Q&A WITH FINANCE MINISTER NIRMALA SITHARAMAN ON BUDGET 2023-24

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Business Today

March 5, 2023 ₹150

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ADANI UNDER ATTACK

BILLIONAIRE GAUTAM ADANI FACES HIS BIGGEST CHALLENGE AS ALLEGATIONS BY A US-BASED SHORT-SELLER SEND HIS COMPANIES' STOCKS PLUMMETING. LENDERS HAVE TURNED WARY, AND HIS MEGA $107-BILLION GROWTH PLAN IS NOW IN JEOPARDY. CAN ADANI STAVE OFF THIS CRISIS? AN INSIDE LOOK AT HIS OPTIONS

DL (DS)-04/MP/2022-23-24, RNI No. 53481/92 ■ FARIDABAD/145/2023-25 BPC Faridabad ■ Date of posting: Tue, Wed & Thursday


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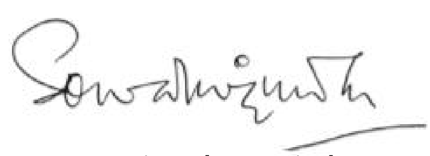
पिछले कुछ दिनों में घाटी में आतंकी हमलों में तेजी आई है. एक ओर
बड़ी खबरें
लाइव टीवी

Adani's Biggest Challenge

For the better part of 2022, it was all about the Adani Group stocks in the markets. A dizzying run-up in all Adani stocks saw the overall market capitalisation of the group rise over 100 per cent. As investors and analysts saw the group's meteoric rise on the bourses, Gautam Adani, the 60-year-old boss of the Adani Group, rose to No. 3 in the global wealth ranking, leaving the mighty Mukesh Ambani far behind. It was as if the Adani Group could do no wrong, and the stratospheric growth of the group—which is in the midst of a massive play on the India infrastructure story by way of its airports, ports, roads, power and cement, among other things—was the subject of animated discussion in corporate circles. Cut to February 2023 and the aftermath of the damaging report by little-known US short-seller Hindenburg Research—which accused the Adani Group of pulling off what it called "the largest con in corporate history" by way of stock manipulation, accounting fraud and routing of funds through overseas shell companies—has shaken the group like never before. While the conglomerate issued a detailed rebuttal to the charges, it wasn't before over $100 billion of the group's market capitalisation was wiped off in just a few days. And while the stocks have stabilised somewhat, the erosion in market cap was still at a whopping ₹10 lakh crore or thereabouts as of February 10. Worse, global banks like Credit Suisse, Citi and Standard Chartered have turned wary of Adani's bonds and securities. And Indian institutions, including State Bank of India and Life Insurance Corporation, which have exposure to the group, have come in for intense criticism after the Hindenburg allegations.

With a massive $107-billion growth plan lined up for the next 10 years, the Hindenburg report has hit Adani like the proverbial iceberg it never saw coming. The question now is, how will Adani fund his ambitious growth plans, which include a big bet on green hydrogen and a brand new airport project in Navi Mumbai? More important, questions are now swirling around whether the group can service its massive ₹2.25-lakh crore debt and make scheduled repayments on time. In our cover story, *Ashish Rukhaiyar* and *Krishna Gopalan* speak to bankers, analysts, corporate executives and market participants to put together a detailed picture of what Adani's options look like. What quite a few agree on is that the cash flows from the slew of assets, and the group's cash position, offer substantial cushion as far as its debt servicing ability is concerned. With strong assets on the ground generating predictable cash flows, Adani may yet be able to stave off the biggest crisis of his career and live to fight another day. But his ambitious growth plan will have to be made much more realistic as the funding environment turns challenging. And as the crazy valuations become a thing of the past and the group stocks settle at more explicable levels, the regulators will also be taking a close look at the allegations. Clearly, the damage inflicted by Hindenburg—named after an airship disaster of 1937—will take time to be addressed. The dent to the group's reputation is not going away anytime soon. BT



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Vol. 32, No. 5, for the fortnight February 20, 2023 to March 5, 2023. Released on February 20, 2023.

Editorial Office: India Today Mediaplex, FC 8, Sector 16/A, Film City, Noida-201301; Tel: 0120-4807100; Fax: 0120-4807150 Advertising Office (Gurgaon): A1-A2, Enkay Centre, Ground Floor, V.N. Commercial Complex, Udyog Vihar, Phase 5, Gurgaon-122001; Tel: 0124-4948400; Fax: 0124-4030919; Mumbai: 1201, 12th Floor, Tower 2 A, One Indiabulls Centre (Jupiter Mills), S.B. Marg, Lower Parel (West), Mumbai-400013; Tel: 022-66063355; Fax: 022-66063226; Chennai: 5th Floor, Main Building No. 443, Guna Complex, Anna Salai, Teynampet, Chennai-600018; Tel: 044-28478525; Fax: 044-24361942; Bangalore: 202-204 Richmond Towers, 2nd Floor, 12, Richmond Road, Bangalore-560025; Tel: 080-22212448, 080-30374106; Fax: 080-22218335; Kolkata: 52, J.L. Road, 4th floor, Kolkata-700071; Tel: 033-22825398, 033-22827726, 033-22821922; Fax: 033-22827254; Hyderabad: 6-3-885/7/B, Raj Bhawan Road, Somajiguda, Hyderabad-500082; Tel: 040-23401657, 040-23400479; Ahmedabad: 2nd Floor, 2C, Surya Rath Building, Behind White House, Panchwati, Off: C.G. Road, Ahmedabad-380006; Tel: 079-6560393, 079-6560929; Fax: 079-6565293; Kochi: Karakkatt Road, Kochi-682016; Tel: 0484-2377057, 0484-2377058; Fax: 0484-370962

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Sales: General Manager Sales, Living Media India Ltd, C-9, Sector 10, Noida (U.P.) - 201301; Tel: 0120-4019500; Fax: 0120-4019664

Printed & published by Manoj Sharma on behalf of Living Media India Limited.
Printed at Thomson Press India Limited, 18-35, Milestone, Delhi-Mathura Road, Faridabad-121007, (Haryana). Published at F-26, First Floor, Connaught Place,New Delhi-110001.
Editor: Sourav Majumdar

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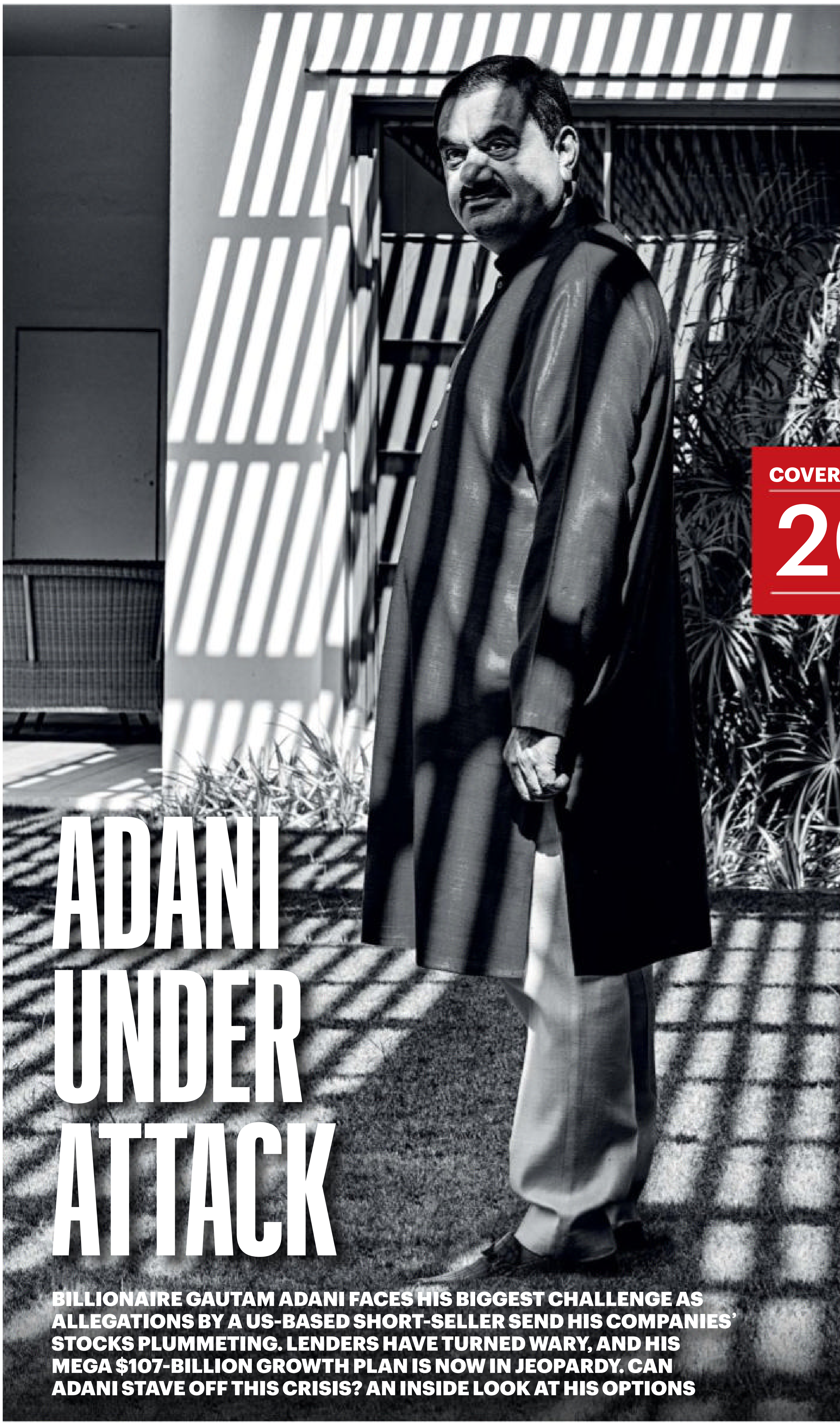

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GOLD RUSH

GOLD PRICES CONTINUE TO RISE IN 2023 AFTER JUMPING IN 2022. AS A RESULT, DEMAND FOR THE YELLOW METAL HAS FALLEN, EVEN AS THE INDIAN ECONOMY REBOUNDS. A LOOK AT THE KEY NUMBERS

₹58,932

PER 10 GM

The price of gold—an all-time high—on February 2, 2023; it has increased 8 per cent year-to-date

13

PER CENT

Surge in prices of the yellow metal in 2022 compared to benchmark equity index BSE Sensex's 4.4 per cent gain

2

PER CENT

Fall in gold jewellery demand last year in India—the second-largest consumer of gold globally—as higher prices took away its allure

| THE POINT |

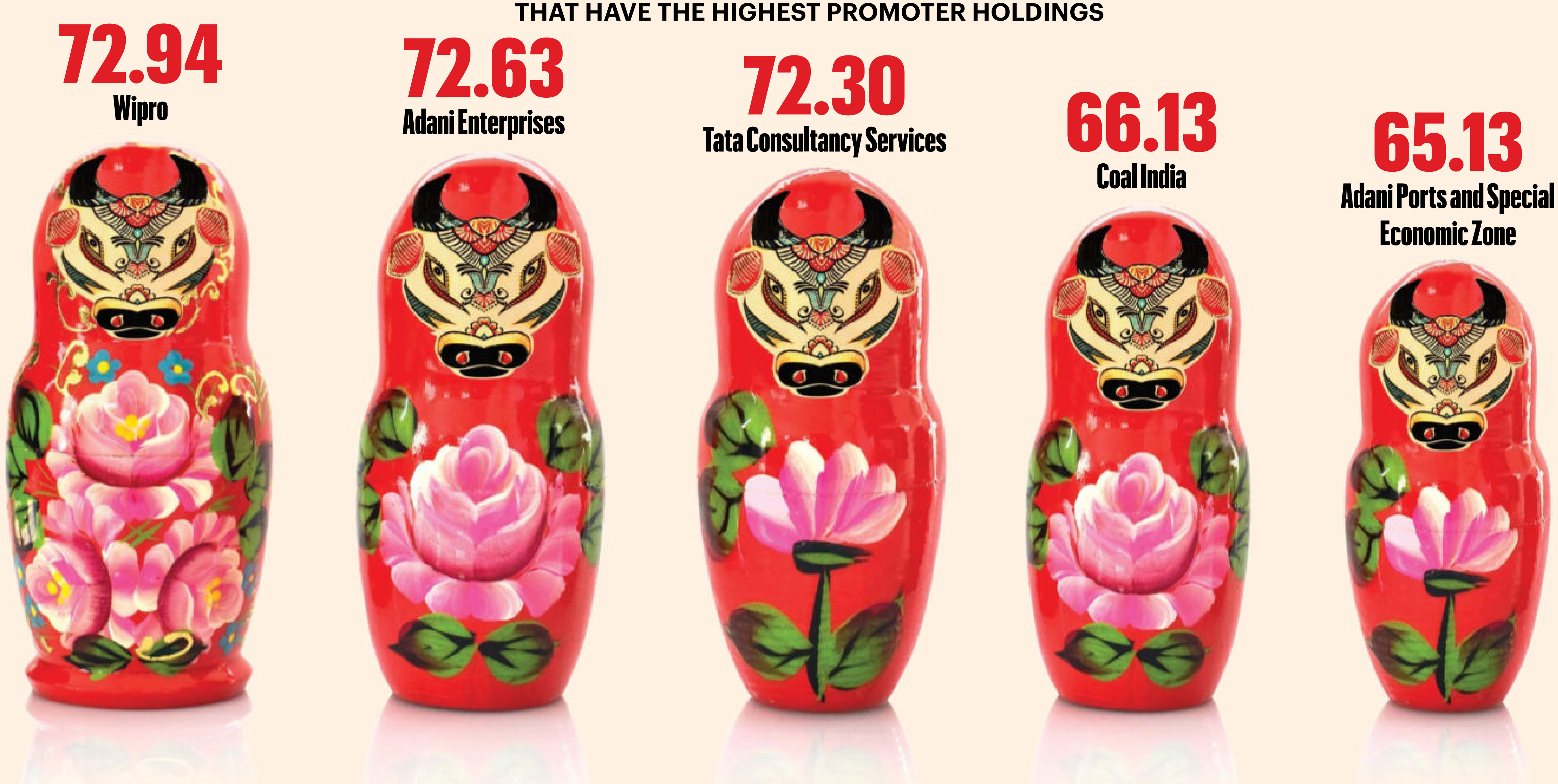
HIGH STAKES

There has been a steady rise in the stakes held by promoters and institutional investors of various hues in a tough business environment. Latest shareholding data shows that promoters, domestic fund managers and global investors have raised their stakes in many companies in 2022 even as the domestic equity market was volatile due to the geopolitical crisis, rising interest rates and an exodus of FII money from India. A look at some relevant numbers:

By **RAHUL OBEROI** and **PRINCE TYAGI**; Graphics by **RAJ VERMA**

LEADERS OF THE PACK

TWO ADANI COMPANIES ARE AMONG THE TOP 5 NIFTY FIRMS THAT HAVE THE HIGHEST PROMOTER HOLDINGS



Top 5 Nifty companies with highest promoter holding; data as of December 31, 2022; promoter holding in per cent

Source: ACE Equity

BANKING ON BANKS

BANKING, IT AND POWER ARE TOP PICKS OF MFs AMONG NIFTY COMPANIES

28.69%	23.22%	18.91%	18.37%	17.71%
ICICI BANK	AXIS BANK	NTPC	HDFC BANK	INFOSYS

Top 5 Nifty companies with highest MF holding; data as of December 31, 2022; Source: ACE Equity

FOLLOWING THE MONEY

FOREIGN INVESTORS ARE BETTING BIG ON INDIA'S FINANCIAL SYSTEM

67.22%	49.45%	47.94%	45.10%	44.79%
HOUSING DEVELOPMENT FINANCE CORPORATION	AXIS BANK	APOLLO HOSPITALS ENTERPRISE	ICICI BANK	INDUSIND BANK

Top 5 Nifty companies with highest FII holding; data as of December 31, 2022; Source: ACE Equity

₹48.39 lakh crore

HOLDINGS OF GLOBAL INVESTORS IN THE NIFTY 500 STOCKS AS OF DECEMBER 31, 2022; IT IS UP 4.39 PER CENT YEAR-ON-YEAR

3.51 per cent

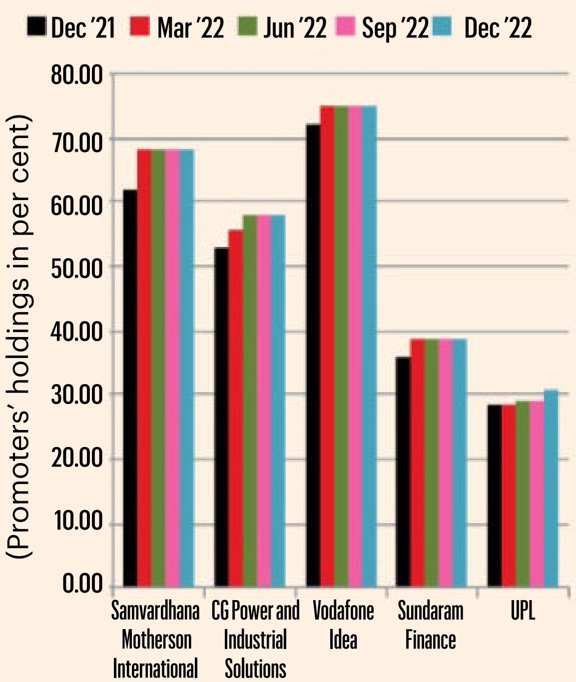
RISE IN THE HOLDINGS OF INDIVIDUAL INVESTORS, INCLUDING HNIs, IN NIFTY 500 FIRMS IN 2022, TO ₹21.84 LAKH CRORE ON DECEMBER 31, 2022, FROM ₹21.10 LAKH CRORE IN 2021

₹21.74 lakh crore

INVESTED VALUE OF MUTUAL FUNDS IN NIFTY 500 STOCKS; IT IS 18.6 PER CENT MORE THAN THE ₹18.33 LAKH CRORE IN 2021

BUILDING BLOCKS

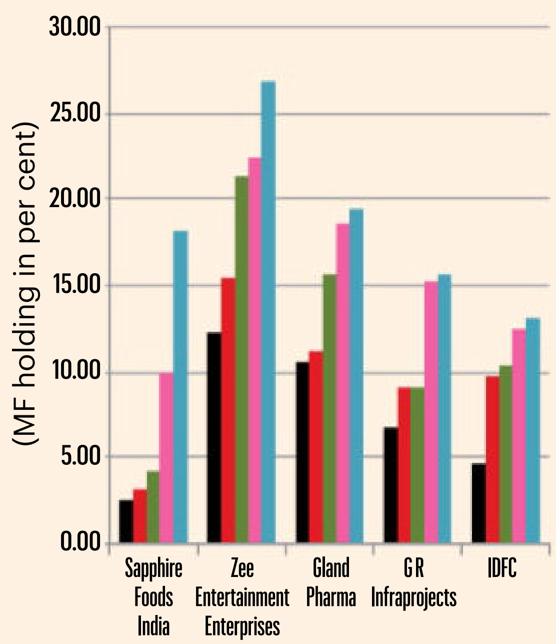
PROMOTERS OF 53 COMPANIES FROM NIFTY 500 INCREASED THEIR HOLDINGS LAST YEAR AMID THE ONGOING VOLATILITY IN THE MARKET



Top 5 companies with highest growth in promoters' holdings in Nifty 500; data as of December 31, 2022; figures are for the respective quarter **Source** ACE Equity, exchanges

