup weedkiller, about 28 per cent of Monsanto's net sales of ₹667.44 crore in FY18

4.3%

Annual growth in production of agrochemicals in FY14-18

The Merger and Inherited Troubles

Four years ago, Bayer decided to reinvent itself as a life-science company focused on health and agriculture. The trigger was the massive changes in the global agriculture space where some of the biggest players were merging. In 2017, DuPont merged with Dow Chemical to form DowDuPont, and a year later, ChemChina acquired Syngenta.

Bayer's acquisition of Monsanto, two years later, was part of a vision to create the world's biggest agrochemical and seed company. Monsanto, a predominant seeds company, offers Bayer an opportunity to become bigger in seeds and related technologies. Besides, Monsanto was one among the first to establish the futuristic 'digital agriculture' business. The merger was completed in June 2018. Weeks later, the glyphosate issue blew up. The International Agency for Research on Cancer, part of the World Health Organization, issued a report in early 2015 which said that glyphosate could cause cancer. Though drug regulators and agencies like the US Environmental Protection Agency and the WHO did not endorse this view, thousands of litigations were filed in the US against Monsanto. However, in early May 2019, the US Environmental Protection Agency came up with a report saying that

WHY THE $63 BILLION ACQUISITION

- Bayer wants to evolve as a life sciences company focused on crop science, consumer health and pharmaceuticals
- The global agriculture space is changing. Some majors in the global agrochemical industry have merged. In 2017, DuPont merged with Dow Chemical to form DowDuPont
- Monsanto offers Bayer an opportunity to become bigger in seeds and traits; Monsanto has been among the first to establish the futuristic 'digital agriculture' business

THE CHALLENGES

- Monsanto is facing thousands of court cases globally. However, these are being heard extensively by the courts and are being appealed at various stages
- Bayer CropScience in India had a disappointing Q4 last year and saw a 57 per cent YoY decline in revenue from operations
- Subdued market conditions and delayed marketing ramp-up of recently launched products
- In India, agriculture is only 15.5 per cent of GDP; as many as 41.6 per cent people are employed in agriculture v/s 1.3 per cent in Germany; low mechanisation levels
- Average farm size in India is 1.1 hectares v/s the US average of 175 hectares
- Foodgrain production grew only at a CAGR of 1.8 per cent and horticulture at a CAGR of 3 per cent during FY14-18
- The government of India regulates manufacture, sale, transport, export/import of pesticides under the Insecticides Act, 1968. One of the key shortcomings of this Act is that it mainly pertains to insecticides (which account for 53 per cent share of the domestic agrochemicals market)

PHOTOGRAPH BY RACHIT GOSWAMI

"Revenue and cost efficiencies expected from the merger **by 2022 will be to the tune of ₹120 crore per annum** and so far the integration progress is on track"

Rolf Hoffmann, CFO, Bayer South Asia; and Director on the Board of Bayer CropScience

glyphosate is not carcinogenic, which Bayer extensively publicised. Now, Bayer is facing over 40,000 cases, and may have to spend billions of dollars to settle these, say industry insiders.

Unlike in the US, the glyphosate issue has not been a problem in India, though Kerala and Punjab had earlier volunteered to restrict its usage. A known molecule in the Indian market for over 40 years, glyphosate is used mainly in crops like tea, sorghum, wheat, maize, soybean, sunflower and cotton. Its market is estimated to be around 30 million litres for which around 90 players with over 70 brands compete. Roundup is the market leader with sales of around ₹185.66 crore, about 28 per cent of Monsanto's net sales of ₹667.44 crore in FY18, according to a news report.

Barring the possible repercussions of the glyphosate issue, Bayer is looking at huge synergies with Monsanto in India. "Revenue and cost efficiencies expected from the merger by 2022 will be to the tune of ₹120 crore per annum and so far the integration progress is on track," says Rolf Hoffmann, Chief Financial Officer, Bayer South Asia, and Director on the Board of Bayer CropScience. The broader areas of synergy would be revenue (leveraging mutual portfolio and channel presence), procurement and supply chain efficiencies and administrative (including IT infra). The one-time integration costs are expected to be ₹180 crore.

"The merger will bring additional value to Bayer's core portfolio through complementary products from Monsanto India. The merged entity numbers and roll-forward FY21 estimates expected are 18 per cent revenue CAGR and 33 per cent EBITDA CAGR over FY18-21E," Amar Mourya and Himanshu Binani, analysts with brokerage firm Emkay, said in a report in February. As per the data of the Department of Chemicals and Petrochemicals, the production capacity of agrochemical players in India is around 2,92,000 million


PHOTOGRAPH BY RACHIT GOSWAMI

"Unlike many global mergers, we don't see any cultural integration **or other issues here. Both Bayer and Monsanto** have been in the Indian agriculture space for decades"

Simon Wiebusch, Chief Operating Officer, Crop Science Division of Bayer for India, Bangladesh and Sri Lanka

tonnes (MT) and production grew at a CAGR of only 4.3 per cent during FY14-18. Bayer (with Monsanto) is expected to grow in double digits. The analysts' view is that the merged entity will show acceleration in revenue growth. Given that Bayer has more touch points than Monsanto, the latter's seed (maize) and agrochemical businesses can see acceleration, they said. Their estimate was revenues of ₹3,994 crore in FY20 and ₹4,489 crore in FY 21 for the merged entity.

However, analysts with Prabhudas Lilladhar differed after Bayer had a disappointing Q4 last year, when it reported a 57 per cent decline in revenues with high costs leading to loss at EBITDA and PAT levels. They expressed concern over subdued market conditions and delayed marketing ramp-up of recently launched products, while admitting that the aggressive launch pipeline (50 new products by 2022) and the most extensive and professionally planned distribution network were advantages. "The negative publicity around glyphosate and its (possible) ban within India's few states also creates short-term uncertainty," observed Prashant Biyani, an analyst.

The situation has changed following an extended monsoon this year and the merger can bring a lot of new technologies and benefits across the agriculture value chain for Indian farmers, says Narain, who was with Monsanto since 1998 and joined as the Bayer CropScience Head in December 2018.

Better Life Farming

Farmers will remain the key focus of the merged entity. "We have 5,000-plus field staff to inform farmers about new agricultural technologies and have launched projects to improve their incomes. Our technology and services have reached two crore small farmers. Also, a total of 91,000 farmers have benefitted from food chain partnerships and the Better Life Farming initiative," says Narain.

Also, Bayer has projects like Farmrise, which helps farmers with modern tools such as drones and digital farming. Bayer is also launching Better Life Farming, an initiative to empower 2.5 million small farmers through creation of 5,000 agri-entrepreneurs in horticulture, corn and paddy by 2025. The other partners in the initiative are Yara Fertilisers, International Finance Corporation (IFC), Netafim, DeHaat and Big Basket.

"Cost-effective financing is one of the most critical issues for small farmers and we are looking at roping in partners who can provide viable financing options to small land holders. Our alliance partner, International Finance Corporation, is helping us conduct cost-benefit assessments for the Better Life Farming business model," says Narain.

Considering the focus on farmers, the Bayer-Monsanto combine is sure to remain a key player in India's crop protection and seeds industry. BT

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Hanging by

THE TEXTILE INDUSTRY IN TAMIL NADU IS FACING A CRISIS DUE TO THE ECONOMIC SLOWDOWN AND FALL IN EXPORTS, FORCING MANY SPINNING MILLS AND WEAVERS TO CUT PRODUCTION AS WELL AS WORKFORCE

By K.T.P. RADHIKA

Sixty-seven-year-old P. Muthusamy is worried. The small-scale weaver from Tirupur, India's textile export hub located 450 km southwest of Chennai in Tamil Nadu, buys yarn from spinning mills and turns it into cotton fabric. He has 10 power looms, which until a year ago used to run for 12 hours a day, six days a week. Muthusamy had employed six people in his small factory, located next to his house. "We used to produce around 12,000 metres of cotton fabric a month and make around ₹15,000 in profits. There weren't any large savings but I was able to meet the basic needs of my family," says Muthusamy. However, things changed for the worse last year. Cotton yarn exports plunged and domestic consumption of textile, too, took a hit. "I had to cut production to almost 50 per cent. Some

PHOTOGRAPH BY H.K.RAJASHEKAR

a Thread

A yarn unit in Tirupur. The cluster has been facing huge pressures due to fall in global trade and domestic bottlenecks of my workers left for better jobs in other industries. Now I employ only two people. I can hardly meet my own expenses. I can't learn any new job at this age," says Muthusamy, who started weaving when he was 15.

Like him, several small- and medium-scale players in major textile clusters of Tamil Nadu, including Tirupur, Erode, Salem and Coimbatore, are struggling due to the slowdown that has gripped the textile industry. Reports from the Cotton Textile Export Promotion Council (Texprocil), an industry body for promoting cotton exports, say cotton yarn exports have fallen nearly 39 per cent in July-September 2019 against the same period last year. In value terms, they have fallen to $1.28 billion, from $2.09 billion. "India exports about 25 per cent of its total cotton yarn produced every month," says K.V. Srinivasan, Chairman, Texprocil. "This started dropping when the slowdown started to hit the segment in the beginning of 2019. Monthly yarn exports, from an average of 100-120 million kg per month have come down to 60-70 million kg," he says.

The immediate impact of this has

Reasons for Decline

PHOTOGRAPH BY H.K.RAJASHEKAR

No FTA with major export markets (47 per cent goes to Europe and the US). Competitors, including Sri Lanka, Vietnam, Bangladesh and Ethiopia, have FTAs with these geographies

• • •

Increase in duty-free garment imports from countries like Bangladesh with which India has FTAs. Import of apparel increased 9 per cent in April-August 2019 from the previous year

• • •

Import duty on Indian imports meant Indian exporters could not make full use of opportunity thrown up by US-China trade war. Many competitors have a duty-free advantage

The trade war has also meant reduction in yarn and fabric exports to China

• • •

Domestic consumption has fallen. Spinners expect revenues to fall by more than 5 per cent and operating profitability to contract by around 3 per cent for FY2020 (Icra)

PHOTOGRAPH BY VIKRAM SHARMA

"We are aware that the **cotton yarn industry has taken quite a hit after the US-China trade war.** And my colleagues in the commerce ministry have dedicated themselves to ensuring that they find a solution

Smriti Irani,
Union Textiles Minister

been a fall in forex earnings. "A drop of 35-40 per cent has been reported for yarn and fabric, resulting in forex earnings from this sector falling 30 per cent. This is a matter of concern for the country's economy as well as the individual industries in this sector," says Raja M. Shanmugham, President of the Tirupur Exporters Association (TEA).

The decline is indeed worrisome as the textile industry in India contributes around 13 per cent to the manufacturing GDP and 2.3 per cent to the total GDP, according to the Ministry of Textiles. The sector also accounts for 7 per cent of the industrial output (in value terms), and 15 per cent of export earnings. It also contributes 11 per cent to the country's total exports. Giving employment to more than 4.5 crore people makes it the second-largest employer (after agriculture).

While 2019 has seen a severe drop in

Why Textiles Is Important

the industry, the reasons are older.

Weak Fabric

A high 47 per cent of India's textile and apparel exports go to European nations and the US. However, India does not have free trade agreements (FTAs) with major export markets. "Our competitors, including Sri Lanka, Vietnam, Bangladesh, Ethiopia and others, have an FTA with the US and European nations. Thus, we are losing our competitiveness," says C. Devarajan, Vice Chairman, Texvalley, a B2B marketplace for the textile industry in Erode, a prominent textile cluster in Tamil Nadu. In April this year, Pakistan, too, signed an FTA with China. So, not only do Indian exporters face stiff competition, they also have to contend with an import duty of around 5 per cent on cotton yarn from India.

"After 2016, we have not made any significant progress in exports," says Shanmugham of the TEA.

This duty disadvantage played out even in the opportunity that the US-China trade war presented. China used to have a 30 per cent share of US apparel imports. When the trade war began, the Indian textile industry was eyeing a share of that. "While we were able to ensure a slight increase in our apparel exports (2-3 per cent) because of this, we could not achieve a great leap. There is an import duty on our textiles while our competitors enjoy a duty-free advantage. The major businesses went to them," says Shanmugham. So, while a country like India, the second-largest cotton producer in the world, has only 7.6 per cent share of US imports, smaller markets like Vietnam and Bangladesh enjoy 13 per cent and 11 per cent market shares, respectively.

The trade war also resulted in reduction of cotton yarn and fabric exports to China. "India was one of the biggest suppliers of yarn and fabric to China. The trade war with the US has created a slowdown in China's apparel market, which has further hurt India's cotton exports," says Shanmugham. Srinivasan pegs the fall at "more than half the exports to China." Out of India's total yarn exports, 30 per cent goes to China, he says.

Domestic Slump

The reasons for the decline in the textile industry extend to the domestic market as well, mostly due to the

"India exports about 25% of its **cotton yarn produced every month. It started dropping when the slowdown** began to hit the segment in the beginning of 2019"

K.V. Srinivasan,
Chairman, Texprocil

economic slowdown and fall in rural consumption. "This has resulted in capacity reduction in textile mills. Many mills have reduced production by 30 to 50 per cent," says a representative of Coimbatore-based Southern India Mills Association (SIMA).

Another hard knock came from duty-free garments being imported from countries like Bangladesh under the FTA. "As our cost of production is higher, our garments cannot be produced or sold at a competitive price," says M. Jayabal, President of Coimbatore-based Open End Spinning Mills Association (OSMA).

The economic slowdown in India has led to delayed payments. "They are getting delayed by more than three to four months. This is hurting our working capital and loan repayment," says a yarn mill owner from Coimbatore. The state government has announced some incentives but these are inadequate.

Demonetisation and GST had already affected the industry, which is dominated by MSMEs. For instance, the Tirupur cluster in Tamil Nadu, which accounts for more than 70 per cent of India's cotton knitwear exports, has more than 9,000 textile units, which include spinning mills, dyeing units, power loom units, apparel making units, and exporters. More than 85 per cent are MSMEs. "The profit margin of these smaller textile manufacturers is very low, just 4-5 per cent. When they come under the GST net, since their margin is less than the GST rate, they are not able to compete with the bigger players," says S. Chandramohan, President of the Confederation of Indian Industries, Tamil Nadu State Council. "It is a structural issue and consolidation in the industry will help solve it to an extent," he says.

The challenges are forcing smaller companies to partially or fully shut down their operations. "In the past two years, Tamil Nadu alone saw the closure of more than 100 small-scale open-ended spinning mills. They are not able to compete in the market," says Jayabal of OSMA.

To cope, many have cut down production capacity. "The companies are running fewer looms and cutting down the working time," says S. Sakthivel, an exporter from Tirupur and executive secretary of the TEA. A weaver from Erode, who owns 15 power looms, says he has halved production. "My looms used to work six days a week. I have been running only 10 looms for the past six months. This is affecting my revenue flow and loan repayment," he says.

What Can be Done

BOTH THE GOVERNMENT AND THE INDUSTRY NEED TO TAKE ACTION

Diversify: Reduce dependence on one or two regions; increase exports to markets such as Russia and Japan

Consolidate: The industry is fragmented; all stakeholders in the value chain need to be connected

Form clusters: Consolidate industry and create mega apparel cities

Turnaround time: Improve the farm to fashion turnaround time, which in India is 140 days, almost three times of 50 days in Bangladesh

Upgrade technology: Modern equipment at spinning mills can increase productivity and production

Uniform taxation: All fibres could be in the same tax band. Man-made and synthetic fibre attract 18 per cent tax, while for cotton it is 5 per cent

Job Worries

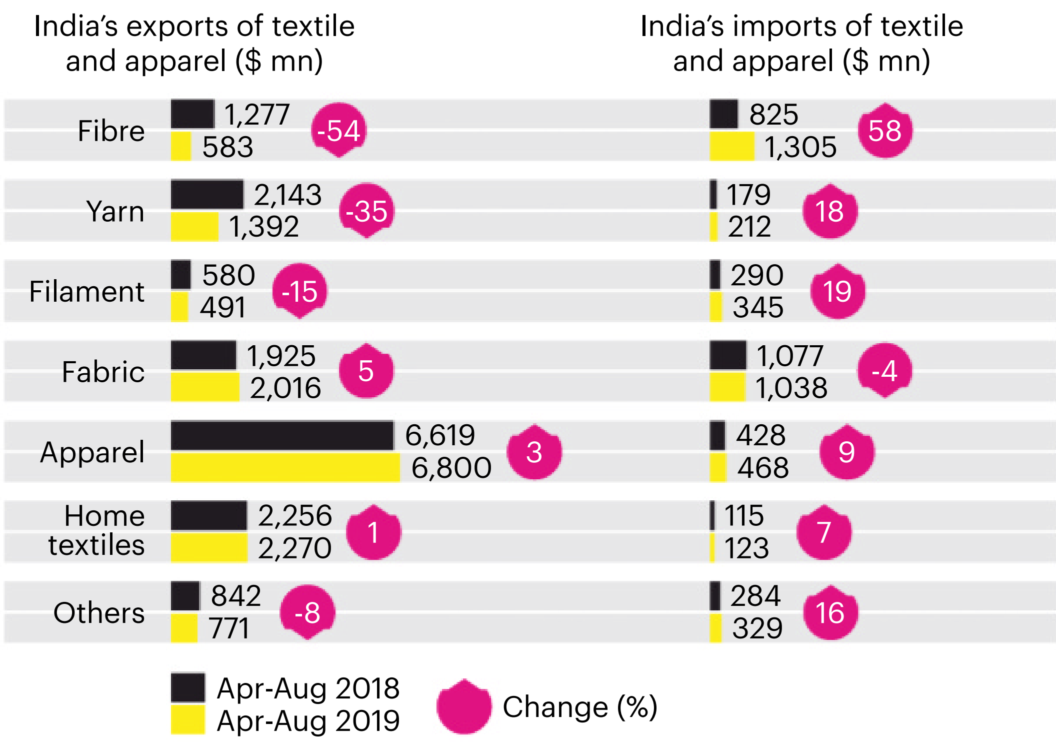
The textile industry is labour-intensive. Employment in it constitutes 18 per cent of the entire manufacturing industry. So, a slide will affect employment generation as well. By one estimate, a 20 per cent cut in production in a spinning mill can lead to job loss of 30-35 per cent.

"With companies cutting down production, many daily wage workers employed in these units work only for two-three days a week," says N. Chandran, Tamil Nadu State Vice President, CITU. "Three lakh workers are employed in spinning mills in Tamil Nadu. The state government has announced a minimum wage of ₹439 per day for daily wage workers. But as the companies are not making much profit, many of them are not paying the same, he says.

The scale of job loss is high, too. "In the Tirupur cluster alone, which

In Knots

EXPORTS OF FIBRE AND YARN HAVE TUMBLED EVEN AS IMPORTS HAVE JUMPED



Source: Directorate General of Commercial Intelligence and Statistics

employs around five lakh daily wage labourers, around two lakh workers have become jobless in the past one year," says Chandran.

The closure of open-ended spinning mills alone has rendered one lakh workers unemployed, says Jayabal of OSMA.

Measures Needed

The industry is highly fragmented and needs restructuring. "The entire production value chain is fragmented. To address global requirements, we need to consolidate all the stakeholders involved," says Devarajan of Texvalley.