MUTUAL PROGRESS

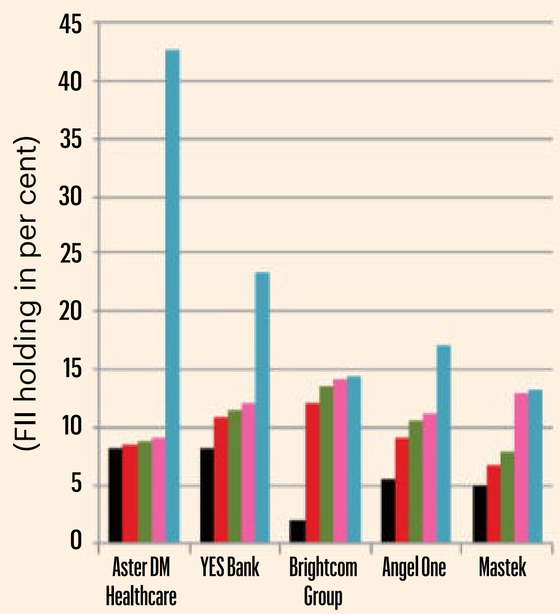
IN 85 NIFTY 500 COMPANIES, MUTUAL FUNDS HAVE INCREASED THEIR STAKES IN EACH QUARTER OF 2022



Top 5 companies with highest growth in MF holdings in Nifty 500; data as of December 31, 2022; figures are for the respective quarter **Source** ACE Equity, exchanges

INTERNATIONAL CHURN

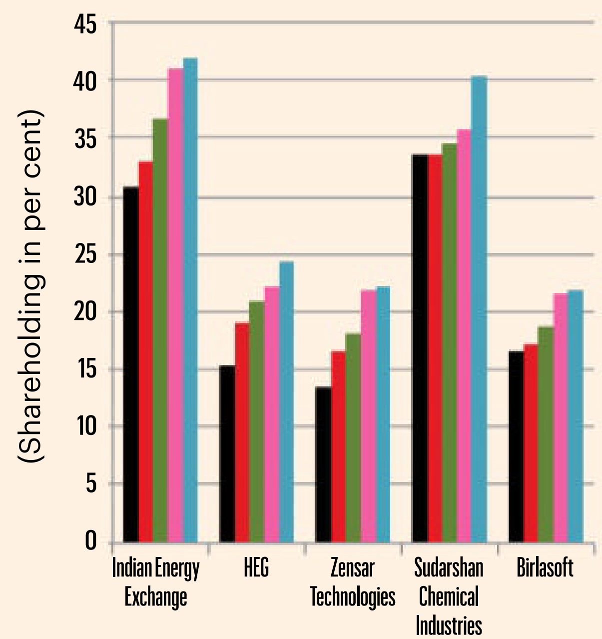
OVERSEAS INVESTORS (FIIs AND FPIs) CONTINUED TO ADD SELECT STOCKS IN 2022 DESPITE OFFLOADING SHARES WORTH OVER ₹1.20 LAKH CRORE



Top 5 companies with highest growth in FII holdings in Nifty 500; data as of December 31, 2022; figures are for the respective quarter **Source** ACE Equity, exchanges

SINGLE SUPPLEMENT

IN THE PAST FOUR QUARTERS, INDIVIDUAL INVESTORS HAVE RAISED THEIR HOLDINGS IN LESS THAN 10 PER CENT OF NIFTY 500 FIRMS



Top 5 companies with highest growth in individual investors' holdings in Nifty 500; data as of December 31, 2022; figures are for the respective quarter **Source** ACE Equity, exchanges

| ECONOMY |

Game of Estimation

Forecasts of GDP growth and inflation are risky and prone to major corrections over time

BY **ANAND ADHIKARI**

PHOTO BY **BANDEEP SINGH**

"WE ACTUALLY CAN'T forecast all that well, and yet we pretend that we can, but we really can't." Famous words by Alan Greenspan, the long-serving former chairman of the US Federal Reserve, who left office in 2006 just before the global financial crisis. Having dealt with the high and lows of forecasts all his life, Greenspan would know.

And so it happened that exactly a year ago, when the economy was still under the cloud of the pandemic, Finance Minister Nirmala Sitharaman (*in picture*) presented the Economic Survey with an optimistic real GDP growth projection of 8-8.5 per cent for 2022-23. Reserve Bank of India (RBI) Gov-

WHAT COULD GO WRONG

- A below normal monsoon
- Elevated inflation and interest rates
- Reduced capital flows via FDI, FPO, PE and VCs
- Sharper rupee depreciation against the US dollar
- Resurfacing of the pandemic
- Default or big bankruptcy in global or domestic market

ernor Shaktikanta Das followed up 10 days later with a forecast of 7.8 per cent. The retail inflation rate, or the consumer price index (CPI), was estimated at 4.5 per cent for the same period.

These estimates were thrown out of the window by the sudden conflict between Russia and Ukraine, the global tightening of monetary policy, and fall in India's exports. The real GDP will likely close the year at 6.5 per cent, down 150-200 basis points from the forecasts. CPI, estimated by RBI at 6.5 per cent for FY23, too, is up by 200 basis points from the forecasted level of 4.5 per cent. Should one now believe RBI's 2023-24 forecasts of real GDP at 6.4 per cent and retail inflation at 5.3 per cent?

The answer probably lies in what Greenspan said about economic forecasts. There is always a risk of things turning topsy-turvy because of Black Swan events. Madan Sabnavis, Chief Economist of Bank of Baroda, whose research team's estimates match the government and RBI figures, believes that a disastrous monsoon, a drop in corporate profitability, a reduction in bank credit growth, or oil prices beyond $90 per barrel might affect the current projections. "The forecasts are ultimately based on some assumptions," says Sabnavis.

Experts are already surprised by the optimistic GDP numbers. Pranjul Bhandari, Chief Economist for India and Indonesia at HSBC, is a bit puzzled by the 6.4 per cent GDP forecast, as her own bank's estimate in her research note is far lower at 5.5 per cent. Research teams of private sector HDFC Bank, rating agency CRISIL and Axis Mutual Fund, among others, have predicted lower growth next year.

So, what could derail the GDP and inflation forecasts in 2023-24?

India is primarily a consumer-driven economy, with consumption accounting for more than half of GDP. In certain corporate circles, the Budget is being hailed as boosting consumption and demand. A case in point is the lower tax structure for those who choose the new tax regime, which has no exemptions. The government has proposed a reduced tax surcharge rate on income above ₹5 crore to 25 per cent, bringing down the maximum tax rate from 43 per cent to 39 per cent. "It is unlikely that the lower tax rate would boost consumption. This new regime is already a non-starter," says a private banker. In a Budget size of ₹45 lakh crore, the total income tax collection—with the bulk under the old tax regime—is only ₹9 lakh crore. There are also expectations of slowing pent-up consumption demand—higher interest rates and higher inflation will dampen shoppers' spirits. The full impact of the 250-basis point hike in the repo rate will be felt next year.

In addition, the government's own consumption expenditure, or revenue expenditure, which is 80 per cent of the total expenditure, is expected to grow by a paltry 1.27 per cent in 2023-24. In fact, there is a cut in subsidies, and schemes like MGNREGA have lower allocations under the revenue expenditure. There is a preference for capital expenditure, which will grow by 38 per cent to ₹10 lakh crore in the next fiscal. Only time would tell whether sustained government capital expenditure will rekindle India Inc.'s animal spirits.

India's exports are also weakening due to the global slowdown, and imports continue to rise on the back of government capex. This will put pressure on the current account deficit and also the rupee against the US dollar, which has already depreciated over 10 per cent last year. There is a threat of imported inflation, although the market is projecting lower inflation than RBI's forecast. And, if the final print of GDP is lower, there would be a negative impact on the fiscal deficit as well as tax collection.

The 96-year-old Greenspan, who doesn't shy away from making future projections even today, now anticipates a US recession. Some would say this is not good news for India. Take it with a pinch of salt if you are not betting against India. BT

@anandadhikari

UP AND DOWN

The Year Gone By (FY23)

Parameters	Projections	Actual
Real GDP	8.0-8.5%	6.5%
Retail inflation	4.5%	6.5%

The Year Ahead (FY24)

Parameters	Projections	Market Estimates
Real GDP	6.5%	6.0%
Retail inflation	5.3%	4.5-5.0%

Wooing Private Capex

The Finance Minister has dropped a hint in her Budget speech about the creation of a framework to bring in large private sector investments into infrastructure. Will it work?

BY **MANISH PANT**

PHOTO BY **RACHIT GOSWAMI**

NON-BANKING FINANCIAL COMPANIES AND INTERNATIONAL FINANCE CORPORATIONS HAVE EMERGED AS THE LARGEST SOURCE OF FUNDS FOR INFRA PROJECTS

▶ **EVEN AS FINANCE** Minister Nirmala Sitharaman has asserted the importance of infrastructure in economic growth, apprehensions have been raised about subdued private sector investments in the space. In Budget 2023-24, she has allocated capex of ₹10 lakh crore, the highest in more than a decade.

Experts such as Rishi Agarwal, MD-India & Head-Asia at consultancy FSG, attribute the low level of private sector participation to a challenging economic environment. "It comes back to what the cost of capital looks like. And, also... there is a clear view of a recessionary market shortly," he says. Agarwal points out how sunrise sectors such as EVs and green energy have attracted sizeable private capital due to the government's policy support and incentives.

Theoretically, the private sector has to supplement the government' investments in infrastructure. But government investments will still need to be there to provide momentum for private investments, says P.R. Jaishankar, MD of Indian Infrastructure Finance Co. Ltd, the government-owned infrastructure financier. "Till FY14, we were trying to push the public-private partnership (PPP) model," he adds. The model has resulted in several marquee projects such as the Bandra-Worli Sea Link in Mumbai, the Pune IT City Metro and the upcoming mega airports at Noida and Navi Mumbai.

Besides, non-banking financial companies and international finance corporations have overtaken commercial banks as the largest source of funds for infrastructure projects. "Today, over 60 per cent of the infrastructure funding is being contributed by them," says Jaishankar. Also, following the announcement of the National Monetisation Pipeline, the funding ecosystem has expanded to include instruments like infrastructure investment trusts and infrastructure debt funds.

Meanwhile, the FM has also talked about an enabling mechanism for private sector investment in her speech. "The secretariat might look at credit guarantees and securitisation-cum-asset-backed securities (ABS). There are a lot of outstanding loans on the books of banks and NBFCs like Power Finance Corp. and the Indian Railways Finance Corp. If one can come up with a securitisation platform to restructure those loans and offer them as ABS to institutional and private investors, that could be a good way out," says Arindam Guha, Partner-Government and Public Services Leader at Deloitte India. Similarly, the setting up of a credit guarantee facility to raise the credit perception of PPP projects would enable private players to raise long-tenure loans. "When you have projects qualifying under the mechanism, their ratings will improve to attract investments from domestic pension funds," says Guha.

THE PRIVATE SECTOR HAS TO SUPPLEMENT THE GOVERNMENT'S INVESTMENTS IN INFRA PROJECTS

Will these steps help attract private capital investments into infrastructure? The caveat: infrastructure has a long gestation period. BT

@manishpant22

PHARMA

Eye on the Horizon

With a combined strategy of inorganic and organic measures, Dr. Reddy's has chalked out a plan to sustain growth

BY **NEETU CHANDRA SHARMA**

▶ **DRUGMAKER DR. REDDY'S** Laboratories has a two-pronged strategy to keep chasing growth. Coming in the backdrop of a 27.3 per cent year-on-year growth in revenues to ₹6,770 crore in Q3FY23, the pharma major has classified its short- and long-term plans into Horizon 1 and Horizon 2, respectively. It plans to chase long-term growth through M&As, while focussing on its core businesses of active pharmaceutical ingredients, generics (reverse engineered drugs similar to their branded counterparts), branded generics, biosimilars (biotherapeutic products similar in terms of quality, safety and efficacy to licensed reference biotherapeutic products) and over-the-counter drugs to grow over the short term, company officials say.

For its Horizon 2 bets, Dr. Reddy's plans to explore new areas such as digital healthcare services, biologics (drugs made from living things), cell and gene therapy, and disease management, apart from looking for inorganic opportunities.

10 per cent

YEAR-ON-YEAR GROWTH IN DR. REDDY'S LABORATORIES' INDIA BUSINESS IN Q3FY23

The company is taking a measured approach to inorganic growth due to its strength in the domestic market, which was visible in the 10 per cent YoY growth in its India business in Q3FY23. "We are creating several growth engines for the India business for both Horizon 1 and 2, which includes ramping up the internal portfolio, collaborations, innovation and inorganic opportunities," says CEO Erez Israeli.

Dr. Reddy's is eyeing double-digit growth in FY24 on the back of its plan to launch around 30 products in the US market. It is also investing in various businesses that may sustain long-term growth. For instance, it is building a global pipeline of biosimilars, developing new chemical entities for immune-oncology therapy, and building up a neutraceuticals (products derived from food sources that have nutritional and medicinal benefits) portfolio, along with developing vaccines and its contract development (CDMO) operations. "We are evaluating several inorganic opportunities across businesses. We believe all of these will lead to several growth opportunities, both in the short- and long-term," says Israeli.

Analysts are also upbeat about the Dr. Reddy's stock, considering the new launches and healthy revenues posted in the recent quarter. Dr. Reddy's share price has grown at 17.75 per cent CAGR over the past three years. The company's "ramp-up across geographies on the back of new launches, strong free cash flow generation to be driven by Revlimid (adult cancer-myeloma drug) and other niche launches and calibrated cost approach based on better product mix," are positives, as per a report by ICICI Direct research. BT

@neetu_csharma

PHOTO BY GETTY IMAGES

DR. REDDY'S IS EYEING DOUBLE-DIGIT GROWTH ON THE BACK OF ITS PLAN TO LAUNCH CLOSE TO 30 PRODUCTS IN THE US MARKET IN FY24

486th RANK IN INDIA'S FORTUNE 500 COMPANIES

GMDC
FUELING THE GROWTH

MINING A GREATER ADVANTAGE FOR THE NATION

Seeking MDOs for Greenfield Project at Damlai, Bharuch

Gujarat Mineral Development Corporation Ltd. (GMDC) is India's No.1 Merchant Seller and the No.2 Producer of Lignite. We have delivered a stellar performance in FY 2021-22, with a quantum leap in production and many financial parameters. We are building capabilities, creating resilience and embracing transformational change. Sustainability is at the core of our activities, and we are exploring opportunities to provide cleaner Lignite.

Towards addressing the increasing demand from industries, and generating more power, we are seeking to enhance production of Lignite and inviting bids from leading MDOs for Developing, Operating and Mining of Lignite and Mine closure for Damlai Project, Bharuch. (GMDC/PPD/006/22-23)

NIT Uploading Date

01/02/2023

Bid Submission Due Date

14/04/2023 @ 14:00 Hrs. IST

For detailed scope and other details, interested bidders may download the NIT Document from our websites:

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EXPLORING LIMITLESS POSSIBILITIES

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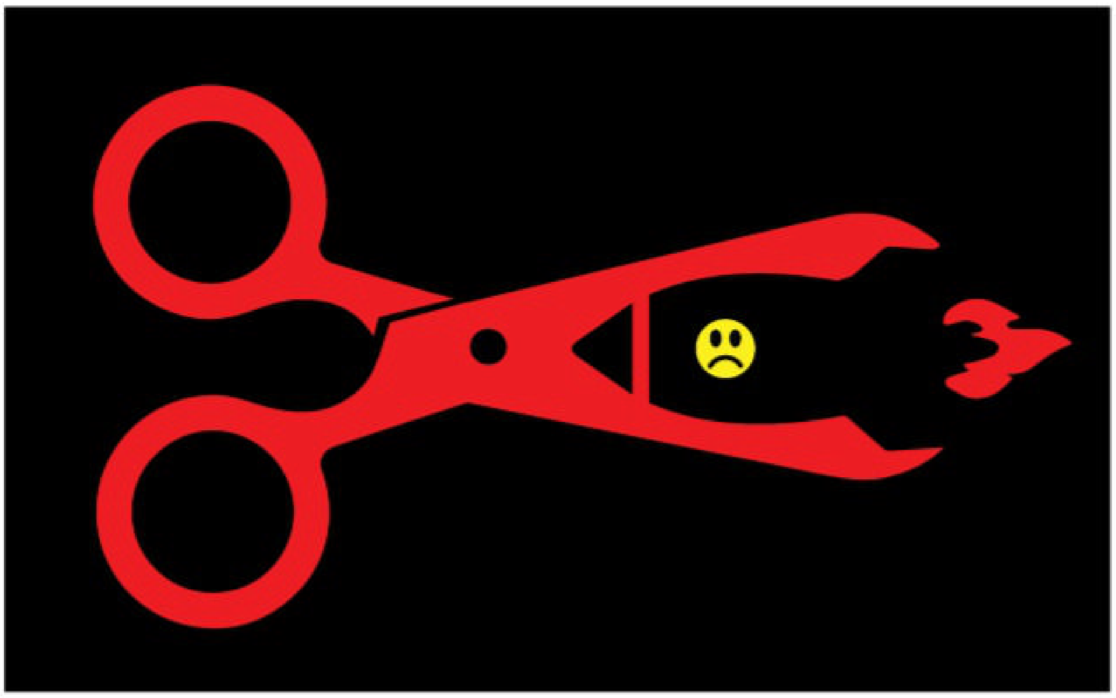
| START-UPS |

Angel's Pinch

The Budget's move to include non-resident investors within the scope of angel tax has the start-up and investor communities worried

BY **BINU PAUL**



GRAPHICS BY **RAJ VERMA**

THE UNION BUDGET'S proposal to include non-resident investors in the scope of angel tax has led to widespread concern in venture capital (VC) and start-up circles. This provision, under Section 56(2)(viib) of the Income Tax Act, states that any premium paid above the fair market value of unlisted company shares by an investor—Indian or foreign—will be subject to taxation. Earlier, this tax was applicable only for investments made by domestic investors.

Start-ups—on whom the tax will be levied—fear this would hit their fundraising prospects as foreign investments are estimated to make up over 90 per cent of private capital invested in them. The additional tax liability on start-ups is expected to deter foreign investors from betting on Indian ventures.

"Start-ups that raised capital would get tax notices asking them to justify their valuations against actual performance. If the divergence of the projections in the valuation report and actual performance is high, the tax officer would dismiss the valuation report and tax all

| SPORTS |

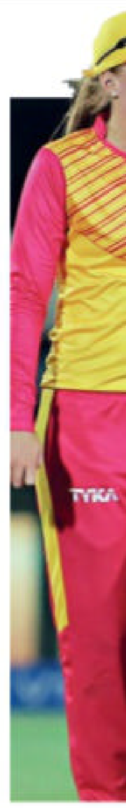
PUSHING BOUNDARIES

The inaugural edition of WPL is expected to bring in a seismic change in women's cricket in India

BY **PRERNA LIDHOO**

CRICKET HAS LONG been considered a sport for men but that is set to change with the inaugural edition of the Women's Premier League (WPL). The mega event, created on the lines of the men's Indian Premier League (IPL), will be held between March 4 and 26. The BCCI expects the WPL to bring in a seismic change in women's cricket and turn it into a money-spinner. BCCI has already raked in ₹4,670 crore from the auction of five WPL teams—Mumbai, Delhi, Bengaluru, Ahmedabad and Lucknow. On average, each team was sold for ₹930 crore, compared to the average ₹500 crore fetched by the eight IPL teams in 2008. Men's cricket, however, has traditionally attracted a large audience base. As per financial services firm Elara Capital, the average reach of women's cricket in India is 20 million, and the number for IPL goes up to around 500 million.