To beat competition from countries like Vietnam and Bangladesh, apart from FTAs, the industry needs to scale up, for which there is a need to modernise and improve efficiency. "We need to create mega apparel cities like China, which has individual apparel companies that are exporting garments worth ₹21,000 crore, while the whole of Tirupur exports garments worth only ₹26,000 crore per year. We need to scale up so that mid-sized companies can improve and capture big volumes which will attract partnerships from countries across the world," says Prabhu Damodaran, Convenor, Indian Texpreneurs Federation, a textile entrepreneurs association.

Use of better technology is needed in each layer of production to improve the turnaround time. "From farm to fashion, our turnaround time is at least 140 days. In Bangladesh, it is only 50 days," says Jayabal.

Market diversification is also needed to reduce concentration risk and increase volumes. Currently, India is more focused on the US and European markets. The volume of exports to countries like Japan or Russia is very thin. "These are big markets. For instance, Russia imports around ₹65,000 crore worth of textiles every year, but India's share is a mere ₹500 crore," points out Damodaran. "Market diversification is very important in job creation as it will divide the risk. Every $1 billion of additional exports in apparels can create 1.5 lakh jobs, which is not possible in any other industry," he adds.

The industry also wants a fibre neutral policy to improve exports. "The government should bring all raw materials, cotton and man-made fibre, under one tax rate. Currently, man-made fibre attracts an 18 per cent rate," Damodaran says.

To address these challenges and to pull the Central government's attention, various associations of textile industry have formed a committee – National Commission on Textile and Clothing – to bring in all segments of the industry under one umbrella. It has submitted a memorandum to the textile ministry, the commerce ministry and the finance ministry. "The textile ministry has asked stakeholders to give a joint representation. We have done so and are waiting for them to take adequate measures," says the representative from SIMA.

A sharp slump in exports is an issue that will need short-term as well as long-term revival measures, especially considering the employment that the industry can generate. **BT**

"The government should bring all raw materials, **cotton and man-made fibre under one tax rate.** Currently, man-made fibre attracts an 18 per cent rate"

Prabhu Damodaran,
Convenor, Indian Texpreneurs Association

The author is a freelance writer based in Chennai

Retail

MALLS WITH AIRPORTS

The land of duty-free has grown to such an extent that these stores are now destinations by themselves

By APRAJITA SHARMA

Running into thousands of square metres, duty-free areas in airports have become attractive retail hubs sporting the who's who of luxury. In terms of sheer size and range offered, the duty-free retail areas at Dubai International Airport, London's Heathrow, Singapore's Changi, Incheon International Airport in South Korea, or even at Indira Gandhi International Airport in Delhi, are nothing less than high-end malls.

The first duty-free store was established in 1947 at Shannon airport in Ireland. Since then, the global duty-free market has grown to $76 billion (as of 2018).

Duty-free business is estimated to grow at a CAGR of 6.5% and reach $112.5 billion by 2025 (Adroit Market Research)

PHOTOGRAPH BY SHEKHAR GHOSH

"OUR PRICING IS COMPETITIVE BUT WE EQUALLY FOCUS ON HAVING BEAUTIFUL SHOPS AND TRAINED STAFF WITH IN-DEPTH KNOWLEDGE OF PRODUCTS"

Philip Eckles, India CEO, Delhi Duty Free

What's more, it is estimated to grow at a CAGR of 6.5 per cent and reach $112.5 billion by 2025, according to Pune-based Adroit Market Research. India's duty-free market is estimated at $200 million. Harsha Razdan, Partner and Head – Life Sciences and Consumer Markets, KPMG, says it is expected to quadruple to $800 million by 2025 with sustained CAGR of 20 per cent till that year. "A large part of this growth will be driven by the propensity of Indian consumers to shop for alcohol (80 per cent of all airport shopping) at airports, along with growing and increasingly affluent middle class, greater tourist arrivals and expansion in number and size of Indian airports."

Changing Preferences

Apart from the variety, it's the promotional and other offers that attract people — two bottles of Johnny Walker Black Label for ₹3,990 at the Delhi Duty Free or Stella McCartney Pop Eau de Parfum 100ml for 237 AED at the Dubai Duty Free. Rupali Dean, a food and travel writer, prefers buying MAC cosmetics at Delhi Duty Free as "they are 20 per cent cheaper".

While liquor remains high on the to-buy list, sales of fragrances and cosmetics have left it behind. The story goes that the best seller at the first duty-free shop was Irish whiskey. For long, liquor was a hot favourite among buyers all over the world. But in the recent past, the scales have tilted towards perfumes and cosmetics. The category grew 23.5 per cent in 2018 to $31.5 billion, while wines and spirits grew 7.2 per cent to $12.2 billion. This was followed by fashion and accessories growing 7.7 per cent to $10.8 billion, according to Generation Research.

At Dubai Duty Free, one of the biggest in the world, sales of perfumes crossed $196 million in 2019, contributing 15 per cent to total sales. "Cosmetics recorded an increase of 9 per cent in sales at $143 million, accounting for 11 per cent of total sales," says Colm McLoughlin, Executive Vice-Chairman and CEO of Dubai Duty Free. Perfumes, liquor and tobacco are its top three bestselling categories. In India, too, a similar trend can be seen. Mumbai Duty Free, which is operated by Flemingo Travel Retail, has seen growth in fashion and luxury as well as watches segments over the past two years. "Tumi, Michael Kors, Mont Blanc, Hugo Boss, Bally and Swarovski, we offer some of the most popular brands across categories," says P.K. Thimmayya, CEO, Flemingo Travel Retail. "We also have an exclusive store for watches. TAG Heuer, Tissot, Ulysse Nardin and Omega are some of the biggest names available," he adds.

At the core of what buyers are looking for are range and offers. At the same time, the shopping experience is important too, something that the duty-free stores in India need to work on, especially with luxury products. Delhi Duty Free has made an effort to change this perception; it recently invested $10 million in renovating stores at the airport. The new walk-through shops are spread over 1,190 square metres at the arrival terminal and more than double of that (2,778 square metres) at the departure terminal. "It's not just about pricing but also the shopping environment. Our pricing is indeed competitive but we have been focusing on having beautiful shops and trained staff with in-depth knowledge of products," says Philip Eckles, India CEO, Delhi Duty Free.

Dubai Duty Free, while being among the top names, is making sure it retains its position. "We invest significantly in retail operations to improve offerings and overall customer experience," says McLoughlin. The plan includes special concept stores, concierge shopping services, refurbished Food Plus shops and a new gold shop. Dubai Duty Free now has 38,000 square metres retail space at Dubai International Airport and 4,000 square metres at Al Maktoum International Airport.

But with 52,000 square metres of retail space, London's Heathrow claims the top spot in size. Other European airports such as at Copenhagen and Zurich are also popular with luxury shoppers and offer a culturally rich and aesthetic environment.

At the backend of these changes is collection of real-time data, which is analysed to understand trends and demands so that personalised choices can be delivered at various touch points to

DUTY-FREE AIRPORTS- DEAL OR NO DEAL

Overall, Kuala Lumpur airport has the cheapest duty-free stores, while, Santorini airport in Greece has the most expensive ones

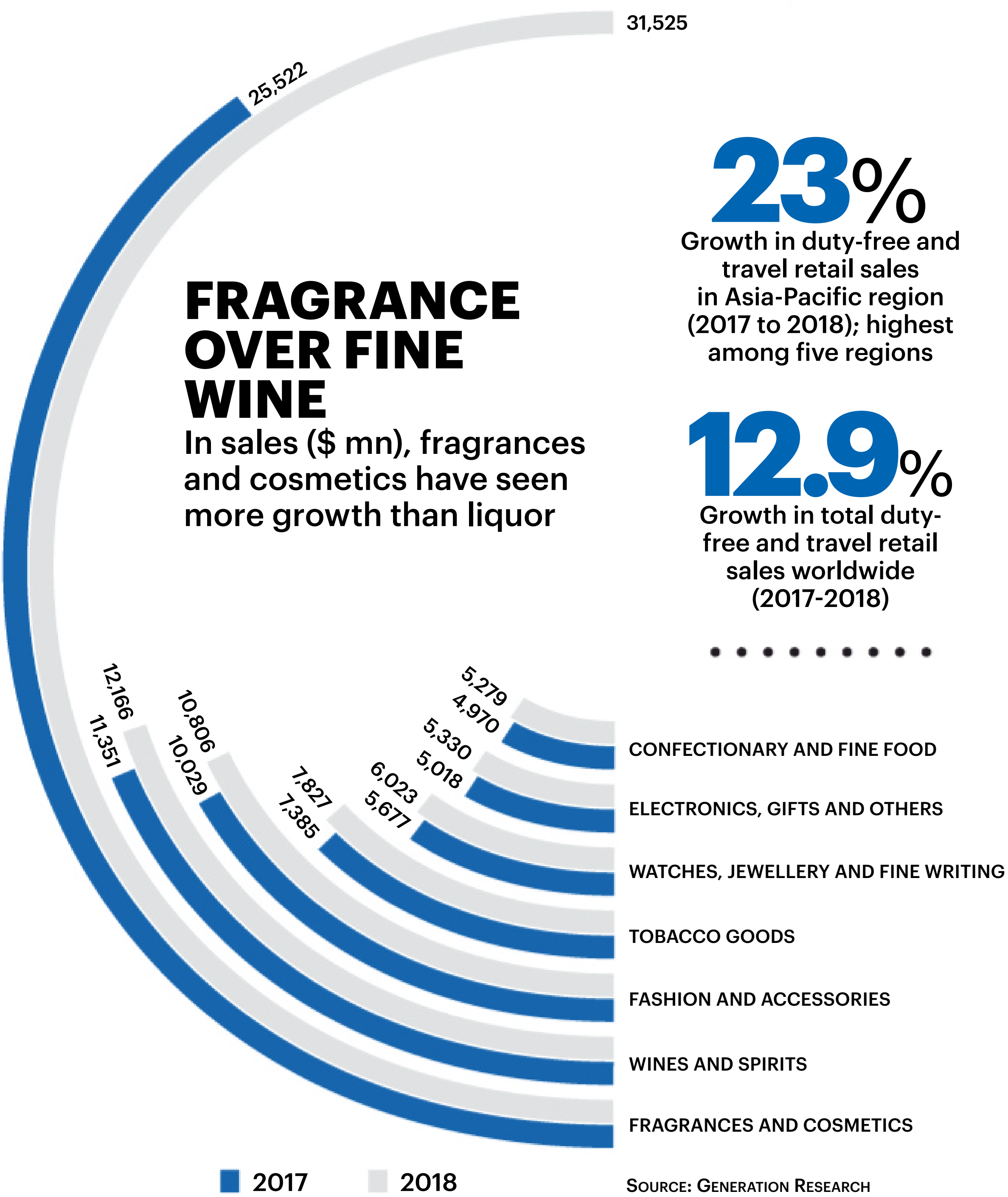
LIQUOR	PERFUMES	COSMETICS	CIGARETTES
Kiev Madrid Grand Cayman	Madrid Porto, Portugal London	London Dubai Vienna	Singapore Hong Kong Bangkok
Santorini Accra, Ghana Athens	Bangkok Vienna Accra, Ghana	Bangkok Zurich Madrid	Sydney London Paris