But broadcasters and advertisers are hopeful, says Anil Jayaraj, CEO (Sports) at Viacom18 Media. The company has paid ₹951 crore for the media rights of WPL for five years and Jayaraj is confident that this will prove to be an invaluable asset. "My philosophy is that



share premiums as income. This would lead to tax litigation during which no investor would invest, as any capital they invest may be used to clear the company's angel tax liability," Siddarth Pai, Co-founder of VC firm 3One4 Capital; and Co-Chair, Regulatory Affairs Council, Indian Venture and Alternate Capital Association (IVCA), wrote in an online post.

Pankaj Makkar, MD of Bertelsmann India Investments, says that while the intent is right, the rules as prescribed could unintentionally impact cases such as convertible notes (a short-term debt utility that converts into equity).

The Budget proposal has left start-ups and investors surprised as the Economic Survey 2022-23 had placed special emphasis on simplifying procedures for capital flows to encourage India-focussed start-ups to shift their domicile to India. Many start-up founders and investors are of the view that such restrictions will give a further push to start-up flipping—a term used to describe companies setting up headquarters in overseas destinations where legal environments and taxation policies are more favourable.

TAX PANGS

The Union Budget 2023-24 seeks to extend the scope of angel tax provisions to transactions involving foreign investors

Investors fear this would lead to more tax litigations and instances of VC money being used to clear angel tax liabilities

Start-ups worry the additional tax liability would decrease foreign investment, which constitutes the majority of start-up funding in India, thus hindering their funding prospects

The new angel tax proposal is expected to give a further push to start-up flipping, which refers to companies setting up headquarters in overseas locations with favourable legal and tax laws

Rahul Singh, Co-founder of eco-friendly products maker Eco-Soul Home, says the amendment increases the risk of litigation for Indian start-ups as they primarily depend on global investors for funds. "It may also incentivise start-ups to relocate overseas to avoid paying taxes. India-registered domestic alternative investment funds are exempted from this, but a significant portion of growth- and late-stage capital is foreign in nature," says Vinod Shankar, Co-founder and Partner of early-stage VC fund Java Capital. Start-ups recognised by the Department for Promotion of Industry and Internal Trade are exempt from taxation. But it's not a blanket exception. Shankar says DIPP's definition of a start-up "is narrow, and it does make it a challenge to fund Series A+ stages".

The start-up and investor communities have appealed to the government to reverse its decision and are awaiting a favourable resolution. BT

@binu_t_paul

PHOTO BY **GETTY IMAGES**

your business objectives must be achieved. Our first objective is financial and the second is enhancing the brand's reputation," he says, adding that every event needs to stand on its own. Plus, there's the larger goal of aggregating audiences for the app (Jio Cinema) that WPL is expected to do, and the interest from advertisers has also been immense, he adds. This investment, says Karan Taurani, senior VP at Elara Capital, can pay rich dividends only in the long term, provided women's cricket attracts a mass following. "WPL will bring in a wider target audience to market its brands to women. Return on capital employed would improve in the medium to long term only if it is accepted in a big way and if media rights revenue has a multiplier impact at the next round of auctions in CY28."

For WPL to garner a scalable viewership is certainly an uphill task. But stakeholders are in it for the long haul and are willing to put in the work required to ensure WPL's victory on the pitch. BT

@PLidhoo

Gautam Adani,
Chairman and
Founder, Adani Group

BLOOD

GAUTAM ADANI'S EMPIRE HAS BEEN BATTERED AND BRUISED BY ALLEGATIONS OF STOCK MANIPULATION AND FRAUD LEVELLED BY AMERICAN SHORT-SELLER HINDENBURG RESEARCH. AS THE BILLIONAIRE FIGHTS BACK WITH SEVERAL CONFIDENCE-BUILDING MEASURES, HIS COMPANY STOCKS CONTINUE TO WOBBLE AND GLOBAL BANKERS TURN WARY. CAN HIS MEGA PLANS SURVIVE THIS ONSLAUGHT?

BY **ASHISH RUKHAIYAR** AND **KRISHNA GOPALAN**

PHOTO BY **BANDEEP SINGH**

Beyond the BATH

THE ROAD AHEAD

1 Needs to strengthen balance sheet and reduce debt

2 Could divest equity in group firms to raise funds

3 Needs to review immediate growth/ expansion plans

4 Markets to closely monitor loan repayments

5 ESG, sustainability compliance needs to be prioritised

CONFIDENCE-BUILDING MEASURES

- Prepaid $1.1 billion to release pledged shares
- Share pledges were due for maturity in September 2024
- Coupon payments on dollar-denominated bonds done on schedule
- Adani Group mulling independent assessment of its firms
- Assessment to look into compliance with all requisite regulations
- Highlighting strong guidance, cash flows in latest financial results
- FPO withdrawal will not affect existing business, future plans, says Gautam Adani

GAUTAM ADANI, 60, is like the proverbial cat with nine lives. The highly controversial school dropout-turned-global business tycoon has faced countless challenges in his lifetime, even death, and only emerged stronger. In 2008, the Adani Group Chairman and Founder survived the 26/11 terrorist attack at Mumbai's Taj Mahal hotel, where he was dining when the attackers struck. A decade prior, on New Year's Day of 1998, Adani was kidnapped by two gangsters in Ahmedabad, and was held to ransom. Whether he paid the ransom or not is not known. Neither is it consequential.

What's important is: he survived. Both times.

Will he survive Hindenburg? There is no evidence to suggest anything to the contrary, at least not yet, albeit the Adani empire has shrunk dramatically since the US-based short-selling research firm's allegations of accounting fraud, stock manipulation and routing of funds through overseas shell companies were revealed in its report on January 24 (*see chart 'Hindenburg Alleges...'*). Despite a 413-page rebuttal to the charges, which Hindenburg dismissed as inconsequential, Adani's listed firms were battered by the markets, recovering now and then only to plunge further on more bad news. All through this mayhem, the burly billionaire has maintained a stoic posture, once in a while floating a confidence-building measure here, and another there (*see chart 'Confidence-Building Measures'*).

On January 27, three days after the Hindenburg assault, the ₹2.4-lakh crore Adani Group's mothership, Adani Enterprises, opened its much-anticipated ₹20,000-crore follow-on public offering (FPO). But with the circumstances having changed, the management deliberated on whether to look at overseas markets to raise money, shelve the issue altogether, or lower the offer price. In the end, Adani and his 'A' team stuck to their guns and went ahead as originally planned. After much huffing and puffing, the FPO scraped through on the last day, January 31, with a subscription of 1.12 times, thanks to sustained bidding by institutions, family offices and high net-worth individuals.

The same day, even as Adani Enterprises' FPO hobbled past the finish line, Gautam Adani was pictured in Israel with its Prime Minister Benjamin Netanyahu, smiling assuredly as his Indian conglomerate acquired Israel's key Haifa port for $1.2 billion. Adani was trying to send a signal to the markets—this was just another day at the office; he was on top of the situation. After all, his group spans key infrastructure segments like airports, ports, roads, power and cement, among other things, which have physical assets generating enough cash to stave off any worries. Under normal circumstances.

But circumstances were not normal and, clearly, Adani's signals were not having their desired effect. On February 1, global banks like Credit Suisse, Citi and Standard Chartered stopped accepting Adani's bonds and securities as collateral, resulting in a hammering of group stocks. The same day, the group called off the FPO. Shares of Adani Enterprises, which had touched a high of ₹4,189 in December 2022, plunged to a 52-week low of ₹1,017 on February 3 (both intra-day trading figures). Since January 24, when the Hindenburg report became public, shares of Adani Enterprises, Adani Green Energy, Adani Total Gas and Adani Transmission more than halved in a matter of days, wiping off over $100 billion in market capitalisation in the biggest stock rout Indian markets have seen, though the losses have been partially recouped.

"I am not surprised, since the Adani Group is heavily leveraged and the high debt is a cause for concern," says Mark Mobius, the widely followed global investor and Founder of Mobius Capital Partners LLP. So much so that capital markets regulator Securities and Exchange Board of India (Sebi) has also got into action. "Sebi is already enquiring into both the allegations made in the Hindenburg report as well as the market activity immediately preceding and post the publication of the report, to identify violations of Sebi regulations...," the regulator told the Supreme Court on February 13.

Questions now swirl around how the group would manage to salvage its reputation and service its staggering gross debt of ₹2.25 lakh crore. For Adani, who is used to lenders chasing him to fund his various projects, the changed circumstances are bound to pose serious challenges. How will Adani, a man perceived to be close to the ruling political dispensation, recover from this crisis? There is a lot at stake for his investors, joint venture partners, lenders and the family of shareholders. The coming weeks and months are expected to see the Adani story continue to play out as the embattled billionaire—who has dropped out of the global top 20 billionaires' list (he was at No. 24 as of February 14)—struggles to keep his empire and investment plans, earlier estimated at $107 billion over 9-10 years, on course. The question, then, is: where does the Adani Group go from here?

BONDS DUE FOR REPAYMENT

Company	Issued in	Amount	When due
Adani Green	May 2019	500	2024
Adani Green	Sep 2021	750	2024
Adani Ports & SEZ	Jul 2019	650	2024
Adani Transmission	Aug 2016	500	2026
Adani Ports & SEZ	Jun 2017	500	2027
Adani Ports & SEZ	Jul 2020	750	2027
Adani Enterprises	2022	750	2029
Adani Ports & SEZ	Jul 2019	750	2029
Adani Transmission	Feb 2020	1,000	2030
Adani International Terminal	Dec 2020	300	2031
Adani Ports & SEZ	Jan 2021	500	2031
Adani Transmission	Jul 2021	300	2031
Adani Ports & SEZ	Jul 2021	300	2032
Adani Transmission	Nov 2019	500	2036
Adani Green	Oct 2019	362.5	2039
Adani Ports & SEZ	Jul 2021	450	2041
Adani Transmission	Mar 2020	400	2050
Total		**9,262.50**	

AMOUNTS IN $ MILLION **SOURCE** COMPANY, *BT* RESEARCH

THE $100-BILLION-PLUS CAPEX PLAN

Project	Amount ($ billion)
Green hydrogen	60
Airports	15-20
Data centres	10
Others	17-22

NOTES: (A) THIS WAS ANNOUNCED JUST BEFORE THE ADANI ENTERPRISES' FPO
(B) THE CAPEX OUTLAY WAS FOR THE NEXT 9-10 YEARS **SOURCE** COMPANY, *BT* RESEARCH

THE KEY FOR the group is to strengthen the balance sheet and probably cut down on the number of projects... now is not the time to raise debt but to reduce it," says Mobius, who generally advises investors to avoid heavily leveraged companies in a rising interest rate environment globally.

The other major issue is the limited retail holding in Adani Group stocks—the promoters hold anywhere between 57 per cent (in the recently acquired ACC) and 88 per cent (in FMCG major Adani Wilmar)—which Adani tried to partially correct through the FPO of Adani Enterprises. "They wanted to increase the public

FOLLOWING TH

HINDENBURG ALLEGES...

BRAZEN STOCK MANIPULATION AND ACCOUNTING FRAUD SCHEMES

SUBSTANTIAL DEBT, SHARE PLEDGING AND PRECARIOUS FINANCIAL FOOTING

SHELL COMPANIES IN MAURITIUS; ROUND-TRIPPING OF FUNDS

ADANI GROUP SUBJECT OF FOUR MAJOR GOVERNMENT FRAUD INVESTIGATIONS

RAJESH ADANI ACCUSED BY DRI FOR ALLEGED ROLE IN DIAMOND TRADING IMPORT/ EXPORT SCHEME

SAMIR VORA ACCUSED BY DRI IN THE SAME DIAMOND TRADING SCAM

VINOD ADANI ALLEGEDLY MANAGED NETWORK OF OFFSHORE ENTITIES TO FACILITATE FRAUD

float. That made sense, but the Hindenburg report was totally unexpected," says a banker familiar with the group. Another corporate banker who has lent to the group says equity valuation has little meaning. "We have never lent against equity. The Adani Group went for leveraged growth, which was at a time when debt was easily available. In the new scenario now, expansion will be difficult," he says.

The view on the street is that until a strategic investor puts in cash in one of the operating firms, raising money would be a challenge. "That will entail a process of due diligence and can address some of the issues raised by Hindenburg," says a banker. The conglomerate could still look at foreign banks, even as domestic lenders including State Bank of India have come under scrutiny over their exposure to the group. In fact, the bulk of the group's incremental funding for new businesses and acquisitions in recent years has come through overseas sources like foreign banks and bonds. Large acquisitions, such as cement, have been fully funded by foreign banks, stated a report by financial services firm CLSA.

GOING AHEAD, while the Adani Group is among the Top 3 across the businesses it operates in—ports, airports, power, cements, solar panels, etc.—it would still need funds for expansion such as in Adani Ports, where 100 million metric tonnes capacity will be added, or the massive expansion for airports including the new one in Navi Mumbai, or to fund more buyouts in the cement sector. Undoubtedly, the terms of lending would be different now. "For any corporate, the credit line is its lifeblood. Any hindrance to that will have a cascading effect and at this point, it is an area of concern," says Mahesh Singhi, Founder & MD of Singhi Advisors, an M&A advisory firm. Creditors and other bond holders, he says, need to take a long-term approach to the Adani Group businesses from now on. "That's what they did when they lent money. Nothing should change when it comes to that. Adani is certainly not a Satyam and all its businesses are fundamentally well-placed." Singhi says the assets are as hard and real as the liabilities are.

Indeed, the group's assets are valued higher than even its astronomical debt. The total debt of the group's seven listed entities—Adani Enterprises, Adani Ports & SEZ, Adani Power, Adani Green Energy, Adani Transmis-

HE WHIRLWIND

sion, Adani Wilmar and Adani Total Gas—was pegged at around ₹2.25 lakh crore at the end of FY22. Total assets, on the other hand, were valued at ₹4.1 lakh crore, per data from corporate database ACE Equity. Further, the cumulative net profit of the seven companies in FY22 was nearly ₹13,200 crore, with none in the red. Add recent acquisitions ACC, Ambuja Cements and NDTV to the mix, and the cumulative profit goes up to more than ₹18,800 crore. There is also the extra cushioning of the seven companies' total cash reserves of over ₹30,000 crore.

In addition, Vinit Bolinjkar, Head (Research) at Ventura Securities, points out that at the group level, the Ebitda generated is around ₹50,000 crore per year. "They could pull back on their investments in hydrogen or reduce the planned capacity in green energy. That will help reduce the debt levels," he says, adding that on the debt burden, the domestic piece is well backed by assets and healthy cash flows from its businesses. "In the international markets, the bonds have back-ended payments and there is no serious cause for concern. Their approach has been about projects with scale and a dominant market share. Now, that needs to be fine-tuned in a few places." Bolinjkar explains that projects like green energy give not just very high operating margins (in excess of 90 per cent) but also throw up enough cash to service existing debt.

Speaking of energy, in yet another setback, European multinational energy major TotalEnergies, which has a stake in Adani Total Gas and Adani Green, has put on hold its hydrogen partnership with the Indian conglomerate, although it said that its $3.1-billion investment in the group is still healthy. "It makes no sense to add more (projects) until there is clarity. Adani has to explain the allegations," Patrick Pouyanne, CEO of TotalEnergies, said in an earnings call in early February.

Incidentally, rating agencies—whose words matter in the bond market—seem to be divided over their outlook on the Adani Group. S&P cut its outlook on two group firms (Adani Ports and Adani Electricity), and Moody's downgraded its outlook for Adani Green Energy, Adani Green Energy Restricted Group, Adani Transmission Step-One and Adani Electricity Mumbai from stable to negative. On the other hand, Fitch said loans to all Adani Group entities "generally account for 0.8-1.2 per cent of total lending for Fitch-rated Indian banks... Even in a distress scenario, it is

ADANI RESPONDS...

ALLEGATIONS MADE WITH MALA FIDE INTENTIONS AND LACKS CREDIBILITY, ETHICS

SELECTIVE, MANIPULATIVE, INCOMPLETE EXTRACTS OF DISCLOSED INFORMATION

HINDENBURG AIMS TO PROFIT THROUGH SHORT POSITIONS

DIAMOND EXPORTS MATTER CLOSED BY CESTAT; ORDER CONFIRMED BY SC

CASES AGAINST RAJESH ADANI, VINOD ADANI AND SAMIR VORA DISMISSED IN GROUP'S FAVOUR

ALL RELATED PARTIES, TRANSACTIONS DISCLOSED AS PER INDIAN LAWS

STRONG INTERNAL CONTROLS AND AUDIT CONTROLS IN ALL GROUP FIRMS

ADANI'S ICEBERG

IN ITS OWN words, Nathan Anderson's New York-based Hindenburg Research is a firm that specialises in forensic financial research on issues like accounting irregularities, undisclosed related-party transactions, illegal or unethical business or financial reporting practices, and also undisclosed regulatory or financial issues, among others.

Noble objectives. But there's also a slightly different underlying to this descriptor. Hindenburg is a short-seller, which means it could make a profit from its damning reports as well, in addition to exposing chinks in firms' armour. Adani Group companies' implosion in the stock markets is the outcome of one such shorting investment by Hindenburg.

HINDENBURG MAKES A PROFIT FROM ITS REPORTS WHILE EXPOSING CHINKS IN FIRMS' ARMOUR

Going short on a stock is a complex and risky investment manoeuvre designed to generate a profit if the share price of a 'shorted' firm falls, especially one that is perceived to be overvalued. How does it work? Shares are borrowed at, say, ₹X, from a broker and then sold at their current market value (say, ₹X or ₹X+10). If the value falls to, say, ₹X-10, the borrower buys back the shares from the market at ₹X-10, and returns them to the lender, thereby making a profit. Of course, if the bet fails and the shares climb in value instead of falling, then the borrower makes a loss, which is why this is so risky.

Hindenburg took the risk, and its ruse worked, although it is difficult to ascertain the quantum of gains it might have made. Before releasing its report, Hindenburg took short positions on Adani Group firms. (In India, there are many restrictions imposed on short-selling and, hence, Hindenburg took its short positions through Adani's US-traded bonds and non-India-traded derivative instruments.) Subsequently, the markets got jittery after the report was released, and Adani Group firms lost $100 billion-plus in market capitalisation.

Hindenburg has made a habit of the shorting strategy. In 2020, the firm released reports on as many as seven companies after taking short positions on them. Its report on US-based automaker Nikola grabbed headlines in September 2020, scything the stock's value from $66 in June 2020 to around $2.5 currently. Hindenburg had taken a short position in Nikola before releasing its report. Similarly, the shares of Genuis Brands, the target of a June 2020 report, fell from around $7 to $1.50 with Hindenburg again having a short position. Shares of China Metal Resources Utilization, Predictive Technology Group and HF Foods, among others, all witnessed huge falls in the months following reports by Hindenburg, which had taken short positions in each of the companies.

Ostensibly, Anderson and Hindenburg would have made money from these stocks' crashes. This profit-making objective puts to question the motive of short-sellers such as Hindenburg, albeit the corporate governance aspects of their reports surely can't be wished away.

—Ashish Rukhaiyar

unlikely that all of this exposure would be written down, as much of it is tied to performing projects". Fitch added that Indian banks' exposure to the group is not enough to present a substantial risk to the banks' standalone credit profiles. For instance, SBI Chairman Dinesh Kumar Khara has publicly said his bank's exposure of around ₹27,000 crore was just 0.9 per cent of its total loan book.