CHEAPEST DUTY-FREE STORES MOST EXPENSIVE DUTY-FREE STORES

Source: The Points Guy

FRAGRANCE OVER FINE WINE

In sales ($ mn), fragrances and cosmetics have seen more growth than liquor



SOURCE: GENERATION RESEARCH

23%
Growth in duty-free and travel retail sales in Asia-Pacific region (2017 to 2018); highest among five regions

12.9%
Growth in total duty-free and travel retail sales worldwide (2017-2018)

improve customer experience and increase monetisation opportunities for concessionaires, explains Harsha Razdan, Partner and Head-Life Sciences and Consumer Markets, KPMG.

For example, Mumbai Duty Free trains its front staff at arrival and departure terminals to take feedback from customers on a list of questions to collect data and accordingly devise marketing strategies. "Each shift has to take about 10 samples in a day. On an average, we collect 600 samples in a month, which we analyse to figure as to which campaigns are working. For example, we did one such research after we started showcasing prices in INR or after the launch of our flagship campaign Mumbai Duty Free For Free," says Thimmayya of Flemingo.

Best On Offer

The quiet hum and soft glow of duty-free stores hide the fierce competition that goes on in the $76 billion global market. Operators across airports do their best to woo customers with not just the biggest names but also discount offers, launches, gifts with purchases, celebrity visits and VIP memberships. Limited edition products are a common way to deliver value.

Categories such as liquor, perfumes, confectionery and electronics respond well to promotional offers, says McLoughlin of Dubai Duty Free. An 8 per cent discount on all XO (extra old) Cognac varieties, including Bisquit, Remy Martin and Louis Royer, in June-July 2019, led to all 1,339 bottles valued at a total of $344,000 being sold, mostly to Chinese customers, the biggest buyers at Dubai Duty Free. Theme promotions are also run around festivals such as Chinese New Year, Mid-Autumn Festival, Diwali and Onam, apart from Dubai Summer Surprises, UAE National Day and others. Then there are category-specific promos such as on perfumes, watches and liquor which are popular among frequent travellers.

Membership offers are a powerful pull too. South Korea's Lotte Duty Free, the second-largest duty-free operator in the world, has a VIP membership that includes a 5-20 per cent discount based on online and offline purchases over two years in a tiered format. Another major South Korean operator, Shilla Duty Free, which started operations in 1986, offers membership benefits of 5-20 per cent discount and has expanded it to its Singapore and Hong Kong international airport stores. It gives new members $200 mileage to pay for any duty-free products it offers.

In India, 'Mumbai Duty Free is Now Free' is an annual shopping festival held between May and June every year. "With gift cards, discounts and cashbacks, the product you buy could effectively be free," explains Thimmayya of Flemingo. Delhi Duty Free's 'Shop and Collect' plan offers an extra 10 per cent discount to those who pre-book orders at the airport on the outbound journey and pick up on return. Cashback programmes are fast gaining popularity. For instance, Citibank India, in association with duty-free stores in Mumbai, Delhi, Chennai and Kolkata, offers customers up to 15 per cent cashback.

"GROWTH IN ONLINE DUTY-FREE SALES HAS BEEN BOOSTED BY ONLINE EXCLUSIVE PRODUCT RANGES AND HIGH CONGESTION IN PHYSICAL STORES AT AIRPORTS"

Harsha Razdan, Partner and Head-Life Sciences and Consumer Markets, KPMG

PHOTOGRAPH BY MILIND SHELTE

Rise of Online

Online channels have added a layer of not only convenience and ease but also a wider range of promotions and offers. "The growth in online duty-free sales has been boosted by online exclusive product ranges and high congestion in physical stores at airports," says Razdan of KPMG.

At Dubai Duty Free, for example, pre-order items are increasing, and the average pre-order value is $508. Their year-to-date online sales have reached $12.86 million. Lotte Duty Free has seen higher growth in average online sales for the last three years versus offline sales.

India, however, lacks in the online experience, mostly due to the fact that advertising and promoting liquor is prohibited even though 80 per cent of the duty-free purchases are in alcohol. Delhi Duty Free allows you to look at the latest products and prices on its website, but you cannot place an order. At Mumbai Duty Free, one can pre-order products and pick them up at the arrival terminal. "The online and in-store duty-free sales are two distinct models with different pricing and discounting strategies. The online platform also provides data that is useful in understanding buying behaviour," says Thimmayya of Flemingo.

In his book *Non-Places,* French anthropologist Marc Augé calls airports as spaces lacking a sense of history or culture. But the duty-free shops at airports are fast turning into a destination themselves. BT

@apri_sharma

Management

A Potential Hire

More and more companies are hiring people with disabilities to strengthen their brand and tap into new customer segments

BY SONAL KHETARPAL
PHOTOGRAPHS BY SUDHIR DAMERLA

Accenture's study has found that inclusive firms have 28 per cent higher revenue, double the net income and 30 per cent higher profit margins than others

W**hen a former** colleague and friend asked Pravin Tatavarti, Managing Director at talent management firm Allegis India, to employ his autistic son, he agreed. There wasn't any reason to say no. Venkat had a masters in commerce and was applying for a data entry role. What he didn't know was what this would entail. "I didn't know anyone with disability and had no experience of dealing with them." Venkat's performance was decent but his social skills were poor. He didn't greet anyone, would get jittery, and once even pulled a colleague's hair. It was when he entered the ladies room that the human resources manager wanted him to leave. For Tatavarti, it was a litmus test considering that as the leader of a service organisation, his job was to help customers get the best out of people.

"Venkat did what he was wired to do, and to leverage his talent, we had to learn to make him a part of our life," he says. He did a town hall asking employees to be sensitive and, instead of making a fuss, politely tell him to stop. That was in 2014. The company has come a long way since then. It now has 41 people (out of 5,000) with disability and an employment centre, 'Garv Se', which helps them find the right job.

Organisations across the world are waking up to the potential of hiring the differently abled. In India, the trend caught steam around five years ago, and several companies started it as a pilot by hiring visually and speech and hearing impaired. Today, 20-30 per cent of their employees with disability are in managerial roles. The two big drivers of the trend have been The Rights of Persons With Disabilities Act 2016 that makes it mandatory for private companies to be an equal opportunity employer and research about the economic benefits of following inclusive policies. For example, a report by Accenture and not-for profit Disability: IN, "Getting to Equal: The Disability Inclusion Advantage," says inclusive companies outperformed others over four years and reported 28 per cent higher revenue, double the net income and 30 per cent higher profit margins.

The companies *Business Today* spoke to have seen huge benefits, both tangible and intangible, of hiring disabled people. RBS India said this made the company more innovative. Future Group got a new consumer base. Tata Steel's ability to attract talent went up. Allegis India's empathy quotient improved. Lemon Tree says the differently abled it has hired are 15 per cent more productive.

3-7%
LOSS IN A COUNTRY'S GDP DUE TO EXCLUSION OF PEOPLE WITH DISABILITY, SAYS ILO

Start from Top

"I was scared of people with disability in the beginning, I am sure others were too. But as I learnt, I had to speak up and share the value I saw in inclusion," says Tatavarti of Allegis. He then started sensitising managers and man-

Why Companies Want to Hire People with Disability

It is an alternative talent pool of qualified people

Builds the firm's reputation as a responsible brand

Increases empathy among team members as they have team mates to 'look out for'

Allegis runs an employment centre 'Garv Se' at its Bengaluru office with NGO EnAble India to share its best practices on inclusion and help people with disability know about the different opportunities available

dated that they hire at least one person with disability in each department.

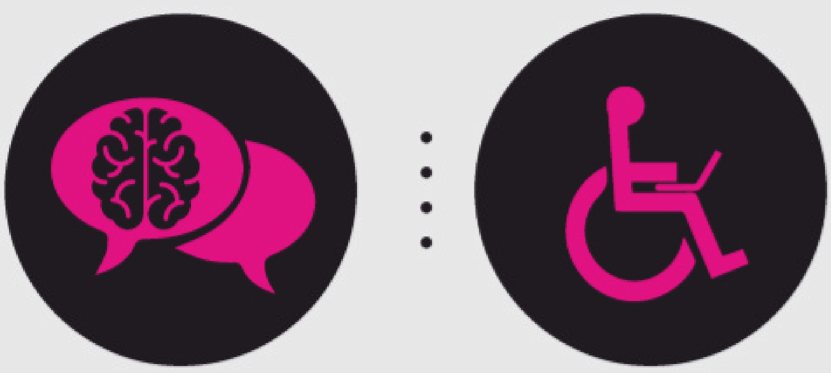
Venkataraman S.V., Managing Director, ANZ Bengaluru Service Centre, is responsible for driving the agenda at his company. "As a group, we were always big on inclusion. We started with financial inclusion and realised that our company, which has almost 7,000 people in Bengaluru, should be a reflection of the society it serves." While the focus on hiring employees with disability started in 2010, it ramped up the initiative in 2014. Now, it has 110 differently-abled employees.

Experts say the need of the hour is to make this a board agenda so that it impacts the company's overall practices. Shanti Raghavan, the founder of EnAble India, explains the importance of influencing CEOs. "The managers' impact is limited to their teams. If it becomes the focus of CEOs, it influences budgets, hiring policies, workplace culture and reduces barriers to inclusion." EnAble India has worked with 725 companies in 29 sectors to help them hire people with disability.

Creating the Ecosystem

Hiring is not enough. One has to ensure that the message permeates all business processes and management practices. The first step is to map roles that can be given to the disabled. Tata Steel has identified 900 such roles out of 7,000 work profiles. For instance, visually impaired can join as recruiters or in sales and marketing. People with hearing impairment or mobility issues can be given paperwork- or data-related roles.

The next critical step is infrastructure. Atrayee S. Sanyal, Chief of Group HR and Chief Diversity Officer of Tata Steel, says it is important to go



Employees have to think out of the box in conversations and meetings. This improves creativity

Attrition among people with disability is low

At ANZ Bengaluru, all town halls have a sign language interpreter to ensure meetings are inclusive. In fact, it has created a dictionary of banking words in sign language so that the hearing and speech impaired staff can communicate well

beyond the 'ramp mentality'. Companies, he says, have to look at the way lights are designed, ensure that the doors and corridors are wide enough for wheelchairs, and that toilets and guest houses are easily accessible. "Without the right infrastructure, retaining them will be difficult," she adds.

Venkataraman S.V. of ANZ says even a small investment in the right solutions can yield huge productivity benefits. He shares how, in the initial years, it took them a while to be convinced about buying motorised wheelchairs, but once they did, it had a multiplier effect on performance of people with limited mobility. Now, he says, they have bigger cabs that can accommodate wheelchairs and have hired people to help disabled employees get in and out of cars or during lunch hours. They also have a sign language interpreter during town halls and have created a dictionary of banking words in sign language so that the hearing and speech impaired staff can communicate well.

Building infrastructure is easy. The more difficult part is getting acceptance from employees. The easy answer is training but Allegis used volunteering to give the workforce purpose and help them connect. "We started measuring the time we were spending in volunteering activities," says Tatavarti. It could be to help people with disablity build their resume, or teach them job skills, or assist them in conferences. He spends half an hour every week assessing the initiatives of the employee volunteering programme.

The journey doesn't end here. Once they are onboarded, companies have to give them time to catch up with others. Shashaank Awasthi, the co-founder of impact enterprise v-shesh, says people with disability face a lot of barriers at the beginning of their lives as neither our education system nor our city transport is inclusive.

ONCE ON THE FLOOR, NO COMPROMISE IS MADE ON PERFORMANCE STANDARDS AND WORK TARGETS. THIS ENSURES THAT EVERYBODY FEELS VALUED AS AN EQUAL PARTNER

"They miss out on a lot of learning and communication skills. Companies have to give them more time, especially at the entry level, to come to speed, as the social system robbed them of that opportunity," he says. Allegis gives them additional six months to pick up job skills. ANZ depends on NGOs such as Enable India and v-shesh to bring them on a par with others. They all agree that once on the floor, no compromise is made on performance standards and work targets. This ensures that everybody feels valued as an equal partner.

While earlier, companies used to give employees with disability back-end and non-critical roles, this is changing now. Close to 20 per cent people with disability are in managerial roles at Tata Steel and ANZ. Lemon Tree has selected 15 people from its team of 600 people with disability to train them for a department head role.

What is key is to ensure that this is part of the main budget. The aim is to make everybody understand that this is not charity or CSR but part of the overall strategy.

The Benefits

The additional infrastructure and training are an additional cost. However, the benefits outweigh costs in the long run. "It is a successful business model for us," says R. Hari, General Manager, Human Resources, Lemon Tree Hotels, adding that in an industry where attrition is as high as 45 per cent, people with disability stay much longer (attrition is around 30 per cent). He adds their productivity is also 15 per cent higher. For instance, a carpenter is usually affected by noise pollution, but if the job is done by a hearing impaired person, it can be done much more efficiently.

Gopal Singaraju, COO, RBS India, says it is mutually beneficial as overall productivity of the company improves. He shares an instance of how they made the filing process paperless to help a woman who couldn't bend to sift through the files in cabinets. This helped the entire department, he says.

Hiring people with disability raises the bar for the entire company, says Devika Nair, Diversity and Inclusion & CSR Lead at Allegis India. "When you see a colleague who has one less faculty working with the same rigour, you start seeing challenges in a different way, and aspire to be better and not get bogged down by life or work." "My customers see me as a responsible firm that is making a difference to society and trust me more. This has increased customer traction." Tata Steel, says Sarkar, has found that inclusive practices help it during campus placements. "Young people are conscious about the values of the firm they join and we are getting a lot of pull from young talent during our campus recruitment drives," she says.

For Future Retail, people with disability opened up a new market segment. Sadashiv Nayak, Chief Executive Officer, Future Retail, says, "The reason for our existence is creation of a shopping environment and driving consumption. If we don't serve that 2 per cent of India that has some disability, our agenda cannot be complete." To serve that segment, Future Retail had to start with its employees. It has 250 employees with disability at its stores.

"Over 50 per cent of our stores have at least one person with disability. There is no target but the idea is to have one (disabled) employee per store. It is not a mandate but we have realised it makes sense," says Nayak of Future Retail. As a result, 150 Big Bazaar and FBB stores have seen 1,00,000 first-time disabled shoppers till date. One suggestion from employees with disability was to include people with neural disabilities such as down syndrome and autism who may have a heightened sense of touch, light and sound and observe a Quiet Hour once a week when the store would dim the lights, switch off the music and ensure less noise so that they can shop. At present, 38 stores are observing a quiet hour on Tuesday mornings. This has got the company 15,000 first-time shoppers within six months.

But in the times of cut-throat competition when everyone is rushing to chase targets, doesn't this slow down the pace? Tatavarti doesn't think so. It is a mindset issue, he says. "Our problem is that we focus too much on the difference," he says. BT

@sonalkhetarpal7

How to Include Employees with Disabilities

Make the expense part of the company's main budget and not CSR allotment

Get the CEO and senior management to endorse the idea; get buy-in from managers

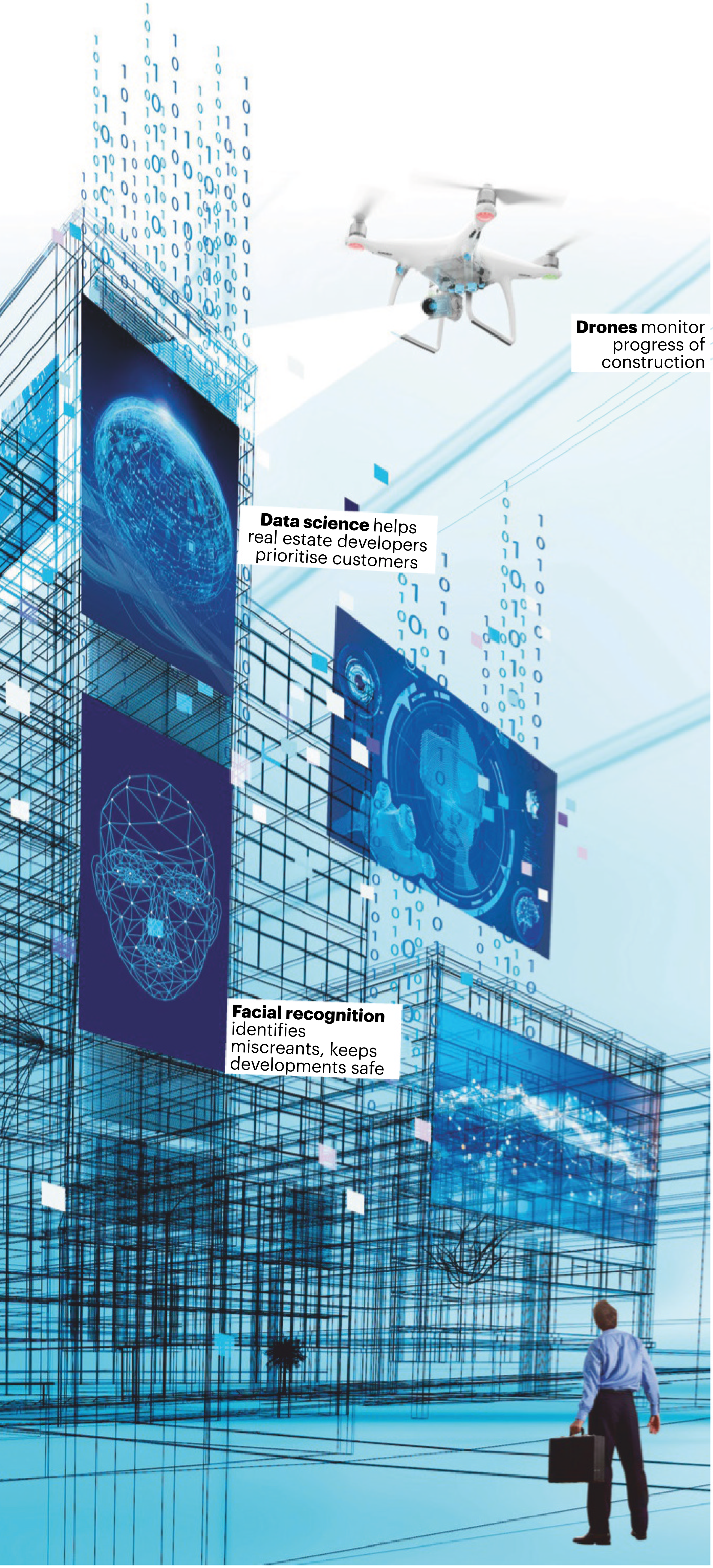
Give new employees with disability a few weeks or months to adjust or provide additional training, without compromising on performance and work targets

Technology

REAL-TY INTELLIGENCE

Real estate, usually a laggard in tech adoption, is finding its groove

BY GOUTAM DAS
ILLUSTRATION BY RAJ VERMA



For 21 years till 2011, Vikas Gosain worked with the Indian army. He was a Gorkha Regiment infantry officer. He has worked with civilian organisations since, and currently manages security operations for Bharti Realty, a real estate developer. On a cold December morning, he takes this writer around Worldmark 2, a commercial and retail development near Delhi's international airport. This is considered to be a 'sensitive' area, when it comes to security.