Despite the pummelling the group has received of late, bankers and analysts continue to express confidence in the high-quality assets owned by the group. Says an infrastructure sector chief executive who sold a key asset to the Adani Group a few years ago: "It's not as if the assets do not have value. If the valuations have soared to unrealistic levels, it does not take away from the fact that the assets have a lot of intrinsic value." Take the case of Adani Power, which sits on a capacity of 20 GW. At today's valuations, a potential buyout can be struck at ₹5 crore per MW taking the value of the company to ₹1 lakh crore. Knocking off a debt of ₹40,000 crore in Adani Power's books, the equity component will still fetch ₹60,000 crore. (Of course, in the case of a distressed asset, the story is quite different. For perspective, this January, Vedanta acquired the debt-ridden Meenakshi Energy's 1,000-MW plant in Andhra Pradesh for ₹1,140 crore or ₹1.14 crore per MW. But Adani's power plants are not distressed by any stretch.)

Using the same logic for the cement businesses, Ambuja and ACC, which Adani acquired from Swiss major Holcim for $10.5 billion, leave behind an equity

A PERFECT STORM

US-based short-seller Hindenburg Research, led by Nathan Anderson, released a scathing report on the Adani Group on January 24, 2023. Here's what followed

JANUARY 27

Adani Enterprises FPO opens; Adani Group stocks go into free-fall mode

JANUARY 29

Adani Group refutes Hindenburg's allegations, releases 413-page response

JANUARY 30

LIC clarifies that its exposure towards Adani Group firms is less than 1 per cent of its total assets under management

JANUARY 31

FPO subscribed 1.12 times with institutions, HNIs, corporates bidding; retail investors stay away

FEBRUARY 1

Adani Enterprises calls off FPO; going ahead with FPO will not be "morally correct", says Gautam Adani; Credit Suisse stops accepting Adani bonds as collateral

FEBRUARY 2

S&P Dow Jones Indices decides to remove Adani Enterprises from sustainability indices

FEBRUARY 3

RBI says the banking sector is resilient and stable; Adani Enterprises shares touch 52-week low of ₹1,017

FEBRUARY 4

If any information comes to our notice, action will be taken after due examination, says capital markets regulator Sebi

FEBRUARY 6

Promoters prepay $1.1 billion to release share pledge in three Adani Group firms

FEBRUARY 10

Moody's revises outlook on four Adani firms to negative from stable; MSCI lowers free float of Adani Enterprises, Adani Transmission, Adani Total Gas and ACC

Nathan Anderson
Founder,
Hindenburg Research

PHOTO BY **GETTY IMAGES**

value of more than ₹90,000 crore after knocking off their debt of ₹50 crore.

The Adani Group did not respond to a detailed questionnaire from *Business Today* for this story.

MUCH AS THE robustness of the businesses is acknowledged, but the ability to raise money with ease, as it was earlier, is bound to be hit as lenders turn jittery after the Hindenburg charges. Despite the brave faces, even Indian lenders will need to think hard before cutting big cheques for the group in the near future.

As part of his media interactions in January—ahead of the ill-fated FPO—Jugeshinder Singh, Group CFO of the conglomerate, had said that $50 billion was the planned capex for the green hydrogen business alone. Lenders point to the inherent difficulties of this exercise in the domestic and international markets given the current situation. On the face of it, the stakes outside Indian shores are more complicated. After the Credit Suisse and Citi actions, S&P Dow Jones has removed Adani Enterprises from its sustainability indices while Morgan Stanley Capital International has lowered the free float factor of Adani Enterprises, Adani Transmission, Adani Total Gas and ACC.

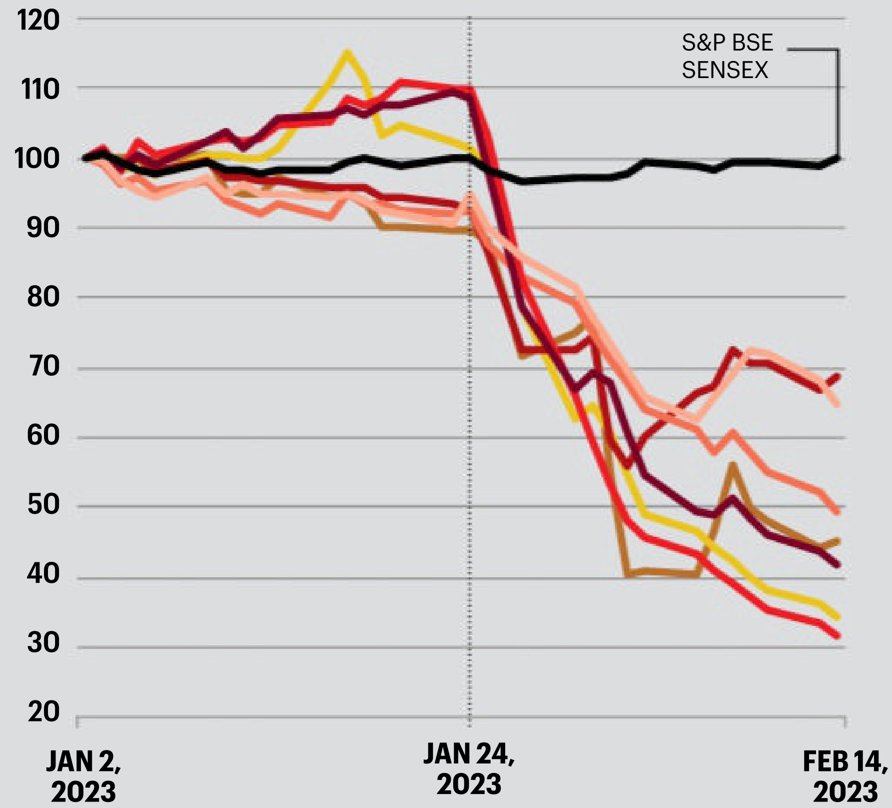
Bankers say that in the international market, some investors will hold on to the group's bonds but the worry is that "investors generally panic". Besides, they explain, there are "vulture investors" who will come in to push the price down and lead to higher bond yields. "At the crux is to restore confidence to ensure the repricing of bonds takes place. Besides, the vulture funds will be hugely attracted to the yields, which they don't see in any other part of the world," says a corporate banker.

Speaking of confidence-building measures—a term used more in diplomacy and military warfare—the group is leaving no stone unturned. On February 6, the group said that the promoters have prepaid $1.1 billion to release share pledges in three group companies—Adani Ports & SEZ, Adani Green and Adani Transmission—although it was accompanied by the usual speculation around margin calls being triggered that typically happen post a sharp and swift fall in share prices. The money for this came from the group's unlisted entities, which are said to have reserve capital of close to $3 billion to meet any contingency.

Then, the development related to timely coupon

SHORT AND SQUEEZED

Adani Group stocks have been pounded in recent times at the bourses

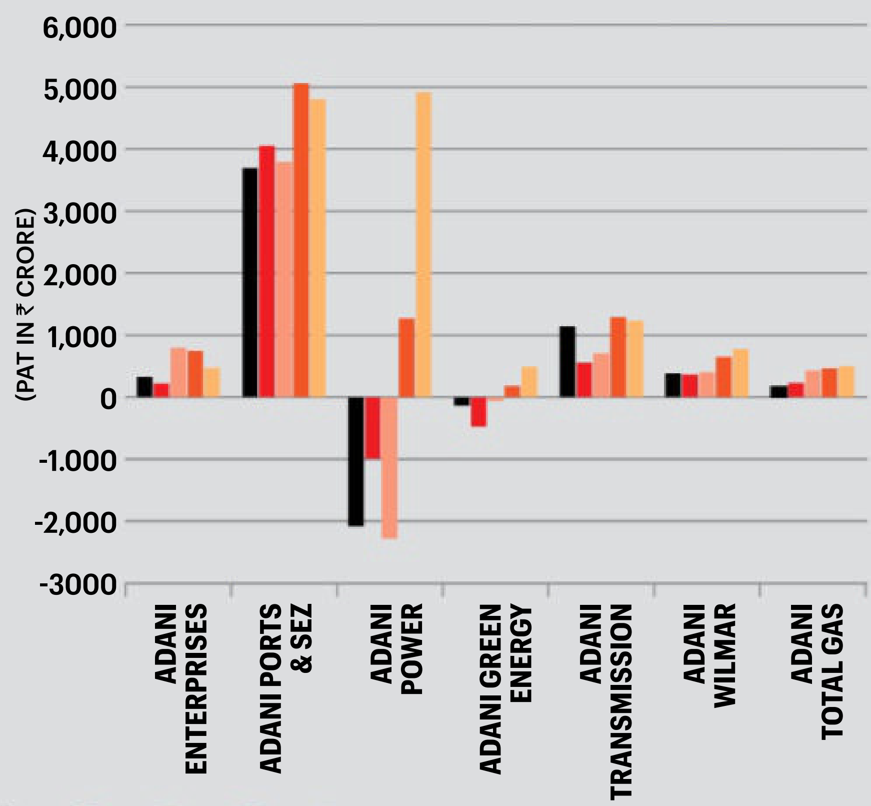


BASE=100

SOURCE ACE EQUITY

BOTTOM LINE

Profit across all Adani Group firms

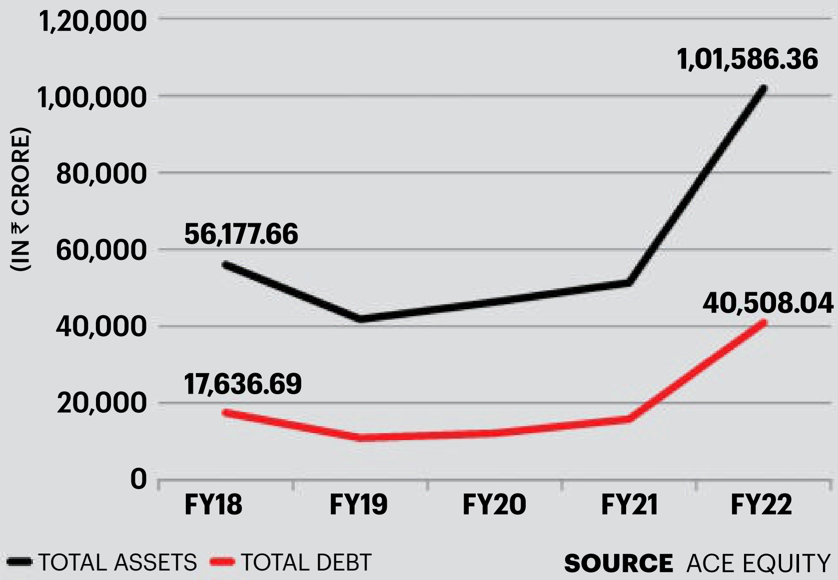


SOURCE ACE EQUITY

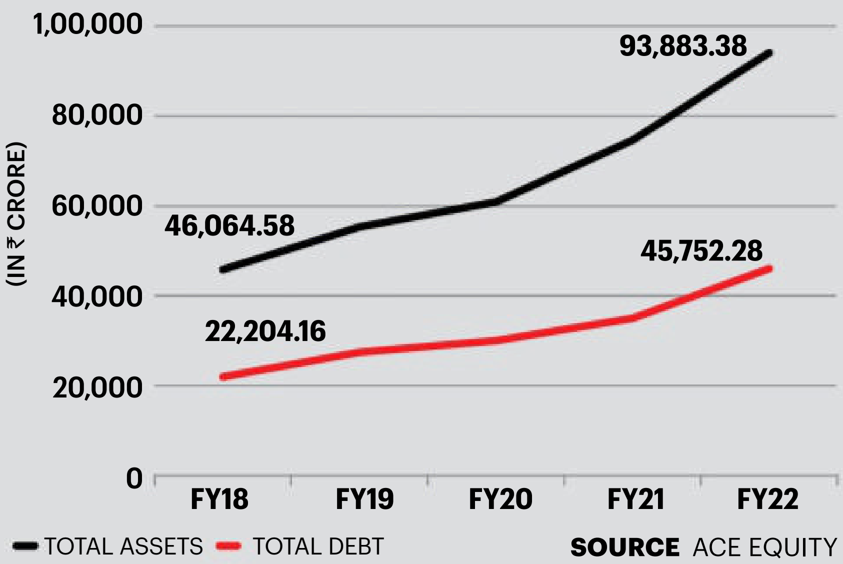
STRONG ASSET BASE

All Adani Group firms have more assets than debt

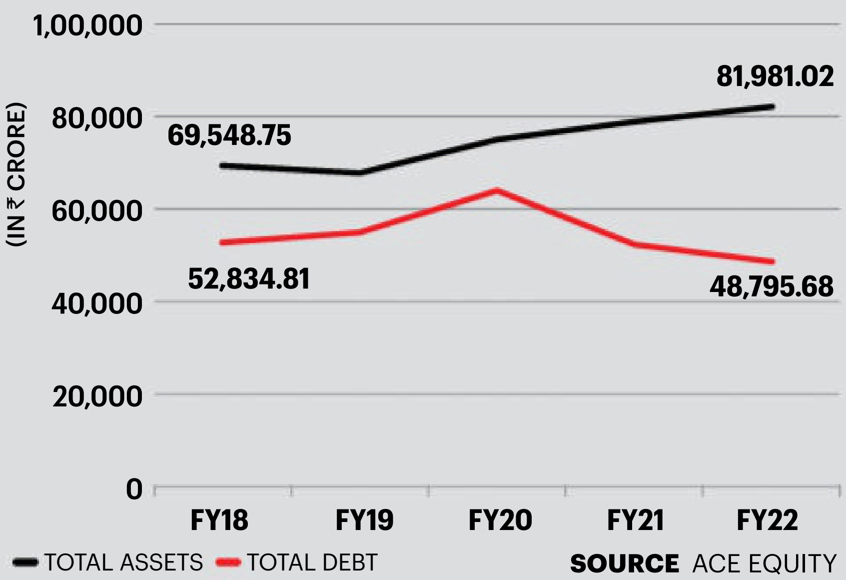
ADANI ENTERPRISES



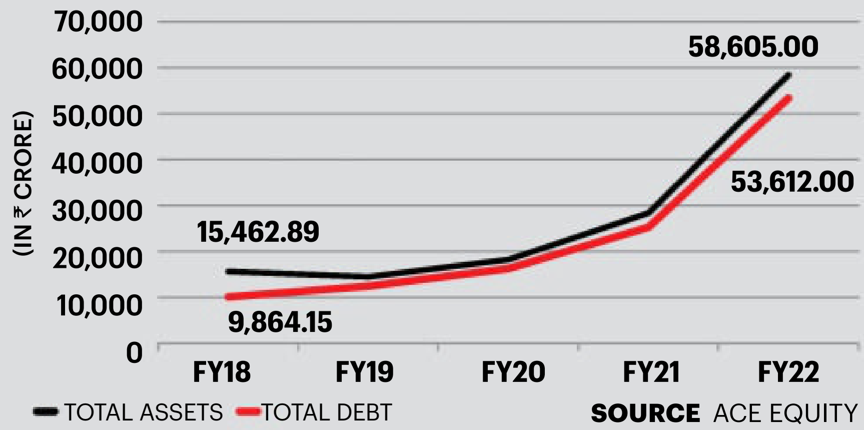
ADANI PORTS & SEZ



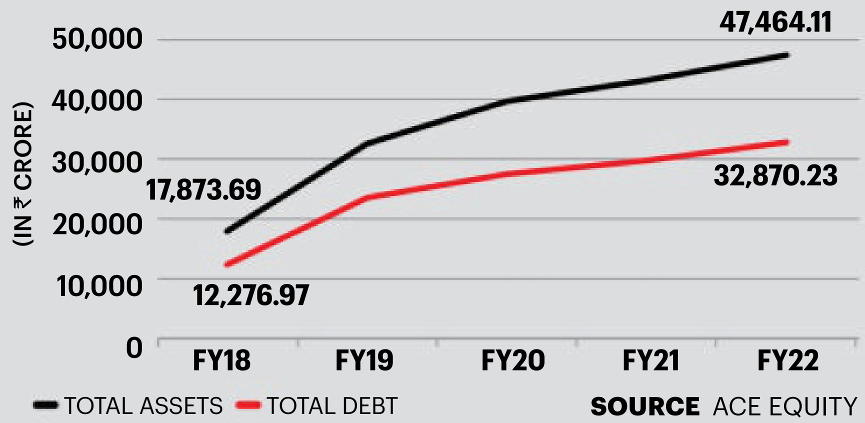
ADANI POWER



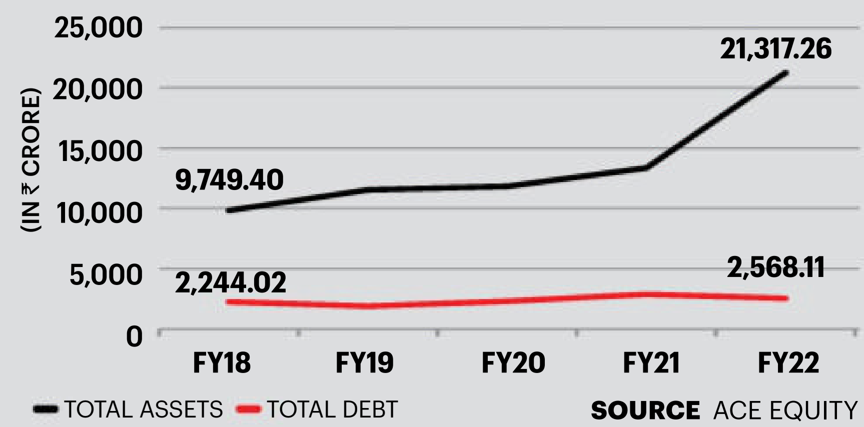
ADANI GREEN ENERGY



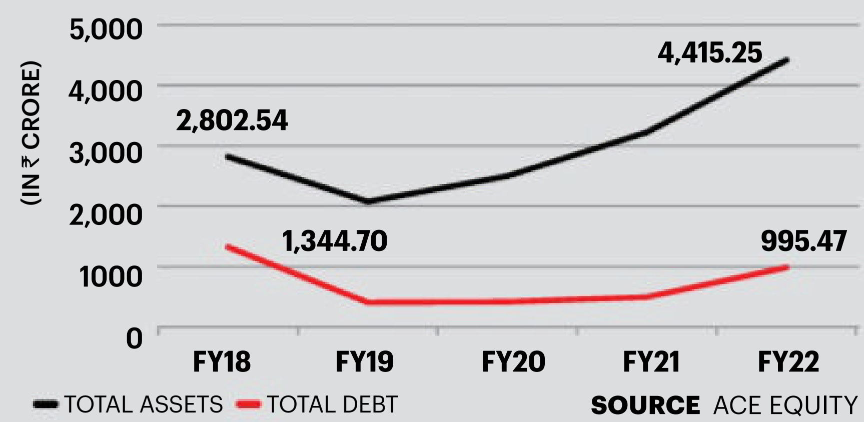
ADANI TRANSMISSION



ADANI WILMAR



ADANI TOTAL GAS



SKIRMISHES WITH SEBI

In May 2007, the Securities and Exchange Board of India (Sebi) barred certain promoter entities of Adani Export

Barred from market for two years for abetting Ketan Parekh in manipulating shares

The Securities Appellate Tribunal (SAT) stayed the Sebi order in July 2007

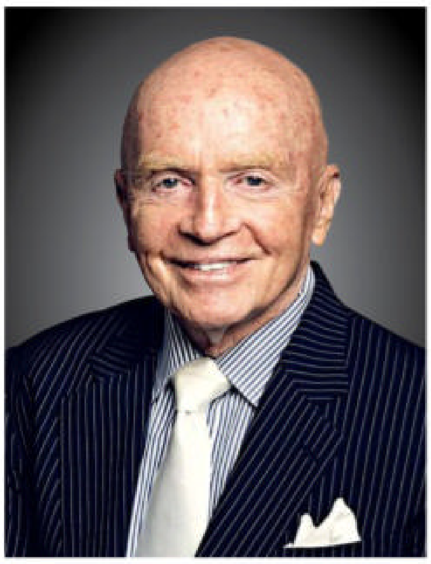
Adani Group companies filed for consent and the matter was settled with Sebi

payments on dollar-denominated bonds was also disseminated promptly by the Adani Group. As things stand, the repayment schedule is on track (*See table 'Bonds Due for Repayment'*) with around $2 billion needing to be repaid by the end of next year. Just on the basis of the ₹30,000-crore cash on the books, meeting that is not a challenge.