In one room, hidden from the hustle and bustle of offices and restaurants, is a series of 24 screens. This is Worldmark 2's security operations centre. Feed from 314 cameras in the building are beamed to this centre live. Every person and car entering its perimeter is scanned and the images are processed here in real time. "We cannot have a blind spot," Gosain says, as he proceeds to explain the technology behind real estate in high security areas. Every vehicle entering Worldmark has to pass under a vehicle scanning system whose high-resolution cameras scan the underbelly of the vehicles for any abnormality in seconds.

Facial recognition technology is used to identify miscreants entering the premises. A database of criminals and suspects, received from Delhi Police, is fed into a software system. Its algorithm matches every face spotted by the camera against the data stored. A match of more than 80 per cent is shown as a pop-up on the screen in the control room. New facial recognition technologies use deep learning, a branch of machine learning in which the algorithm learns from the data it receives every minute on what to look for.

Gosain is now considering deploying an Artificial Intelligence (AI)-assisted video monitoring network. Again, a system that learns daily to automatically pick up abnormal behaviour in the crowd. For example, if these cameras spot a bag that is unattended for 30 seconds, they can trigger an alarm.

Securing real estate is just one of the areas where technology is being used. Real estate is usually a laggard in technology adoption. Most commercial developments and hotels, for instance, don't use automated under-vehicle scanners; they make do with manually held mirror-based scanners. A smart algorithm could check for abnormalities and more accurately match that with a database of the right specifications in a vehicle.

The bigger developers are, however, adopting solutions that leverage AI to the Internet of Things (IoT), in a bid to stay ahead of the game. The Indian construction sector is expected to total ₹50 lakh crore by 2022, a CAGR of 16 per cent since 2018. Globally, construction costs are moving up and developers are also struggling with increasing wage bills, a KPMG report points out. "Real estate developers are heavily investing in proven construction technologies bearing potential to solve time, cost and skilling issues," the report states.

The Indian real estate sector is also characterised by low trust, particularly when it comes to the residential business. So, developers see technology as a means to deliver homes faster, and in a more transparent way. Gurjot Bhatia, Managing Director of Project Management at advisory firm CBRE, points to the different areas in a real estate development's lifecycle where technology has started playing a role. It starts at the drawing board with conceptualisation. Then comes design, budgeting, procurement of construction material and monitoring construction. "There has been a focus on health and safety as well. The last part is managing the quality of work and handing over the project," he says.

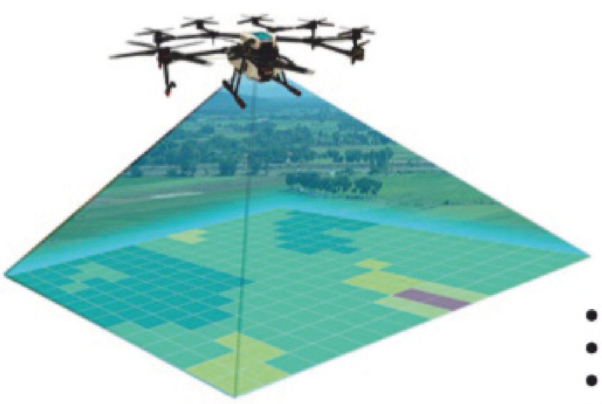
Data Play

Vikshut Mundkur, Co-founder and CEO of HUVIAiR Technologies, shows a video in which two men, wearing helmets, fire a white drone, propelled by four rotors. The drone lifts up rapidly before it is manoeuvred over a real estate project that is under construction. It sends back a bird's eye view of the land, full of construction material and partially constructed buildings.

HUVIAiR is a drone services start-up in Bengaluru, with Boeing as one of its investors. After the drone captures the video of a construction site, the firm uses visual data analytics to gauge the progress of construction. In technical terms, the company uses a process called photogrammetry or the use of photography in surveying and mapping to measure. "We process the images and generate 2D and 3D models of the site. Then we apply computer vision, visual data analytics, and deep learning in combination to generate intelligence," Mundkur says. "The progress of construction is captured in a dashboard. Our algorithm compares the scheduled data with the visual data captured," he adds.

This technology helps avoid human errors in reporting. The common dashboard brings all the different stakeholders in a

Future Tech Disruptions in Real Estate



LAND ACQUISITION:
Drone mapping and geographical information systems in land maps, density and land pooling surveys

Blockchain land records. Haryana and Telangana governments are using blockchain and e-portals

DESIGNING:
Building information modeling used in designing efficient buildings

Tech apps offer computer-aided design software, transforming hand drawn floor plan sketches into 3D design

CONSTRUCTION:
Use of lean principles, cloud-based project management, 3D print building designs etc., enabling time and construction cost savings

A pedestrian bridge in Alcobendas, near Madrid, has been built using 3D printing

Source: KPMG

PHOTOGRAPH BY SUDHIR DAMERLA

"THE DEVELOPER, THE PROJECT MANAGEMENT CONSULTANT OR EVEN THE CONTRACTOR HAS THE SAME FLOW OF DATA. THEY ARE ABLE TO TAKE DECISIONS A LOT QUICKER, A LOT BETTER"

Vikshut Mundkur, Co-founder and CEO, HUVIAiR Technologies, a drone services company that uses visual data analytics to track construction progress

development on the same page. "The developer, the project management consultant or even the contractor has the same flow of data. They are able to take decisions a lot quicker, a lot better," Mundkur says.

Analytics is also helping developers with more efficient budgeting. A budgeting software from real estate enterprise resource planning (ERP) company BuildSupply, for instance, allows a developer to make a budget using a lot of historical data.

All these developments are, however, work in progress. "The current level of technology takes out a lot of the paper work, and having multiple people doing duplicate work. As we build up the data, we will be able to apply machine learning. I can start doing predictive analytics around what is going to be my cost structure in various geographies," says Sameer Nayar, Founder and CEO of BuildSupply.

A more established use case for machine learning is conversational AI or the use of chatbots and speech-based assistants to automate communication. Such systems use Natural Language Processing technologies. Here, machine learning helps algorithms interpret human language. Real estate developers are beginning to flirt with this idea. Godrej Properties, for example, is experimenting with a chatbot that can respond to user questions in text as well as voice. The bot can pull out and display graphs as well as data when needed.

Vineet Bhardwaj, IT Head at Godrej Properties, says that the system's decision engine is connected to the business databases. "Conversational AI system is trained to learn business intent, synonyms, and context," he says. Initially, the chatbot is trained with a predefined set of questions and answers but learns the context better as it interacts more with users. "The system will either provide an accurate answer or prompt the user to provide more input or corrections to the input," Bhardwaj says.

Like in any other industry, chatbots do away or reduce the need for more humans in call centres, thereby slashing costs.

Sensor Play

BuildSupply recently started a managed marketplace for real estate supplies. The company aggregates demand, say, for steel, and then decides who to buy from at the most competitive price. A real estate developer or a contractor depends on BuildSupply for both quality and price. To monitor quality of the supply, the company is banking on IoT; it has installed sensors in some supplier factories.

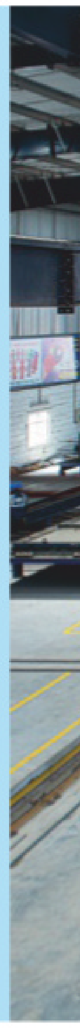
Making ready-mix concrete, for instance, involves several elements such as gravel, sand, water and cement, among others. Every batch of concrete produced has a design mix — specified amounts of cement and sand — which is determined by the structural engineer. Sensors in the plant monitor this mix for every batch that is made. "A lot of cheating happens at this stage. But we also monitor moisture content," says Nayar. Information captured from the sensors is uploaded to a Cloud platform from where it can be accessed through an app the company has developed.

Next, using GPS tracking, the company monitors the time it takes for a truck from the factory to deliver the concrete at the construction site. "Concrete can only be delivered between 30 and 40 minutes. The minute you pour the concrete, it starts setting. That distance and time has to be captured. This information is available on a real time basis to the buyer. So we have sensors in the concrete making plant as well as in the truck," Nayar says.

Although this use case appears relatively new for real estate, GPS tracking technology is fairly common in the logistics world today where it also solves the on-route visibility problem. Using GPS, IoT, and Cloud technologies, it is now possible to know the real time

“THERE IS A PARADIGM SHIFT IN REAL ESTATE SECURITY. FROM PERIMETER SECURITY TO UNDERBELLY SCANNERS, EVERYTHING IS TECHNOLOGY DRIVEN”

Sushil Kumar Sayal, MD and CEO, Bharti Realty



location of the trucks and track their movement. Many technology companies have now developed systems with a predictive engine. Based on the source, destination, load, type of truck, and number of drivers in a truck, the system can predict the ETA.