Further, the group announced that it is mulling an independent assessment in terms of compliance and governance to ensure all transactions and disclosures have been made as per the requisite regulations. It is also planning to prepay $500 million worth of loans that are due in March, which relate to a part of the loan raised to finance the purchase of Holcim's cement assets in India. The group was earlier mulling refinancing the loans, but then thought it best to prepay given the current scenario. The latest financial numbers of some of the group companies have also highlighted strong guidance, future cash flows and the quantum of debt that will be reduced over time—all aimed at addressing the concerns in the domestic and international markets.

Speaking of domestic markets, banks are expected to be reticent till there is clarity on the group's financial structure. "There is a good chance that the group will go into consolidation mode for the next 1.5-2 years. Diluting stakes in profitable companies may be a sensible and viable option," says a leading investment banker who wishes to remain anonymous. He says it is a good opportunity to change the composition of the board and just up the game on corporate governance.

Analysts point out that Adani's play is in the infrastructure space, which is one that has serious entry barriers. "He is the only pure-play infrastructure group in India. For many years, one has seen how the likes of GMR, GVK and Lanco have struggled, and Adani is the only survivor," says Deven Choksey, Promoter and MD of KRChoksey Group, a wealth management firm. He picks out the government's thrust on the sector through the allocation of



"The key for the group is to strengthen the balance sheet and probably cut down on the number of projects in order to reduce the debt. So, now is not the time to raise debt but [to] reduce it"

MARK MOBIUS
FOUNDER, MOBIUS CAPITAL PARTNERS LLP

"A valuation of Adani Enterprises with upbeat assumptions on revenue growth and operating margins... without factoring [in] the Hindenburg accusations... yields a value of about ₹945 per share"

ASWATH DAMODARAN
PROFESSOR, STERN SCHOOL OF BUSINESS, IN A BLOG POST

In November 2020, markets watchdog Sebi sought certain information from three Adani Group companies

Adani Ports, Adani Total Gas and Adani Transmission were the subject of Sebi's probe

Separately, the capital markets regulator had sought information from Adani Global as well

All Adani Group companies responded with required details; no show-cause notice has been issued by Sebi as yet

SOURCE DRHPs

more than ₹20 lakh crore over the last three Union Budgets. "In the infra space, players have to deal with the government, together with high interest costs, execution of projects using right technology in a time-bound manner. Judging a player only on the basis of its stock price is an incorrect approach," reasons Choksey, who adds that since these projects "are meant for decades and centuries, valuations must be calculated based on current value of currency under replacement costs and time".

The critical issue relating to the Adani Group seems to be the high valuations the stocks commanded till last year. In a dramatic run-up, the entire Adani pack surged northward for the better part of 2022, increasing the group's market capitalisation by over 100 per cent. This surge also catapulted Gautam Adani to the position of the third-richest person on the planet for a fair period, before Hindenburg struck. Most market observers now say the stocks were seriously overvalued despite assets being on the ground.

Aswath Damodaran, one of the world's most renowned experts on valuations, believes that the fair value of Adani Enterprises shares is ₹945, as opposed to its current trading value of around ₹1,600. "Investors in family group companies, no matter how honourable the family, are buying into cross-holdings, opacity and the possibility of wealth transfers across family group companies. Those risks increase, if the family group companies are built around political connections...," he said on his blog.

But valuations apart, despite the high debt levels, market experts don't reckon that there is a serious concern around debt. "Debt is not really a concern for the group as it has good quality assets. The only concern was the high valuation," says Samir Arora, Founder of Helios Capital, a portfolio management services firm. "The message from the market seems to be that 'don't be so aggressive in your growth; focus on sustainable growth'. This ongoing issue, however, could impact the future growth plans of the group. The markets have brought some amount

"There is not even 1 per cent risk for policyholders [and] shareholders [from LIC's holdings in the Adani Group]. There will be no impact on the investments... It is just a drop in the ocean"

M.R. KUMAR
CHAIRMAN, LIC

"The markets have brought some discipline to the Adani Group stocks as shares of some of the group firms were highly valued. Debt is not really a concern... as it has good quality assets"

SAMIR ARORA
FOUNDER, HELIOS CAPITAL

of discipline to the Adani Group stocks as shares of some of the group companies were highly valued."

THERE IS NO denying the fact that the top brass of the Gujarat-headquartered conglomerate will have to go back to the drawing board and review every single aspect of its growth strategy. "Adani Group's calling off of its fully-subscribed FPO has left more questions unanswered. One question that is awaiting clarity is how the group intends to meet the objectives as stated in the prospectus of the FPO," says Sumit Agrawal, Managing Partner of Regstreet Law Advisors and a former legal officer of Sebi. Among other things, the aim of the ₹20,000-crore FPO was to repay debt amounting to ₹4,165 crore and fund capex for businesses related to green hydrogen, airports and roads to the tune of ₹10,869 crore.

A top executive close to the group says there is no question of defaults on debt for the next three to five years. "The operating businesses generate high levels of cash, and are in a good position to service debt," he says. This is exactly what the group seems to be telling the markets—that its business model has been centred on predictable cash flows from existing businesses. "For a group of this size, the debt that it has is not a big amount especially when you see that all businesses are asset-based and are appreciating in value. They also have cash flows to support that quantum of debt," says J.N. Gupta, Founder & MD of Stakeholder Empowerment Services, a proxy advisory firm.

Gupta, however, believes that while the group does not face any interdependence risks in terms of cross-holdings, inter-company guarantees or loans, one could say that there is a "management bandwidth" issue that the group should look at resolving. "The financial health of one company will not impact any other group company. On management bandwidth, one can say Gautam Adani and his family members are involved in all companies of the group. Though there could be an issue here, each company is headed by a professional CEO," says Gupta, a former ED of Sebi.

The financial health of the group may not be an immediate concern, but that is not stopping investors from questioning the management on its strategy. In an interview to *BT* TV, LIC Chairman M.R. Kumar said that while the insurance behemoth has not reduced its exposure in the Adani Group (less than 1 per cent of its total assets under management adding up to around ₹36,000 crore) after the Hindenburg report, it wants the embattled conglomerate to "throw some light on what is happening in the market". "We will be calling them [the Adani Group management] sometime just to know the business profile and what they are planning to do and how are they planning to manage the whole thing," said Kumar while adding that the investment was "just a drop in the ocean".

A point to note here is that Adani Enterprises' Q3FY23 results have been outstanding—consolidated total income growth of 42 per cent, Ebitda growth of 101 per cent, and profit of ₹820 crore compared to a loss of ₹12 crore in Q3FY22. Other group companies' Q3FY23 results have been mixed. Adani Ports & SEZ recorded consolidated revenue growth of 17 per cent, but profits fell 16 per cent. Adani Power's revenues rose 45 per cent, but net profit plunged 95 per cent. And Adani Green's revenues grew 53 per cent, and profits also doubled. Still, the companies' shares are on brittle ground, and it will take a while for things to return to normal.

So, let's get back to our original question: Will Gautam Adani survive Hindenburg?

The market's general assessment is that he will, but the bruise will last long and need special treatment. For one, Adani will need to get realistic about his ambitions—he has reportedly halved the growth target to 15-20 per cent for FY24 and might hold back on fresh capex for some time. For another, the markets will have to pare expectations around the valuations of Adani stocks in the days ahead. And for yet another, lenders and regulators too have to draw lessons from this saga to strengthen lending, surveillance and corporate governance practices.

The cat appears not to have exhausted his nine lives. Not yet. BT

₹2,25,000

CRORE GROSS DEBT OF ADANI GROUP COMPANIES

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CAN MEESHO DELIVER PROFITS?

THE SMALL-TOWN WONDER HAS ACCELERATED TO NO. 3 IN INDIA'S E-COMMERCE PECKING ORDER ON THE BACK OF VC MONEY. BUT **NOW, MEESHO NEEDS TO SHOW PROFITS FOR FURTHER GROWTH**. IT WON'T BE EASY

BY **SOHINI MITTER**

PHOTO BY **HARDIK CHHABRA**

THE RIGHT FIT
Meesho Co-founder and CTO Sanjeev Barnwal (*left*) with Co-founder and CEO Vidit Aatrey

SANJAYBHAI SAVALIYA, a Surat-based textile manufacturer, has been selling on home-grown e-commerce platform Meesho since 2019. He's retailed his merchandise on Amazon and Flipkart, too. But in the past two years, Meesho has come to be his preferred platform. Savaliya says Meesho's zero-commission policy attracted him to the online marketplace at a time when Amazon's and Flipkart's 17-18 per cent platform fees were eating into his margins. Besides, a Meesho listing ensures he starts receiving orders within a day or two; on Flipkart and Amazon, it takes 15-20 days.

Savaliya dispatches more than 1,000 orders a day, and earns an average of ₹300 per order. In three years, he's also earned the label of a 'bronze seller' on Meesho by clocking annual sales of ₹5-6 crore through his multiple seller accounts—without ever advertising on the platform. But things are changing. As Meesho ramps up its seller monetisation efforts, people like Savaliya will have to shell out more money to continuously appear on top of its home page as well as get their products displayed to the most relevant customers. Meesho recently notified sellers that it will now charge them a nominal fee per order in exchange for quicker payouts—within 24 hours instead of its usual seven days.

While this is a new stream of monetisation that Meesho has embarked upon, given its rising expenses and ballooning losses (more on that later), sellers aren't too excited. "*Saat din rukne se kuch nahi ho jayega. Kyun hum extra paisa bhare?* (Nothing will change in seven days, so why should we pay extra?)," says Savaliya.

The impact of this new seller policy is yet to play out, but what is amply clear is Meesho's hunt for monetisation. Although it continues to be a zero-commission platform for its 825,000 registered sellers, it has now become imperative for the Bengaluru-based seven-year-old e-commerce firm to pave a path to profitability. Especially after a brutal 2022 that was defined by a prolonged funding winter and mass layoffs at start-ups.

Meesho, too, laid off employees as it scaled down its grocery division (Farmiso) to cut costs. While the official number of layoffs is pegged at 150, company insiders say at least two more rounds of firings took place in 2022, which saw Meesho's large HR team trimmed significantly. "Some product and engineering people were also asked to leave," a person told *BT* on condition of anonymity.

Meesho, however, denies laying off any people besides those in the grocery division. "Our business restructuring cost folks in the grocery unit their jobs. But those were restructuring exits and not layoffs to save costs," says CHRO Ashish Kumar Singh.

Nonetheless, in the absence of free-flowing venture capital (VC) and given the tough macroeconomic environment, unicorns like Meesho are compelled to arrive at a clear path to profitability and a sustainable growth

"WE RAISED A SUBSTANTIAL AMOUNT OF MONEY IN 2021, MUCH MORE THAN NEEDED... AND CAN KEEP RUNNING THE BUSINESS IN A VERY HEALTHY MANNER FOR MANY YEARS. THERE IS A GOOD LIKELIHOOD THAT OUR NEXT ROUND WOULD BE AN IPO"

VIDIT AATREY CO-FOUNDER AND CEO, MEESHO

"OUR VALUE PROPOSITION IS AROUND TWO THINGS—LOWEST PRICES AND WIDE SELECTION. THESE BECAME SO STRONG THAT WE HAD A LOT OF END CUSTOMERS ORGANICALLY COMING TO MEESHO AND BUYING FOR THEMSELVES"

SANJEEV BARNWAL CO-FOUNDER AND CTO, MEESHO model. While the first phase of Meesho's dramatic rise in India's e-commerce landscape was funded by VC dollars and an unbridled optimism around the new economy, the next phase must be self-borne. Can it get there?

Meesho Co-founder and CEO Vidit Aatrey is unfazed by the funding slowdown, and refutes claims that his firm has struggled to raise an external round since September 2021. For the record, Meesho's last fund-raise was a $570-million Series F round led by Fidelity and B Capital Group, valuing it at $4.9 billion—six months after its unicorn round of $300 million led by SoftBank Vision Fund. Between August 2019 and September 2021, Meesho's valuation zoomed from $700 million to $4.9 billion, according to Tracxn, a private markets database.

"We are fortunate that we raised a substantial amount of money in 2021, much more than we needed. We have more than enough in the bank, and can keep running the business in a very healthy manner for many years. There is a good likelihood that our next round [of financing] would be an IPO. But the plan in 2023 is to get to profitability as quickly as possible," says Aatrey.

Prosus Ventures (earlier Naspers), one of Meesho's key shareholders since 2019, echoes Aatrey's quest for profitability. "Meesho has enough cash now... and there is no immediate need to raise money... It is on track to get to Ebitda profitability very soon. And by soon, I mean months, not years," says Ashutosh Sharma, Head of Investments for India at Prosus.

EBB AND FLOW

While attaining profitability may be a key focus in 2023, Meesho's last reported financial results suggest that the company is far from it. Its losses surged 6.5x to ₹3,247 crore in FY22 on account of increased expenditure, as it rushed to acquire customers in a bid to emerge as India's third e-commerce alternative after Flipkart and Amazon. Not only did it splurge on promotional campaigns, it also saw a rise in its employee costs as it rolled out fancy benefits, insurance packages, ESOPs, and more.

Overall, Meesho's FY22 expenses jumped 5x to ₹6,607 crore from ₹1,337 crore in FY21. Its revenues during the period grew 4.5x to ₹3,232 crore and its transacting user base reached 140 million riding on pandemic tailwinds. The growth was also partly triggered by Meesho's pivot from an earlier reseller-based model to pure-play e-commerce (like its larger competitors).

In the earlier model, intermediary sellers (mostly homemakers from India's small towns) placed bulk orders on Meesho, added margins, and re-sold the products to end customers via their social media networks. This tried-and-tested model of 'social commerce' has

THE MONEY TRAIL

Meesho, one of India's most-funded start-ups, has raised over $1 billion till date

- **MAY 2016**
- **$350,000**
- **ANGEL** ROUND
- INVESTOR
RAJUL GARG (LEO CAPITAL)

- **JULY 2016**
- **$120,000**
- **SEED** ROUND
- INVESTOR
Y COMBINATOR

- **AUG 2016**
- **UNDISCLOSED**
- **SEED** ROUND
- INVESTOR
VENTURE HIGHWAY

- **OCT 2017**
- **$3.44 MILLION**
- **SERIES A** ROUND
- INVESTOR
ELEVATION CAPITAL

- **JUNE 2018**
- **$11.5 MILLION**
- **SERIES B** ROUND
- INVESTOR
SEQUOIA CAPITAL

- **NOV 2018**
- **$50 MILLION**
- **SERIES C** ROUND
- INVESTORS
SHUNWEI CAPITAL, RPS VENTURES, DST PARTNERS

- **JUN 2019**
- **$25 MILLION**
- **SERIES D** ROUND
- INVESTOR
FACEBOOK

- **AUG 2019**
- **$100 MILLION**
- **SERIES D** ROUND
- INVESTORS
NASPERS (NOW PROSUS VENTURES), RPS GROUP

- **APR 2021**
- **$300 MILLION**
- **SERIES E** ROUND
- INVESTORS
SOFTBANK VISION FUND, PROSUS

- **SEP 2021**
- **$570 MILLION**
- **SERIES F** ROUND
- INVESTORS
FIDELITY INVESTMENTS, B CAPITAL GROUP

MEESHO'S FUNDING ROUNDS; **SOURCE** TRACXN, COMPANY ANNOUNCEMENTS

ILLUSTRATION BY **RAJ VERMA**

"FY22 WAS CLEARLY A TIME TO GAIN MARKET SHARE... WE INVESTED SIGNIFICANTLY TO GAIN MARKET SHARE. AND WE GREW OUR GMV 25x IN TWO YEARS"

DHIRESH BANSAL
CFO, MEESHO

"INDIAN E-COMMERCE 1.0... [BROUGHT] ORGANISED RETAIL ONLINE... MEESHO WENT AFTER UNORGANISED RETAIL AT ₹500-600 PRICE POINTS AND BROUGHT IT ONLINE"

SARTHAK MISRA
INVESTMENT DIRECTOR, SOFTBANK VISION FUND

seen massive success in China, birthing giants like Pinduoduo. In the middle of 2021, however, Meesho transitioned to the direct e-commerce model.

Co-founder and CTO Sanjeev Barnwal calls it an "organic" progression. "Our value proposition is around two things: i) lowest prices; and ii) wide selection. These became so strong that we had a lot of end customers organically coming to Meesho and buying for themselves. Even the persona of those customers was not very different from the resellers'—they came from small towns and had a certain purchasing power. So, we tweaked our platform to make sure that both personas could be served." That tweak resulted in 80 per cent of Meesho's business coming from direct e-commerce today. App downloads also surged past 270 million, making it the most downloaded shopping app globally in 2022, per Apptopia, that tracks the space.

While Meesho's pivot may please end consumers, resellers—the mainstay of its growth between 2016 and 2020—feel shortchanged by the platform. They contribute only 20 per cent to sales today. "Meesho is a classic case of a company dictated by VCs, even though Vidit [Aatrey] wants to do the right thing," says a former Meesho employee who quit the firm in 2022. "It started as an earnest company that told the average Indian woman in a village that you can earn an income without any expenses of setting up a business. They then stabbed the same woman because they wanted to scale up."

Sector observers, however, don't fault Meesho's change in business model. "Private investors have expectations from the capital they invest, and they want scale... You improvise to the market conditions. Social commerce was facing headwinds. To go further up, Meesho needed a change of gear," says Ankur Bisen, Senior Partner & Head-Consumer, Food & Retail, Technopak.

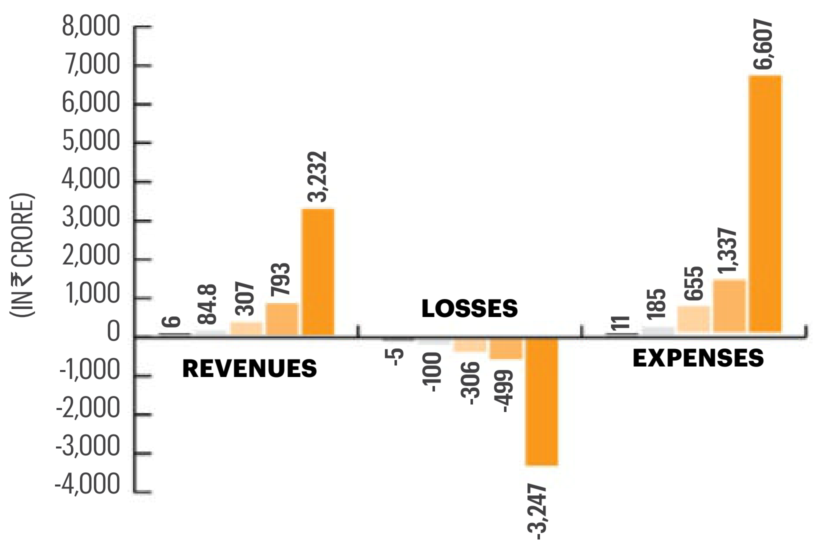
Meesho, meanwhile, asserts that its reseller base continues to grow in absolute terms even though the platform's direct customer base has far outpaced its growth. "On the demand side, the percentage contribution of resellers may have come down, but the number of resellers has remained pretty strong," says Utkrishta Kumar, CXO-Business at Meesho. "But we've become a big consumer destination for those who had no access to these products earlier."