IoT, meanwhile, also has a use case in safety and security in real estate. Not just in commercial properties but also in residential areas. Property developer Mahindra Lifespaces says that it doesn’t want to just bank on scanners and a network of cameras for home security. The company says select homes it develops can come pre-fitted with a range of sensors that cover gas leaks to glass breaks.

“We are exploring if we can offer these in our coming launches. Gas leak sensor will trigger an alarm; it will send an SMS; it can trigger a phone call at a nearby call centre; it can trigger a phone call to the home security. If I am part of the building security, I will be able to see on a building map in which apartment the alarm is coming up,” says Abhinav Aggarwal, Head of IT at Mahindra Lifespaces. Data from the sensors goes to a Cloud platform and then to a network operations centre where it is processed and acted on.

“Controlling lights and fans (through IoT) is passé – they lose charm over time. We want to focus on safety and security,” Aggarwal stresses.

Immersive Play

The website of FlipSpaces promises “tailor-made workspace in eight weeks” and the fact that one can “see it before you build it”. The design and contracting firm uses virtual reality (VR), a computer technology that creates a simulated environment. In other words, designers at FlipSpaces can help customers with virtual walkthroughs of office interiors they intend to design. Such walkthroughs are immersive, and the experience quite gamified. So much so, that it is a near-real experience of how the space would look after it is furnished.

“You can visualise the entire office or the retail space. You can sense how the office would look like,” says Kunal Sharma, Co-founder and CEO of FlipSpaces.

Vizwalk, the company’s VR-application for interior design and visualisation, is based on Unreal Engine, a suite of tools that game developers use to design games and simulations. Files with technical drawings with detailed floor as well as furniture plans are shared with the system. The app processes the files and generates walkthroughs. “In Vizwalk, you can navigate through buttons you would use in a gaming software. You can move around the office. While you move around, you can change the finishes of the space in real time like the wall or the flooring,” Sharma says.

Apart from AI and IoT, virtual reality is one technology that developers and project management consultants seem keen on. Immersive experiences during the design phase help in faster decision making and in some cases, is easier for occupiers of commercial offices to understand and plan.

Advisory firm CBRE has come up with Floored Plans, an interactive real estate marketing and leasing tool. It can help one visualise and choose the commercial space to lease. There could be two 200,000 sq. ft building spaces in Gurgaon with the same rentals, for instance. How would a company decide which one to go for?

“Usually, an architect gives you a plan and tells you which building is more efficient in terms of capacity utilisation. Using

Challenges in Tech Adoption

Conservative industry mindset leading resistance to change

Resistance towards completing high-value transactions online

Consumer preference for in-person interaction and reliance on intermediaries for major investment decisions pertaining to real estate

Myopic view of long-term cost benefits from technology adoption

Source: KPMG

PHOTOGRAPH BY SUDHIR DAMERLA

AT REAL ESTATE MAJOR PURAVANKARA'S FACTORY IN BENGALURU'S KANAKAPURA ROAD, WITH THE USE OF PRE-CAST TECHNOLOGY, CONSTRUCTION TIME CAN BE SHRUNK 50% VERSUS CONVENTIONAL WAYS

Floored, one doesn't have to go to the architect," says Bhatia of CBRE. A user can feed in the requirements and the tool would automatically generate layout plans in seconds. One can also play around with the layout and customise the office theme. "These happen at the click of a button. The initial decision to choose a building and how the office should look can be done faster. Traditionally, such a decision can take three-four days. Here, you do it in hours," Bhatia adds.

There are other applications of VR in real estate as well. VR models can enable contractors or project managers plan various stages of construction; simulated walk-throughs, mostly in experience centres created by developers, help homebuyers visualise their apartment and is often used as a pre-sales gimmick.

Pre-cast Play

While digital technologies are currently riding an adoption wave, there is an equally key construction technology that is expected to gain traction in the coming year — pre-cast — where much of the building can be made in factories by machines and then transported and assembled on the site. As a technology, this is decades old. Singapore, for example, has been building entire residential apartments on pre-cast for many years, even the entire toilet, complete with tiling, commode and mirrors. Indian developers have been shy of using such technology.

Sobha Ltd, one of the earliest adopters of pre-cast in India, points out that there are challenges in design, and in the architectural and structural elements due to construction joints and connections. Further, pre-cast requires high upfront capital investment and comes with limitations of erection, modifications and transportation.

Heavy investments, however, are better than facing a trust deficit from customers because of delays and penalties. With regulations such as the Real Estate (Regulation and Development) Act, all developers and promoters are realising that it is critical to deliver on time without compromising quality.

"Pre-cast relies a lot on software and technology. All the plans are loaded to computer systems and then at the factory, slabs get cast by robots. We are able to standardise quality and control time," says Ashish Puravankara, Managing Director at Bengaluru-based Puravankara Projects. The construction time, he adds, can be halved versus the labour-intensive traditional way. "If I increase my factory capacity, I can do it in one-third the time (versus conventional means). But then you have to find the right feasibility between cost and benefit," Puravankara says.

A pre-cast factory has pallets, which are like large tables. One of Puravankara's pre-cast factories constructing for a project called Park Square in Bengaluru's Kanakapura Road has 26 pallets, 12 metre by 4 metre in size. Steel shutters are fixed on the pallet to make a mould, say, for a wall. The plumbing lines and electrical junctions are fitted next. Finally, concrete is poured into the mould. Once the concrete settles down, the wall is removed from the mould. Cranes are used to take the wall to the construction site to be assembled.

In advanced factories, robots also draw the dimensions of the shutters while machines pour the concrete and can even remove it from the mould. The entire operation can be automated, and thereby, reduce cost if planned and executed well. According to executives at Sobha, conservatively, precast technology can lower the construction cost by 10-15 per cent. There is minimal dependence on labour and because of the factory setup, there is minimum wastage of materials on site as well.

Technology is changing real estate development and management like never before. As it starts becoming the USP for projects, developers will need to adopt it in all its forms. Those dragging their feet may find the going tough. BT

@Goutam20

Network

Harder, Better, Stronger, Faster

From his decade-long stint at the country's largest carrier IndiGo to becoming a board member at Oyo Hotels & Homes, **Aditya Ghosh** is known to be an accomplished corporate executive. While his professional career is fairly well-known, perhaps, only his over 39,000 followers on Instagram are aware of his penchant for fitness.

When it comes to sharing his passion for fitness, Ghosh does not shy away. He frequently posts pictures and videos of his intense workouts. He also likes taking his fitness mantras up a notch with life lessons.

"Whether in life or at work or in the gym, your competition is who you were yesterday! Just focus. Prepare. Collect your thoughts. Even if it takes time. Life is not a sprint, it's a marathon...You don't have to jump into the effort. When you feel you just can't push any further, imagine success. Only you can see it. Only you can see it. Make it count! Dare to be the best! It's the same in the gym ... at work ... in life!" writes Ghosh.

Ghosh's professional life has also been influenced by fitness. For instance, during his IndiGo days, Ghosh was instrumental in starting the FitToFly programme where the airline collaborated with the police force of different cities to provide them with fully-equipped gyms.

His advice for everybody who wants to stay fit: All the supplements you need are between your ears and the equipment you need is a pair of shoes! The world is your gym.

– MANU KAUSHIK

THE JOY OF STAYING WITH THE YOUNG

In the world of children's books, 16 years is a long time, which is how old Pratham Books turned on January 1, 2020. Co-founded and funded by **Rohini Nilekani**, Pratham Books is a non-profit publisher focused on introducing children to the joy of reading.

Nilekani has written 11 books for Pratham Books so far, out of which five are bundled into a series. She hopes to write the sixth one in the series soon. Nilekani retired as the Chairperson of Pratham Books in 2014. She is happy that the non-profit publishing house has more than taken off and has realised its potential. Also, thanks to its digital platform called 'Storyweaver', her books have been translated into dozens of languages globally.

With a clear not-for-profit goal, the books have been put in the Creative Commons so she gets no remuneration. But then, she says, "I get immense joy when I hear of children reading and liking my books, which is quite invaluable."

Nilekani has signed a contract with Juggernaut and has the manuscript approved for a new Level 1 English book for children of 3-6 years. Nilekani hopes the book will be out this year.

She has clear ground rules for her writing: "You have to be careful not to be overly moralistic." Tanush, her three-year-old grandson, is inescapably her inspiration today.

– E. KUMAR SHARMA

PHOTOGRAPH BY VIVAN MEHRA

Going Back to His Roots

As Revenue Secretary of the Government of India and former CEO of Unique Identification Authority of India, **Ajay Bhushan Pandey** has little time to indulge in leisure. Amid the gloom and doom of a slowing economy, muted growth in GST revenues, and the controversy around Aadhaar and citizenship, Pandey is left with no time to unwind. But when the technocrat-turned-bureaucrat does get time, he likes to 'go back to his roots' – literally.

While working for the Maharashtra government – he was the MD of Maharashtra State Electricity Distribution Corporation and Secretary to the Chief Minister of Maharashtra, among other positions – Pandey and a dozen of his friends bought a 2.5-acre plot of land for farming in Raigarh district, about 100 km from Mumbai, where they grow mostly fruits and vegetables. "We wanted to remain connected with the ground, and understand the problems of farming and farmers that we often fail to see otherwise," says Pandey.