It was by Meesho's design, of course. "Social commerce was a way to transition small-town people who are offline to come online. But it was never the permanent way of people buying online," says Aatrey.

To attract more direct e-commerce shoppers, Meesho galvanised thousands of small-town sellers and urged them to put their entire assortment on its platform by going commission-free. It also ran aggressive promotions and sales events, thereby incurring high customer acquisition costs on its balance sheet. At the start of 2022, Meesho's monthly burn was estimated to be at $30-40

HAND OVER FIST

Between FY21 and FY22, Meesho's losses have widened 6.5x, and its expenses have also jumped nearly 5x during the same period



• FY18 • FY19 • FY20 • FY21 • FY22
SOURCE ROC FILINGS, TOFLER

“MEESHO HAS ENOUGH CASH NOW. THE BURN HAS REDUCED CONSIDERABLY... IT IS ON TRACK TO GET TO EBITDA PROFITABILITY VERY SOON. AND BY SOON, I MEAN MONTHS, NOT YEARS”

ASHUTOSH SHARMA
HEAD OF INVESTMENTS FOR INDIA, PROSUS VENTURES

“MORE THAN 70 PER CENT OF SHOPSY’S [A MEESHO RIVAL] NEW CUSTOMERS COME FROM TIER II AND III MARKETS... WITH OVER 75 PER CENT OF ITEMS COSTING ₹300 AND BELOW”

ADARSH MENON
SVP & HEAD-NEW BUSINESSES, FLIPKART

million, which it claims to have reduced by 80 per cent. CFO Dhiresh Bansal explains that Meesho is using a lesser number of dollars to achieve the same outcome, and that’s what has led to this improvement in burn. “We expect to cut it down to zero in 2023,” he says.

Bansal says FY22 was a time to gain market share. “We invested significantly to gain market share and we grew our gross merchandise value (GMV) by almost 25x in two years. From April 2022, we’ve been focussing on profitability in a meaningful manner,” he says.

Even as Meesho strives to strike the delicate balance between growth and profitability over the next 12-15 months (until FY24), which many say will be a humongous challenge, it continues to be a significant player in India’s $72-billion e-commerce sector. How did it get there?

E-COMMERCE ARENA

India is one of the world’s fastest-growing e-commerce markets, with most new shoppers coming from Tier II+ markets

E-commerce market	2022	2027*
Market size	$50 billion	$150–$170 billion
Gross merchandise value (GMV)	$100 billion	$350 billion
No. of e-commerce shoppers	180-190 million	450-500 million

*PROJECTIONS **SOURCE** BAIN & COMPANY AND ACCEL REPORT ‘THE RISE OF DIGITAL BAZAARS IN INDIA’

E-COMMERCE FOR BHARAT

Meesho was founded in 2015 by IIT Delhi batchmates Aatrey and Barnwal with the goal of democratising internet commerce in India. Flipkart had been around for a while, and Amazon was two years into its India journey. But both catered to the top tier of India’s population or the first 100 million online users. Meesho identified a gap that involved the ‘next billion users’—a Google coinage—who were new to the internet, new to e-commerce, more value-conscious, and less likely to transact.

“Indian e-commerce 1.0 had succeeded in bringing organised retail online—smartphones, TVs, fridges—but those were just one set of spends. If you looked at spends like offline apparel at ₹500-600 price points, they were not coming online. So, we were very excited about the fact that Meesho was going after an unorganised retail market and bringing it online,” says Sarthak Misra, Investment Director at SoftBank Vision Fund, who led the Meesho deal in 2021.

By 2016, following the roll-out of Jio’s low-cost data plans, Meesho started seeing a sharp growth in users. “From mid-2016 to mid-2017... we went from 300 orders to 30,000 orders per day within 12 months. And a big tailwind that enabled it was Jio,” says Aatrey.

Meesho targeted women in Tier II and III towns because they had been traditionally underserved. “We went with a category where trials were easier, which is fashion. A lot of women would buy these low-cost fashion items and be pleasantly delighted. And then they would start to buy more items on the platform over time,” says Aatrey.

By 2019, Meesho was one of the fastest-growing start-ups in India. It went on to attract a $25-million investment from Facebook, making it the tech major’s first Indian bet. “WhatsApp for Business had just launched in India, and very quickly Facebook realised that a large share of WhatsApp for Business users were the women entrepreneurs of Meesho. They saw the power that our platform had in empowering people to start their businesses via WhatsApp," says Aatrey.

Until about two years ago, over 60 per cent of Meesho's sales came from the women's fashion segment. That number is now less than 40 per cent because other categories such as home and kitchen utilities, beauty and personal care, and electronics accessories have also grown after the pandemic. "As trust built up, women started buying products for their kids, families and households, too. So, our goal is not to serve just *a* category. It is to become a single shop that consumers can come to and fulfil all their needs," says the Meesho CEO.

But womenswear remains Meesho's bestselling category. In 2022, it sold 148 sarees a minute, with demand coming from across the country. What's interesting, however, is the growing number of male shoppers on the platform. "Men are showing a higher propensity than ever for grooming products, with more than 60 per cent of orders coming from Tier IV markets," Meesho stated in its year-end wrap. Overall, 910 million orders were placed on Meesho during the year, which is a 135 per cent growth over 2021. It also onboarded 500,000-plus new sellers.

"Most of India shops in local markets for unbranded products. There is a joy associated with unorganised shopping. But traditional e-commerce is very search-driven. You come in, type something, see one or two options, you buy and exit. That's not how you shop in a local market. You spend time, browse, discover, negotiate, and that is what Meesho is trying to do," says SoftBank's Misra.

THE CHALLENGES

So, what ails Meesho? A bunch of things. Besides its growing losses, high rate of returns, and a funding quiet, it also has to contend with a changing competitive landscape. Flipkart and Amazon have entered the value-shopping arena. Flipkart has floated Shopsy, which closed 2022 with 140 million app installs. Within a year of its launch, Shopsy's share of Flipkart's new customers is about 40 per cent. "Over 70 per cent of our new customers come from Tier II and III markets. At Shopsy, we have consistently focussed on providing value-based products to consumers, with over 75 per cent of products under various categories costing ₹300 and below," says Adarsh Menon, SVP & Head-New Businesses at Flipkart.

That is taking the competition straight to Meesho. Then there's Amazon, which acquired social commerce firm GlowRoad last year, to penetrate deeper into small-town India. The reseller-based platform also introduced a 'zero-commission' policy for sellers, which is helping them bring more of their selections online without worrying about listing fees. "Today, more than 85 per cent of new customers and 65 per cent of total orders on Amazon.in come from customers in Tier II and below [towns]. Our total seller base on Amazon.in (one million-plus) has almost doubled since January 2020 and more than 50 per cent of sellers come from Tier II and below towns," Kishore Thota, Director-Customer Experience and Marketing, Amazon India, tells *BT* over email.

Hence, it's evident that the next phase of competition in the e-commerce space is in the small towns. Aatrey, however, is undeterred. "We don't think of them as competition because we play in very different segments. Close to 60 per cent of what is sold on Shopsy is electronics. Our assortment is very different and that determines the kind of customers we get," he explains.

A SNAPSHOT OF MEESHO

It is one of the world's most downloaded shopping apps, with 70 per cent of its users coming from smaller towns

CURRENT EMPLOYEE COUNT
1,980-2,000

TOTAL FUNDING RAISED
$1.1 BILLION

LAST VALUATION
$4.9 BILLION

KEY INVESTORS
PROSUS, SOFTBANK VISION FUND, FACEBOOK, FIDELITY INVESTMENTS, B CAPITAL GROUP, SEQUOIA CAPITAL, SHUNWEI CAPITAL, RPS VENTURES, DST PARTNERS, ELEVATION CAPITAL, VENTURE HIGHWAY, Y COMBINATOR

APP DOWNLOADS
300 MILLION

TOTAL GMV
$5 BILLION

AVERAGE ORDER VALUE (AOV)
₹300-400

ANNUAL TRANSACTING USERS
140 MILLION

REGISTERED SELLERS
825,000

TOTAL PRODUCT LISTINGS
68 MILLION

ORDERS RECEIVED IN 2022
910 MILLION

SOURCE TRACXN, ALLIANCEBERNSTEIN, COMPANY FILINGS

Meesho's other concern is its low average order value (AOV) of ₹300-400 compared to peers. The 'average' AOV in Indian e-commerce is ₹800 (less than $10), according to a report by AllianceBernstein. Meesho's is less than average due to its high sales among low-income customers. Its GMV stood at $5 billion in June 2022, which is also significantly lower than Flipkart's $23 billion, and Amazon's $18-20 billion, as estimated by AllianceBernstein. "A price-sensitive customer is hardly loyal to any single platform," says Technopak's Bisen.

If Meesho has to break the Flipkart-Amazon duopoly in India and become profitable at the same time, it must devise new strategies. "How to make money is no longer just a strategic question. Today, it involves politics, policy, and tech. In a free market, Meesho could do an inventory model, push its own labels, charge a service fee from vendors, create loyalty programmes for customers, etc. But in an environment of regulatory uncertainty, you could start monetising in a certain way and tomorrow it could be deemed illegal," says Bisen.

Then, what are Meesho's options? It has started experimenting with financial services to meet the working capital needs of its sellers who may not be eligible for formal credit. "Financial services fall fairly and squarely into the things that we can do to increase monetisation. We've seen some successful examples as well. Alibaba had Ant Financial, which emerged from its commerce business," says CFO Bansal. "We want to ensure availability of credit, so that our existing sellers can grow their businesses on Meesho."

To increase its reach, Meesho joined the government's Open Network for Digital Commerce (ONDC) in November. Aatrey believes this integration will fuel the discoverability of products for consumers, while also giving a fillip to hyperlocal businesses. "ONDC will also play an important role in expanding India's e-commerce sector by bringing more consumers online," he says.

Some sector analysts reckon Meesho must now look at solving the logistics quandary and bring down dependence on third-party players. "Meesho has been solving for reach in the last two to three years and for people who have never purchased online. But reach is a capital-intensive problem," says Sanjay Kothari, Associate Partner at RedSeer Strategy Consultants. "The next problem to attack would be logistics and the high rate of returns. Meesho could start charging for logistics from sellers to build an indirect revenue model even as the ad business becomes a large contributor," he explains.

But is all this enough to attain profitability? Questions have been asked of Meesho's P&L and its 'growth-at-all-costs' mentality. This is, of course, more systemic than specific in hyper-funded start-ups.

SoftBank believes Meesho is better placed than a lot of "upstarts". "Given the strength of the balance sheet, it gives them a runway of more than two years. They will be profitable before that," says Misra.

But can any new-age company surrender rapid growth at the altar of profitability? Aatrey says one can't choose one over the other. "If you become profitable and are not growing, then why would the investor back you? They would rather go for an old-economy company that is growing at least 20 per cent YoY [year-on-year] and is still profitable," he says. "We'd rather grow somewhere around 50-70 per cent, with profits."

Can Meesho then become India's Pinduoduo? Well, time will tell. **BT**

@mittermaniac

PLATFORM KING

Meesho is India's third-largest online marketplace in terms of total value of products sold annually

FLIPKART	AMAZON	MEESHO	BIGBASKET
$23 BILLION	$18-20 BILLION	$5 BILLION	$1.6 BILLION

TOP E-COMMERCE MARKETPLACES BY GMV; **SOURCE** ALLIANCEBERNSTEIN (REPORT DATED JUNE 2022)

HEALTHY S

GN

Spurred by the Covid-19-induced tilt towards healthcare and pharmaceuticals, 13 health-related firms have gone public in the past two years. And many more are queuing up

BY **NEETU CHANDRA SHARMA**

R**IDING ON BULLISH** investor interest, companies in the healthcare, pharmaceuticals and diagnostics sector are rushing to tap the initial public offering (IPO) market. The Covid-19 pandemic, which created special interest in healthcare and related sectors, seems to have been the trigger. According to PRIME Database, which tracks India's primary capital markets, at least 13 IPOs were launched in the past two years in these sectors. That is a significant rise from earlier years. "There is a pickup in the number of IPOs in the past two years. There were three IPOs in one year on an average over the past five years, but there were seven IPOs per year in the past two years, which is a very good number," says Pranav Haldea, Managing Director of PRIME Database Group. The most recent IPO, in November 2022, was that of Global Health, which operates the Medanta hospital in Gurugram. The IPO comprised fresh issuance of shares worth up to ₹500 crore and an offer-for-sale of up to 50.76 million equity shares.

As Haldea points out, the pipeline of IPOs in healthcare, pharmaceuticals and diagnostics looks strong. Data from PRIME Database shows that at least eight companies from the sector have already received markets regulator Securities and Exchange Board of India's (Sebi) approval for raising around ₹18,000 crore, and would launch their IPOs soon. These are Veeda Clinical Research, GPT Healthcare, Wellness Forever Medicare, API Holdings, Kids Clinic India, Macleods Pharmaceuticals, Yatharth Hospitals & Trauma Care Services and Concord Biotech. In addition, several others have filed their Draft Red Herring Prospectuses (DRHPs) with Sebi for IPOs, and are awaiting approvals, including Mankind Pharma, Infinion BioPharma, Innova Captab, Healthvista India and Blue Jet Healthcare. These companies may together raise another ₹9,700 crore, according to PRIME Database. New Delhi-headquartered Mankind Pharma's IPO size alone is expected to be approximately ₹5,500 crore, one of the largest by a domestic pharma company.

"We like companies that are focussed on the manufacturing of active pharmaceutical ingredients (APIs), which are the biologically active component of a drug product, and have proven capability to be either cost leaders or have strong research and development capabilities," says Aditya Sood, Fund Manager at InCred Multicap Portfolio. Several of the bourse-hitting firms answer to that description.

Not surprisingly, more are planning to join the party. Companies like Emcure Pharma, VLCC Healthcare and Skanray Technologies have made announcements about launching their IPOs of ₹4,500 crore, ₹300 crore and ₹400 crore, respectively. In diagnostics, Vijaya Diagnostics was listed on the BSE on September 14, 2021, and online pharmacy PharmEasy is also planning to come up with an IPO, per PRIME Database.

Then, biotech major Biocon's subsidiary Biocon Biologics says it will look at an IPO over the next 12-24 months, with the exact timing being governed by market conditions. The company, which raised about $330 million in January 2021 from private equity investors such as True North, Tata Capital, Goldman Sachs and ADQ, acquired the global biosimilars (medicines similar to their branded reference medicines) business of its long-term partner Viatris in November 2022. "These investments and the Viatris acquisition are a testament to Biocon Biologics' proven capabilities and reflect the high level of conviction investors have in the company," says Shreehas Tambe, CEO & MD of Biocon Biologics. "With over $70-bil-

₹18,000 CRORE

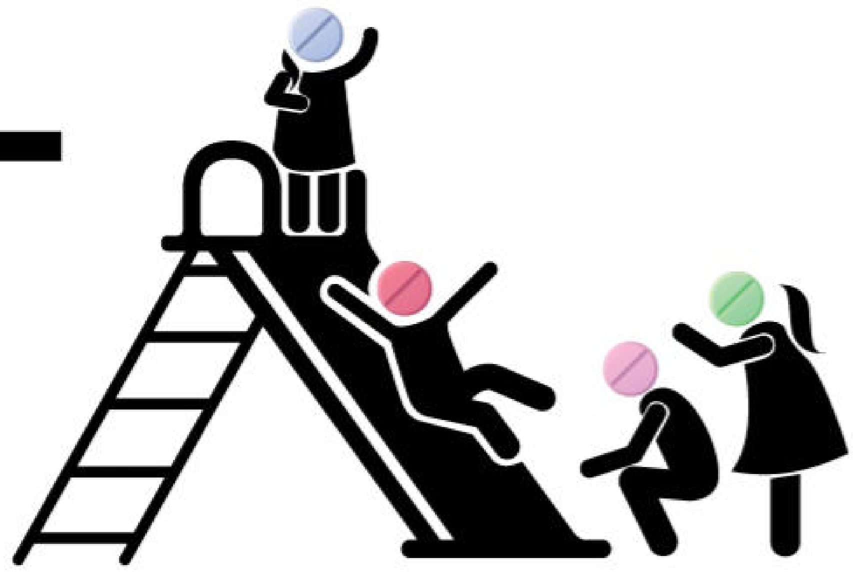
THE TOTAL AMOUNT LIKELY TO BE RAISED BY THE EIGHT HEALTH SECTOR COMPANIES THAT HAVE SEBI'S APPROVAL FOR PUBLIC OFFERS

lion worth of biologics expected to lose exclusivity over the next five years, we are well positioned to capitalise on this opportunity and unlock value for all stakeholders."

However, while the 13 IPOs since November 2020 have garnered around ₹9,000 crore from the primary market, these firms have delivered mixed returns to investors so far. Data collated by PRIME Database shows that Krishna Institute of Medical Sciences, Sigachi Industries, Ami Organics, Rainbow Children's Medicare and Global Health have gained between 35 per cent and 78 per cent from their respective offer prices as of February 8, 2023. The biggest gainer has been Tatva Chintan Pharma Chem Limited, a Gujarat-headquartered specialty chemicals manufacturing company. It listed on the bourses on July 29, 2021, and its share price has increased nearly 85 per cent to ₹1,998.55 on February 8 from the issue price of ₹1,083.

On the other hand, Krsnaa Diagnostics, which made its market debut on August 16, 2021, has declined 53 per cent to ₹445 on February 8 compared to its issue price of ₹954. Windlas Biotech, Glenmark Life Sciences, Medplus Health Services, Vijaya Diagnostics Centre and Supriya Lifesciences have all declined between 18 per cent and 48 per cent so far (February 8, 2023) from their respective issue prices.

According to a research done by ACE Equity and Bank of Baroda, in CY22 (till mid-December), IPOs in edible oil, insurance and hospital & healthcare services contributed 56 per cent of the total issuances of ₹55,472 crore in the primary market. "While the edible oil industry has performed very well on the stock market, the insurance industry (read: LIC) has taken a hit, while returns in the healthcare services industry are modest at best," says Sonal Badhan, Economist with Bank of Baroda's Economics Research Department.



ALIVE AND KICKING

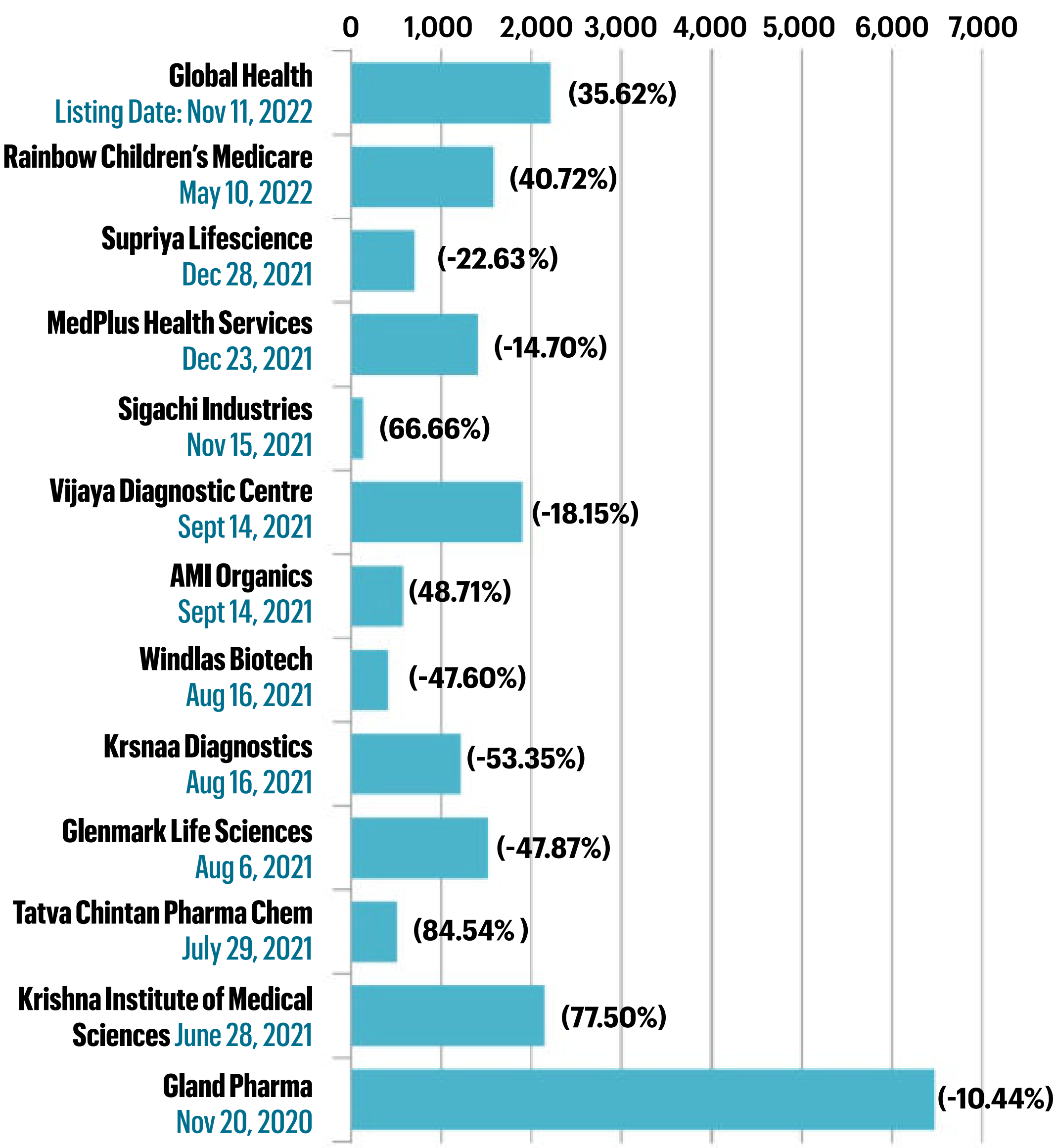
- In terms of listings, even though the past five years have been a mixed bag for healthcare-related companies, the performance of the past two years has been impressive
- Since November 2020, as many as 13 such companies have raised around ₹9,000 crore from the primary market so far
- In CY22 (till mid-December), IPOs in edible oil, insurance and hospital & healthcare services contributed 56 per cent to the total issuances of ₹55,472 crore in the primary market
- Despite the muted performance of some of these health and pharma firms, analysts remain bullish on companies like Glenmark Life Sciences and Vijaya Diagnostics
- Government support and investments in this space further spurs the interest of investors in these companies
- The Indian healthcare industry is expected to post a healthy 13-15 per cent CAGR between fiscals 2022 and 2026, per CRISIL Research estimates

LET'S NOW TAKE a deeper look at some of the companies joining the public markets. Tatva Chintan Pharma Chem, which had revenues of ₹433.6 crore in FY22, saw its Q3FY23 top line grow to ₹120.6 crore from ₹104.67 crore in Q3FY22. The company is expanding manufacturing capacity at its existing plant in Dahej SEZ, Gujarat. It is also expanding its R&D facility at Vadodara, which is expected to be completed by FY23-end, it said in a regulatory filing. The company has successfully completed plant-scale trial runs of a new product using continuous flow chemistry (a kind of chemical reaction), which is expected to be commercialised by 2024.

Another new entrant on the bourses, Ami Organics, reported a growth of 7.9 per cent in its consolidated revenues at ₹152.4 crore in

IPO HEALTH

It has been a mixed outing for health-related companies on D-Street in the past couple of years



BARS REPRESENT ISSUE SIZE IN ₹ CRORE; FIGURES IN BRACKETS INDICATE CHANGE OVER ISSUE PRICE IN PER CENT; DATA AS OF FEBRUARY 8, 2023; LISTING OF HEALTH, PHARMA AND DIAGNOSTIC COMPANIES SINCE NOVEMBER 2020 **SOURCE** PRIME DATABASE

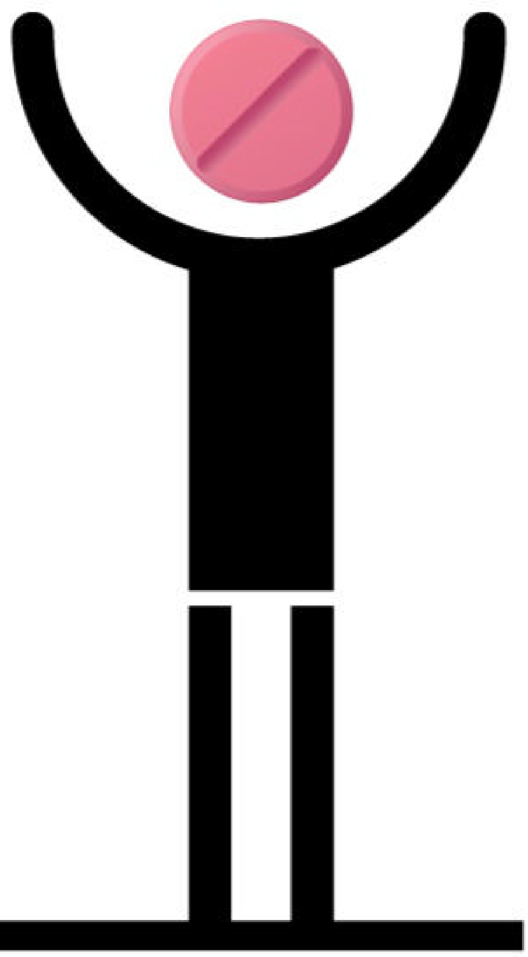
Q3FY23 as against ₹141.2 crore in Q3FY22. The performance was driven by growth in the advanced pharma intermediates business, while the specialty chemicals business remained flat in terms of growth.

The biggest success, of course, has been Medanta or Global Health. Led by Dr Naresh Trehan, a noted cardiologist, Medanta is considered amongst the top private hospitals in North India, specialising in cardiology and cardiac science, neuroscience and oncology. "Over the past three years, Medanta has expanded its network to cities like Lucknow and Patna, which are underserved and have dense populations. We expect a 17 per cent CAGR in revenues over FY22-25E, led by ramp-up of Lucknow and Patna hospitals along with steady growth from mature hospitals," Jefferies Group said in a November 2022 report. 'Mature' hospitals refer to the group's original hospitals at Gurugram, Indore and Ranchi, which accounted for 81 per cent of its revenue and 77 per cent of its total operational bed capacity in FY22. "Medanta's expansion into Central and East India along with a 550-bed expansion underway in Noida (phase I to be commissioned in FY25) should de-risk it from any adverse policy decisions impacting the Delhi/NCR region," the Jefferies report said.

Glenmark Life Sciences, mean-

UPCOMING IPOs

Health-related companies that have received Sebi's approval for their IPOs



while, reported a rise in revenue to ₹540.7 crore in Q3FY23, from ₹522.5 crore in Q3FY22. Anand Rathi Research says the company is able to sustain margins despite industry headwinds.

"With capex coming live, diversification of product portfolio and increasing geographic presence, we expect Glenmark Life Sciences to perform better," Anand Rathi said in a report.

For Vijaya Diagnostics, non-Covid-19 revenue witnessed healthy growth in Q2FY23; it was up 15.1 per cent and 15.9 per cent YoY and QoQ, respectively. Covid-19 revenue, not surprisingly, slumped 67.6 per cent YoY. "We expect 6.9 per cent CAGR in patient volume growth over FY22-FY25E driven by the addition of new centres and increasing footfalls. We remain positive on the stock mainly due to the company's B2C focus (95 per cent of revenue in Q2FY23), highest margin within the industry and continued focus on deeper expansion in its dominant regions," says Vinay Bafna, Research Analyst at ICICI Securities. The diagnostics sector remained sought after last year due to Covid-19 and is expected to remain in the limelight with non-communicable disease testing and preventive healthcare tests rising.

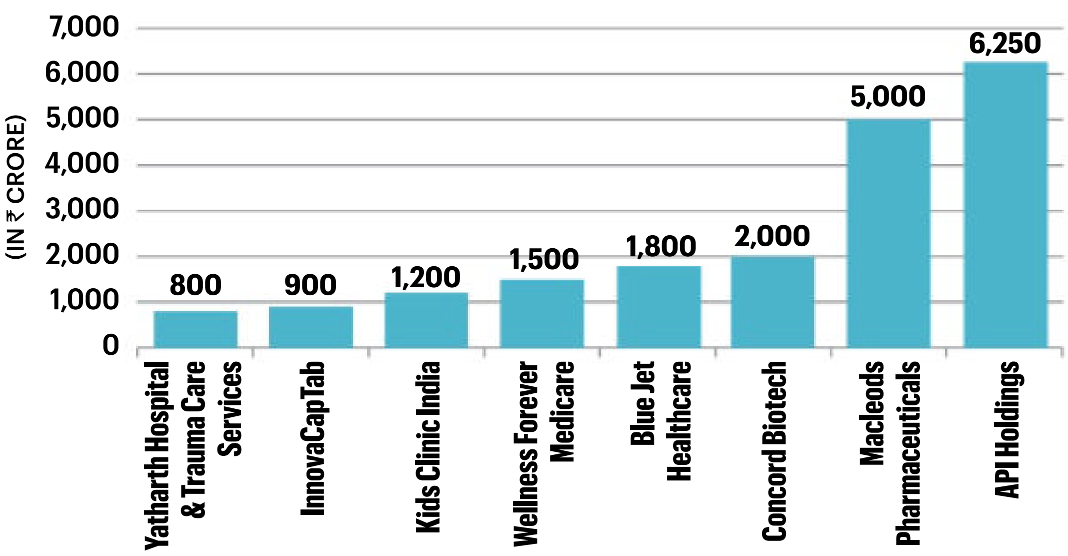
WILL THE UPCOMING IPOs in the sector be able to retain investor interest? "Healthcare and pharma sectors have done well and have a good visibility for revenue and profit growth in a country like India where higher insurance coverage, greater affordability and new supplies have all resulted in medium-term demand visibility. These sectors are defensives and, hence, the seemingly high Nifty price-to-earnings (P/E) ratio does not impact their valuations much," says Deepak Jasani, Head of Retail Research at HDFC Securities. "Also, a lot of unlisted companies have investments from private equity or venture capitalists who would want to exit (at least partially) after remaining invested for two to four years. Appetite from IPO investors also remains strong as possibility of getting high negative returns from these IPOs is minimal (unlike new-age tech companies)."

According to CRISIL Research estimates, the Indian healthcare industry is expected to post a healthy 13-15 per cent CAGR between fiscals 2022 and 2026. The government's increased investment in healthcare is also a factor—the central government's allocation towards Ministry of Health and Family Welfare clocked a promising 11 per cent CAGR between FY11 and FY23, albeit healthcare budget as share of GDP at 1.98 per cent is still rather low.

Nonetheless, overall it is a healthy state of affairs. BT

With inputs from Rahul Oberoi

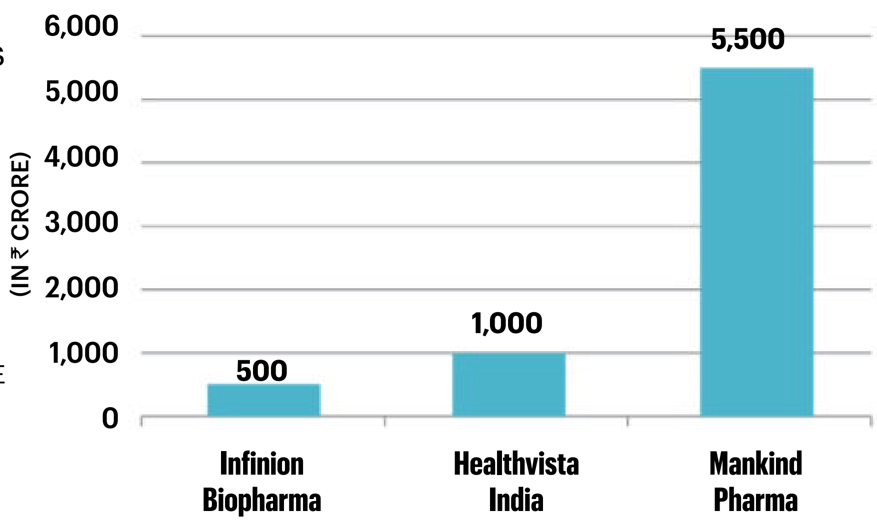
@neetu_csharma

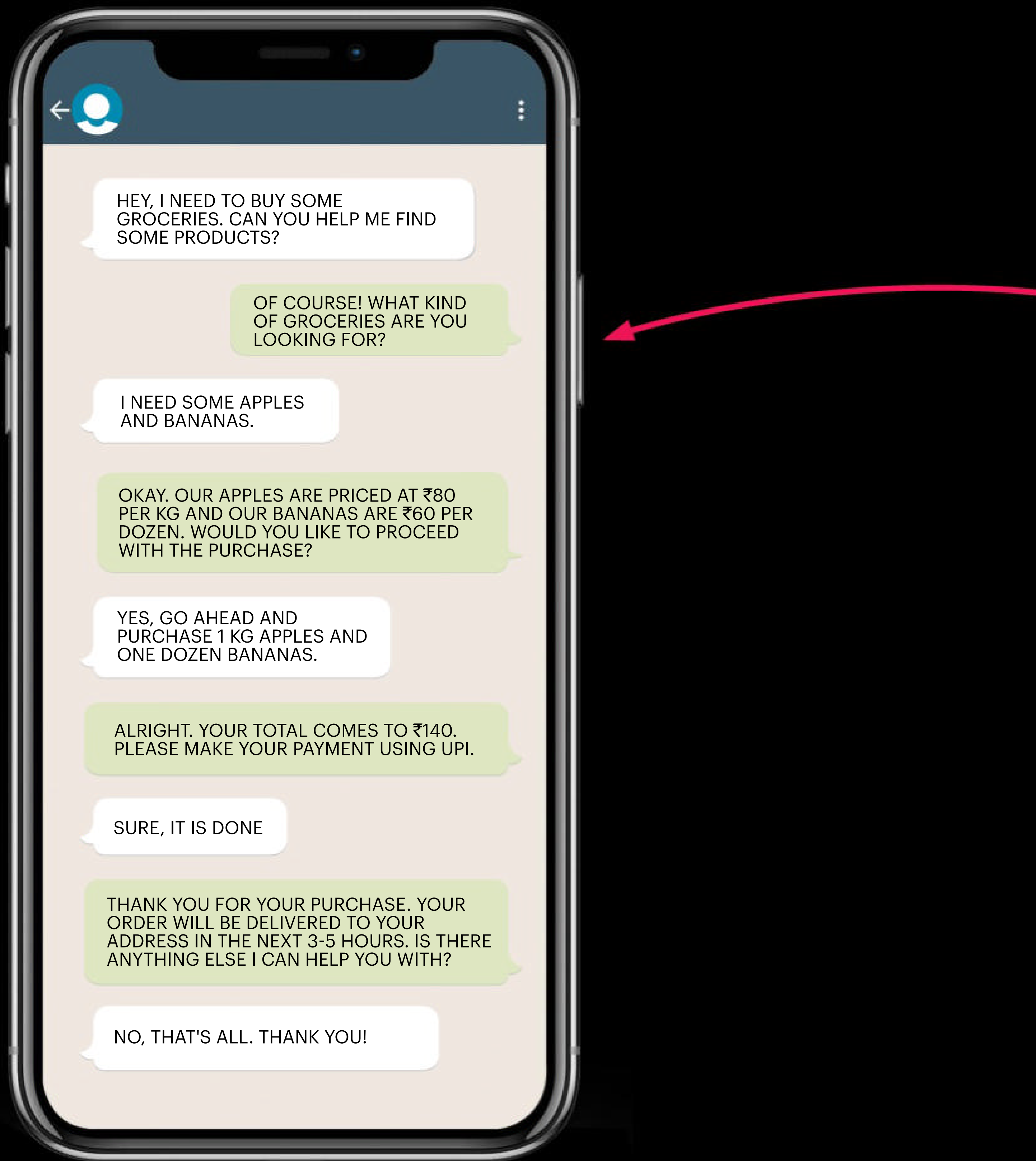


FIGURES ARE ESTIMATED ISSUE SIZE; **SOURCE** PRIME DATABASE

Companies awaiting Sebi's approval

FIGURES ARE ESTIMATED ISSUE SIZE **SOURCE** PRIME DATABASE




HEY, I NEED TO BUY SOME GROCERIES. CAN YOU HELP ME FIND SOME PRODUCTS?
OF COURSE! WHAT KIND OF GROCERIES ARE YOU LOOKING FOR?
I NEED SOME APPLES AND BANANAS.
OKAY. OUR APPLES ARE PRICED AT ₹80 PER KG AND OUR BANANAS ARE ₹60 PER DOZEN. WOULD YOU LIKE TO PROCEED WITH THE PURCHASE?
YES, GO AHEAD AND PURCHASE 1 KG APPLES AND ONE DOZEN BANANAS.
ALRIGHT. YOUR TOTAL COMES TO ₹140. PLEASE MAKE YOUR PAYMENT USING UPI.
SURE, IT IS DONE
THANK YOU FOR YOUR PURCHASE. YOUR ORDER WILL BE DELIVERED TO YOUR ADDRESS IN THE NEXT 3-5 HOURS. IS THERE ANYTHING ELSE I CAN HELP YOU WITH?
NO, THAT'S ALL. THANK YOU!

HELLO ROBOT

BOTS THAT CHAT WITH YOU AND HELP YOU BUY STUFF ARE THE NEW RAGE IN E-COMMERCE

BY **ABHIK SEN**

FOR THOSE OF us who love buying fresh vegetables from the neighbourhood store daily, the Covid-19-induced lockdowns were a stressful time. Using WhatsApp as a notepad to make lists of things one needed to buy—which many people were prone to do—one had to first send the list to the grocer on the messaging app and hope that he checked it before the fresh produce was sold out; next, one had to wait for the grocer to get back with the bill and then make the payment via an e-wallet or UPI. Sometimes, one would even have to call the grocer to confirm that the payment was made, and then wait for the delivery to happen. The stress then led to many daily shoppers, like a relative based in Kolkata, to make—horror of horrors—weekly purchases.

After the lockdowns were lifted, the daily shoppers were back at their favourite neighbourhood grocery stores. My relative, a retired corporate executive, too, went back to his old routine, but a service he started using recently is causing some disruption in his habits. The service in question is JioMart on WhatsApp, which helps him order groceries and provisions in an interactive and seamless manner. And the convenience has convinced him to give his daily morning trips to the local grocer a miss.