Pandey used to visit Raigarh frequently when he was in Mumbai. However, after relocating to Delhi, he has not been able to visit the farm for the past one year. Once he is free from his responsibilities in Delhi, that will change, he says. – DIPAK MONDAL

TUNED IN

That the 61-year-old Ramesh Iyer, Vice Chairman of Mahindra Finance, records songs during his 20-km long commute between offices is a testimonial to his passion for music. Iyer, who has recorded over a thousand songs on the popular Smule app, uses the hour-long journey between the Worli headquarters and the Goregaon office to recreate old classics.

While the app allows him to record his renditions of popular songs of Mukesh Kumar, Manna Dey, Jagjit Singh, Talat Aziz and Mohammed Rafi and connect with thousands of listeners on social media, his forte is devotional music.

Iyer was introduced to singing as a 7-year-old but he took it up seriously only in the last 15 years. His mother was a trained singer and his school, too, offered him a conducive environment to hone his skills.

While singing was always a significant part of his life, about 15 years ago, Iyer was introduced to a well-known *bhajan* singer in Mumbai and started joining him for performances. "In those 2-3 hours, you are completely disconnected from the world, especially mobile," says Iyer.

He doesn't play any instrument. "Mine is vocal," says Iyer proudly. – ANAND ADHIKARI

PHOTOGRAPH BY RACHIT GOSWAMI

STRIKING THE RIGHT NOTE

There is no dearth of market experts explaining the tricks of the trade to novice investors. But **Vijay Kedia**, Director, Kedia Securities, has a unique way of educating amateurs on investments – through songs.

Kedia might have earned a reputation on Dalal Street for identifying multibaggers, but his avatar as a singer has become even more popular. In a span of just 18 months, Kedia has sung over seven songs that highlight the essence of the stock market in simple language.

From explaining the importance of debt-free companies – "EPS *hai jhoothi*, cash flow *hai saccha*; loan *jitna kam ho utna hi accha*; *byaaz he baja na de* band company *ka*" – to highlighting the perils of playing with futures and options – *thoda profit jo aana shuru ho gaya, mujhko lagne laga main guru ho gaya;* confidence *aaya, bada daanv lagaya; paisa itna dubaya maza aa gaya* – the ace value investor has sung his way into investor education.

BSE Chief Ashish Chauhan, and star investors Rakesh Jhunjhunwala and Ramesh Damani, all swear by his melodies, says Kedia.

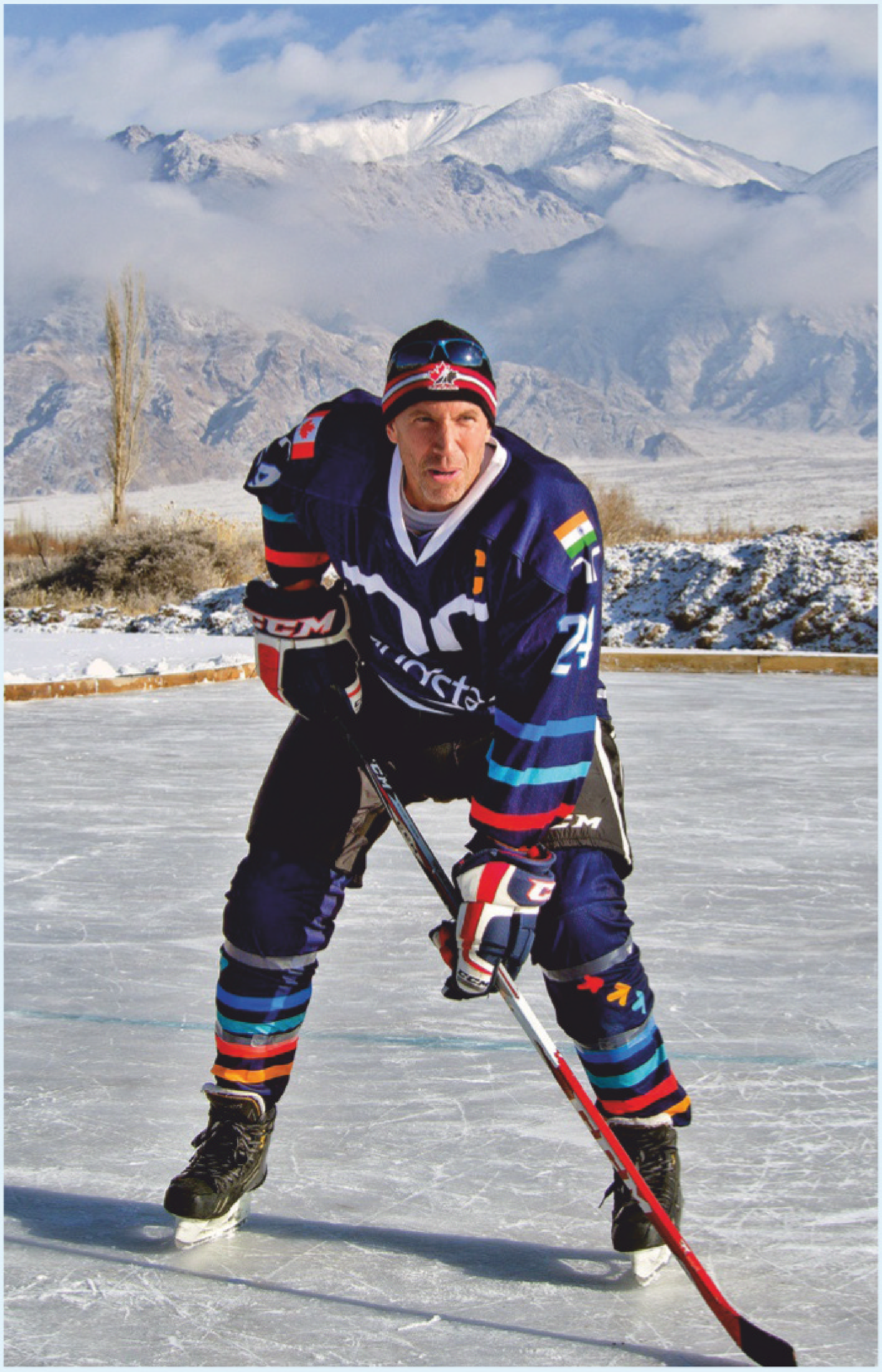
It all began when he had to enrol for National Cadet Corps classes back in school but missed the deadline. A persistent Kedia would stand outside the class everyday. One day he happened to sing in front of the teacher, who eventually gave in and permitted him to enrol. "That was the first time when music gave me what I wanted. Now, when I mingle my love for markets with music, I feel positive," he says.

Kedia has no formal education in music. He writes lyrics with Bollywood songs as the base and gets them recorded at a professional music studio.

Kedia calls himself an amateur. "I may not be a great singer, but I sing with passion," he says. Sharing his own feelings and the ongoing mood of the market, Kedia wonders, "*Tera* Nifty all-time high*; phir bhi mera* share *kyon aadha?*"

– APRAJITA SHARMA

On Thick Ice



Like many Canadians, 52-year-old **Paul Dupuis** grew up on a steady dose of ice hockey and played competitively in school and college. His best friends were all formed in and around the ice rink. So, two years back, when he got an opportunity to head Randstad's India office as its CEO, while he was excited about the move, he felt he would have to sacrifice his favourite sport.

To keep fit, Dupuis started practicing with inline roller blades in Cubbon Park in Bengaluru. There he came across a group of children called Bangalore Skaters, and introduced ice hockey to them. Now, on Sunday mornings, he coaches the children on 'ice' hockey but on wheels, in the park and anybody who is interested is free to join. While his weekend practice was on, it was serendipity that he got to know of a women's ice hockey team in Ladakh, on Twitter. Now, for the past three years, Randstad has been involved with The Hockey Foundation, a not-for-profit based out of Canada and the US, to make hockey accessible. Dupuis personally helps with its co-hosting and raising sponsorships. The company has now set in motion the plans for the 20th annual Indo-Canadian friendly ice hockey tournament to be held in Leh, Ladakh, in January 2020. While hockey is one part of the trip, the main objective is to also volunteer and donate 500 kg of ice hockey equipment.

– SONAL KHETARPAL

Best Advice I Ever Got

"RIVALS CAN'T COPY A CONSUMER COMPANY WITH A STRONG DISTRIBUTION NETWORK"

PHOTOGRAPH BY RACHIT GOSWAMI

SHEKHAR BAJAJ, CMD, Bajaj Electricals

Q. What was the problem that you were grappling with?

A. Bajaj Electricals' consumer-facing business – such as small appliances, fans and domestic lighting products – faces challenges from local products because of the low-entry barrier in these product categories. Therefore, it becomes imperative to keep a check on competition and devise a strategy to create a long-term, sustainable and competitive organisation.

Q. Who did you approach and why?

A. We approached Eliyahu Moshe Goldratt, an Israeli business management guru, who is known for his Optimized Production Technique, the Theory of Constraints and Critical Chain Project Management.

Q. What was the advice?

A. Goldratt said that ubiquitous availability is the key to lasting success of a consumer brand. If the consumer company has a strong distribution network, the rivals will not be able to copy it easily. When we pursued creating a strong network, we realised our distributors and retailers were unhappy as their return on investment was poor due to pressure from wholesalers. Based on the advice and feedbacks, we decided to shut down wholesaling, despite the fact that we were growing 15-20 per cent year-on-year.

The new distribution-led supply chain model had many detractors. But we embarked on the journey, knowing well that it would have a short-term hit on financial performance. It was my son and then MD, Anant Bajaj, who spearheaded this transition.

Q. How effective was it?

A. It would have been a challenging initiative for any professional manager because top management expects good quarterly results, and such a decision, to take a short-term hit, was risky. Perhaps the biggest challenge for me was to counsel and steer my team to make this change and implement the model fearlessly. Now that it has succeeded, everybody hails it as a right decision. Competitors tried to copy this model, but have not succeeded. BT

– NEVIN JOHN

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