But grocery is just one way you can use the messaging app. According to Ravi Garg, Director of Business Messaging-India, at Meta, you can also buy tickets for the Bengaluru metro on WhatsApp, and scan the e-ticket to board the train; and even book an Uber cab! These types of transactions on messaging apps are called conversational commerce, a term believed to have been coined by Chris Messina, the inventor of the hashtag, in 2015.

What exactly is conversational commerce? According to experts, conversational commerce is shopping on a messaging platform, where a chatbot engages in a conversation with a customer and helps her to buy a product, which is usually a small-ticket item. According

86

PER CENT

SHARE OF INDIANS SPENDING TIME ONLINE WHO MESSAGE A BUSINESS AT LEAST ONCE A WEEK

83

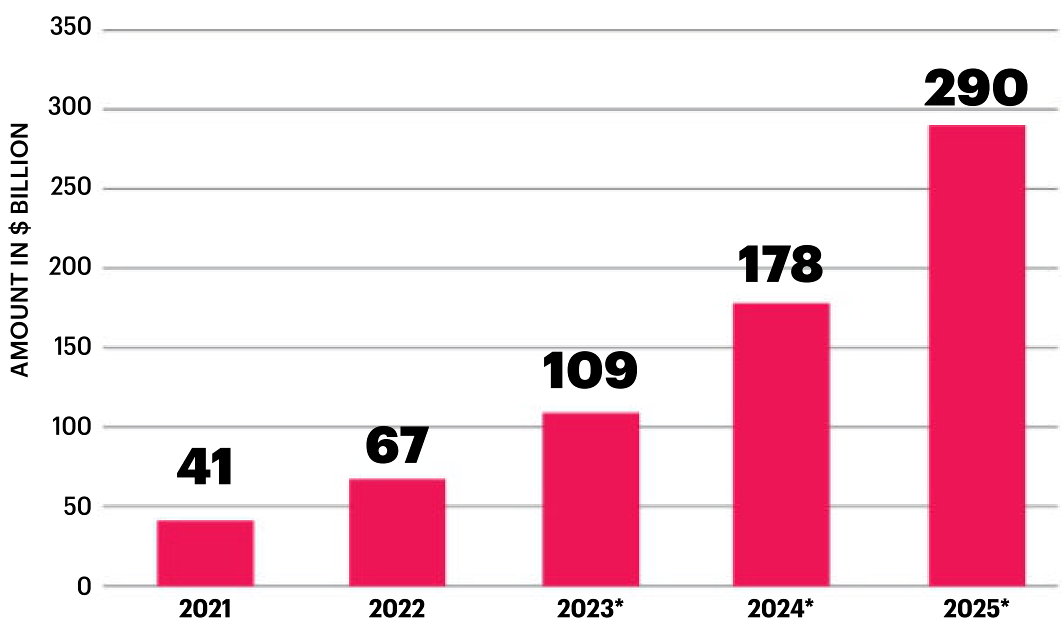
PER CENT

SHARE OF INDIANS SPENDING TIME ONLINE WHO AGREE THAT MESSAGING IS A QUICK AND EASY WAY TO CONNECT WITH A BUSINESS

SOURCE: 'BUSINESS MESSAGING USAGE RESEARCH' BY KANTAR (COMMISSIONED BY META)

THE FUTURE OF SHOPPING

Spends on conversational commerce channels worldwide are expected to spike in the next few years



SOURCE STATISTA; *PROJECTIONS
TOTAL EXPECTED SPENDING OVER CONVERSATIONAL COMMERCE CHANNELS GLOBALLY

to Prashant Garg, Technology Consulting Partner at EY India, conversational commerce usually involves products like apparel, fashion products, FMCG, fresh foods or other consumer goods. He adds that if a generative AI-powered chatbot starts conversing with customers, a third of them end up buying a product. "The bot has methods and a mechanism built in to engage with customers and keep them engaged till the decision to buy is made," he says.

According to independent data platform Statista, total spending over conversational commerce channels worldwide will jump to $290 billion in 2025 from $41 billion in 2021. And while the market is still nascent in India, it has huge potential. According to Akhilesh Tuteja, Partner & Head of Technology, Media and Telecommunication at KPMG in India, India is home to the largest consumer base for the biggest conversational commerce enablers. "India is home to more than 600 million smartphones with one of the cheapest internet connections in the world. This infrastructure, along with the reach provided by these platforms and vernacular accessibility through voice commands, sets the right platform for Indian as well as global brands to penetrate the Tier II and Tier III cities. The new generation in these cities is more aspirational, tech-savvy and has increased disposable income," he says. Although India is a long way from China, it still has 200 million-plus online shoppers, 65 million-plus MSMEs and $100 billion in gross merchandise value (GMV) today—the total addressable market for conversational commerce is huge, he adds. EY's Prashant Garg agrees. "In two years' time... we will be nearly a quarter of whatever China is now," he says.

No wonder that for Meta, conversational commerce, or 'business messaging' as the company calls it, is its next big bet. In India, its tie-up with JioMart is significant since WhatsApp had more than 500 million users in India per an IT ministry release in February 2021, while JioMart—part of billionaire Mukesh Ambani-led Reliance Industries—has more than two million merchant partners. The tie-up was a "lighthouse example" for the world, Nicola Mendelsohn, Vice President of Global Business Group at Meta, had told *BT* in an earlier interaction, adding that all types of businesses were already working organically on WhatsApp.

Ravi Garg says that since the rollout of the service in late August, a lot of businesses have approached Meta and shown interest in building a similar experience. "We built the business platform—WhatsApp—and it can enable any type of business on the platform," he says. Business messaging can be used across all of Meta's platforms, and Ravi Garg says that the company is looking at three ways to monetise its messaging platform. First is the WhatsApp Business App, which is free to use for small businesses; now, Meta is planning to add a subscription layer, which will give users access to advanced features. Second, its WhatsApp Business Platform API, which is for medium and large businesses. Here, businesses are charged for conversations they have with customers. The third revenue stream is click-to-messaging ads, wherein, by clicking on an ad on Facebook or Instagram, one lands on a messaging conversation.

META'S BULLISHNESS ON business messaging in India is backed by research. According to a Kantar survey commissioned by Meta in April 2022, more than 70 per cent of Indians surveyed said they prefer to message businesses rather than send emails, call or visit their website, while 75 per cent said they are more likely to do business with/purchase from a company that they can contact via messaging. The survey adds that 86 per cent of adults in India mes-

BUYING SMART

1

CONVERSATIONAL COMMERCE PLATFORMS ENGAGE CUSTOMERS IN A CONVERSATION TO HELP THEM SHOP

2

SUCH PRODUCTS ARE USUALLY SMALL-TICKET ITEMS LIKE APPAREL, FASHION PRODUCTS, FMCG OR FRESH FOODS

3

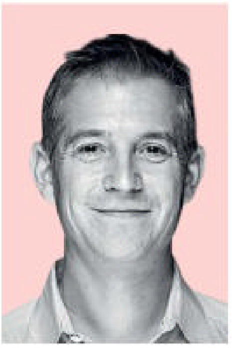
AI-ENABLED CHATBOTS PROVIDE A PERSONALISED EXPERIENCE AND KEEP THE CUSTOMER ENGAGED TILL A DECISION TO BUY IS MADE

4

TOTAL SPENDING OVER CONVERSATIONAL COMMERCE CHANNELS WORLDWIDE WILL JUMP TO $290 BILLION IN 2025 FROM $41 BILLION IN 2021, PER STATISTA

5

WHILE IT IS STILL IN A NASCENT STAGE, RISING SMARTPHONE PENETRATION AND CHEAP INTERNET ARE LIKELY TO DRIVE CONVERSATIONAL COMMERCE IN INDIA

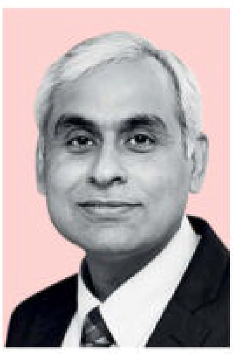


"What's happening on WhatsApp in India is inspiring customers across the world. Meta is committed to helping businesses in India build valuable journeys on WhatsApp"

MATT IDEMA
VP, BUSINESS MESSAGING, META

"We built the business platform, WhatsApp, and it can enable any type of business. You can buy tickets for Bengaluru metro and scan the e-ticket to board the train; and even book cabs"

RAVI GARG
DIRECTOR, BUSINESS MESSAGING-INDIA, META



"India is a long way from China, but it still has 200 million+ online shoppers, 65 million+ MSMEs and $100 billion in GMV today—the opportunity for conversational commerce is huge"

AKHILESH TUTEJA
PARTNER & HEAD OF TECHNOLOGY, MEDIA AND TELECOMMUNICATION, KPMG IN INDIA

"A third of customers conversing with a generative AI-powered chatbot end up buying a product. The bot... keeps them engaged till the decision to buy is made"

PRASHANT GARG
TECHNOLOGY CONSULTING PARTNER, EY INDIA

sage a business at least once a week, considerably higher than the global average of 66 per cent.

Ravi Garg says that business messaging provides customers with a personalised experience, something that shopping online generally lacks. EY's Prasahant Garg adds that if an AI-powered chatbot is at work, it can provide customers with a personalised experience that even a brick-and-mortar store is unable to, since the bot has to engage with a single customer while a shop assistant has to attend to many. He adds that AI-powered chatbots can be added to existing websites or apps to drive customer engagement. This is done by using turnkey solutions powered by conversational AI that uses data, machine learning, and natural language processing to imitate human interactions, recognise speech and text inputs, and translate their meanings across languages. For instance, software giant IBM has such a solution called IBM Watson Advertising Conversations, which helps facilitate personalised AI conversations with consumers virtually anywhere online.

While the space is set to grow rapidly in India, it is not without its challenges. Tuteja of KPMG in India says that customising and training a conversational AI product in a country with around 22 official languages along with the required accuracy, is possibly the biggest challenge. The next challenge is enabling security and privacy for the users of the conversational AI product in a manner compliant with the local laws, he says, adding that ensuring human bias and examples of unethical behaviour from the training data do not pass into the AI is another big challenge.

Meta's Ravi Garg says that for WhatsApp, user privacy remains at its core, despite it being open for business. "Messaging is the best way for people and businesses to connect, and India has led that transformation on WhatsApp. The scale, use-cases, and new buying experiences from the region are things we are really excited to see. What's happening on WhatsApp in India is inspiring our customers all over the world. With business messaging as a top priority for Meta, we're committed to helping businesses of all sizes in India to build valuable journeys on WhatsApp and keep innovating in this space," says Matt Idema, VP of Business Messaging at Meta.

As for my Kolkata-based relative, he is happy with the convenience afforded by technology as it offers him more time for other pursuits. Wonder what other chatbots he will start conversing with next. BT

@abhik_sen

‘Don’t get distracted by what you can’t control’

Bob Moritz, Global Chairman of PwC, talks about dealing with the tough times, ESG and the role of India in the new world order

PHOTOS BY **MILIND SHELTE**

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He has seen the India growth story from close quarters. Bob Moritz, who has been visiting the country for more than three decades, remains upbeat about what lies ahead for the country. The 59-year-old Global Chairman of PwC, who joined the professional services network in 1985, likes what is being done on digitisation in India and believes that the country’s talent pool is impressive. That said, the current global uncertainty means a new role for the country in the world order. The PwC veteran says that India has to make a mark for itself in this new global framework. In a freewheeling chat with *Business Today*’s *Krishna Gopalan,* Moritz outlines his views on inflation, disruption, China, ESG and, of course, India. Edited excerpts:

Q: You have seen many a phase in your long career. From a global point of view, what is remarkably unique about the period that we are in today?

A: I would say the biggest moment that we have is the existence of two phenomena. One, the C-suites of governments and corporates are facing an enormity of challenges to deal with. All this is coming with tremendous speed and impact. The question is, are we going to make the right decisions, be agile and move in the right direction, or will we miss the opportunity?

On the other side, you see the world going through some seismic shifts with the demographics changing dramatically both in terms of size and the rise of those in the lower class and middle class. You see a polarisation of the world as the haves and the have-nots, from a political and economic perspective. You see the implications of technology and climate, plus a combination of this changing the labour force.

Q: How much has changed from the past and how much from your earlier experiences can perhaps be adapted today?

A: Today, we talk about global capital markets and capitalism being dead. No, [they are] not dead. We need each other more than ever before. It has just got a different way of rewiring itself.

I was fortunate enough to spend some time going through various crises. Those include 9/11 or the global financial crisis or the dotcom story. At times, we reflect too much on what has served us well in the past but that may not be fit for what lies ahead. Our definition of key metrics like GDP is a great example of this. But in today's environment with zero interest rates or even negative interest rates, a fully employed labour force in some countries or a potential recession [in others], a lot of economic philosophy may be relevant but not absolute.

There is also a need for leadership to be more engaging, and listening to ensure it can be much more responsive with speed and urgency. That's going to be a challenge and I think, for the next decade, the question will be on how we move with speed and certainty to take advantage of the opportunities and at the same time, mitigate or minimise the downside risks.

Q: We live in uncertainty coupled with disruption. If those can possibly be dealt with, how does one contend with inflation?

"The difference between China and India is that in the case of China, you had uniformity relevant to how government and business interacted. In India, you've got the federal-like level and the state-like level and not as much alignment as necessary to drive speed, certainty and scalability"

A: The reality is that certain parts of the world have had to deal with inflation for the past two decades and India is one of them. Some of the emerging economies in South America have also faced it.

But let's go back to the fundamental principles. You can control what you can control, but not get disrupted and distracted by what you can't control. Your job is to pull the levers of change. And then when things change around you or move fast, you need to adjust. And that's the leadership challenge now. So, for corporates, the traditional budgeting for the next three to five years is less certain now. It's more about the scenarios and figuring out what do I do in x-, y- and z scenarios,

both financially and economically. Equally important is climate. If I can't predict the weather, how am I going to get 1.5 degrees of mitigation?

Q: You first visited India in 1992. What do you like about what you see today?

A: I think there are two things that we have to think about. As a country, you have much more interaction and involvement in the global economies than what it was 30 years ago. Then, it was domestic-focussed and today, the world is seeing India as a much bigger opportunity. The discussion today is about how this country can become a bigger asset to the rest of the world in areas such as supply chain. And clearly, infrastructure has changed tremendously and a lot more needs to be done.

If you go to the financial side of the equation, the amount of FDI or trade has seen a huge leap. In 10-20 years from now, you have the potential to be right up there with the US and China. So, that is a huge flip. In order for it to secure that place in the world, you need to have trust in the society that you're interacting with, plus trust in the government policies that have been put forth. It is the trust that you will do things the right way and trust in the numbers—both financial and non-financial—that people will rely on to make a decision on investing.

I like the labour force that has been created and also the digital assets and the digitisation of the economy that is being leveraged. Those two things are super important to the future of this economy. Now, there are two things that are yet to come. One is the climate aspect and the other is, how will the infrastructure continue to be built out?

Q: Much has been said about China and about China-plus one. What is your view?

A: First, in the case of China, you had a country that developed very, very fast, and had a huge impact on the world and took a role that some would argue is equal to a leading country like the US. And in doing so, it created alternatives. Other than the US from a dependency perspective, it did that by enhancing the growth in the local domestic economy that's creating 20-30 million new jobs a year.

Now the difference between China and India is that in the case of China, you had uniformity relevant to how government and business interacted. In India, you've got the federal-like level and the state-like level and not as much alignment as necessary to drive that speed, certainty and scalability. Having said that, where India now has a big advantage is that it is seen as that second source or that third source. If it delivers an affordable supply chain, manufacturing and goods and services and labour—if all this can be delivered in a climate-friendly way with the right digitisation and the right data connection points, people will see that as a benefit [to the world].

Q: There is a lot going on around ESG. But it is also a situation where one has to deal with the conflicting objective of meeting current energy requirements. It is a difficult situation to be in...

A: Not necessarily. We have a slowing economy and institutions need to survive the next two to three years to thrive in the

ON A WORLD IN FLUX

The world is going through some seismic shifts in terms of the demographics changing—both in terms of size and the rise of the lower and middle classes. You see a polarisation of the world as the haves and the have-nots, from a political and economic perspective. You see the implications of tech and climate, plus a combination of this changing the labour force

ON CAPITAL MARKETS AND CAPITALISM

Today, we talk about global capital markets and capitalism being dead. No, it's not dead. We need each other more than ever before. It has just got a different way of rewiring itself

ON ECONOMIC PHILOSOPHIES

In today's environment with zero interest rates or even negative interest rates, a fully employed labour force in some countries or a potential recession, a lot of economic philosophy may be relevant but not absolute next 10-20 years. To make it in the immediate future, you actually have to deliver the bottom-line results and start to make progress on the non-financial results. It's not that hard. What one needs to do on the ESG agenda is to start to make a commitment, bring about a behavioural change and then measure oneself to demonstrate progress.

If you want to move away from coal or oil or any other carbon-intensive energy or supply chain source, and if you want to say 'stop that tomorrow', I've got issues related to cost, security and availability. And that's what you're dealing with right now in Europe, as we think about the energy crisis.

Now what I can do, though, is to say I will be greener. I will make progress over the next couple of years and do that in a fair and equitable way such that I don't assert the negative attributes, while at the same time make the change the world needs. To me, these things go hand in hand. It's an end statement and not one or the other. If any organisation is developing a strategy or re-articulating or refining it, you cannot do it without ESG.

"The biggest moment is the existence of C-suites of governments and corporates facing an enormity of challenges. This is coming with tremendous speed and impact. The question is, are we going to make the right decisions, be agile and move in the right direction, or will we miss the opportunity?"

Coming to behavioural change, this is where governance bodies become really important. The fact is, if I do a good job on climate, I should have a better brand. If I do a better job on climate, more employees will work for me. And if I do a better job on climate, I should have more consumers. I will also be cost-beneficial and deliver a better RoI [return on investment]. All these things are very much linked together.

Q: It looks like a challenging year ahead globally. How can countries stand up to face what looks like a turbulent period?

A: You are in a difficult economy, but you are going to see winners and losers. The winners will be the ones that move with speed. They'll continuously refine their balance sheets and operating cost structure for better short-term returns and also make faster, better decisions. They will deploy financial and people capital in the right places and take risk as much as they will minimise it. And the organisations that do that well will emerge stronger.

Q: Are we then going to see valuations correcting themselves?

A: You're already starting to see valuations come down on a sustained basis. But let's recognise that the system we have today has put a premium on revenue growth amid a stagnant economy. Now you're going to see revenue growth that should be equating the inflationary pressures. So, let's make sure [that] we're recognising the value for product innovation, bottom line contribution or gaining market share.

Q: In that case, the composition of M&A activity, too, will be different, right?

A: Very much so. You're going to see organisations now being more diligent and probably take a little more time in analysing why am I buying/potentially buying these assets. The other question will be: what comes with them, including the market, the margins, IP and the ESG agenda.

Q: What is your economic outlook for the different parts of the world from where we are now?

A: Europe today probably has the most concerns in terms of economic uncertainty that goes straight to the inflationary pressures and the energy price issues. I do think Europe is going to have a much more acute time of dealing with the severity of this. On the other side of the equation, India, and APAC more broadly, has a lot more upside potential, which organisations will want to take advantage of. And it's not only the domestic organisations in these countries—it's going to be the rest of the world saying that there is an opportunity to deploy capital and to actually get a return from it.

The US is placed smack in the middle. You've got an economy that is still strong, as is the labour market; plus, you have a consumer that is still confident on spending power. The question is going to be, 'How do we manage our way through some of the monetary policy changes that are in place; what will be the effect of that and the speed of that effect?' BT

@krishnagopalan


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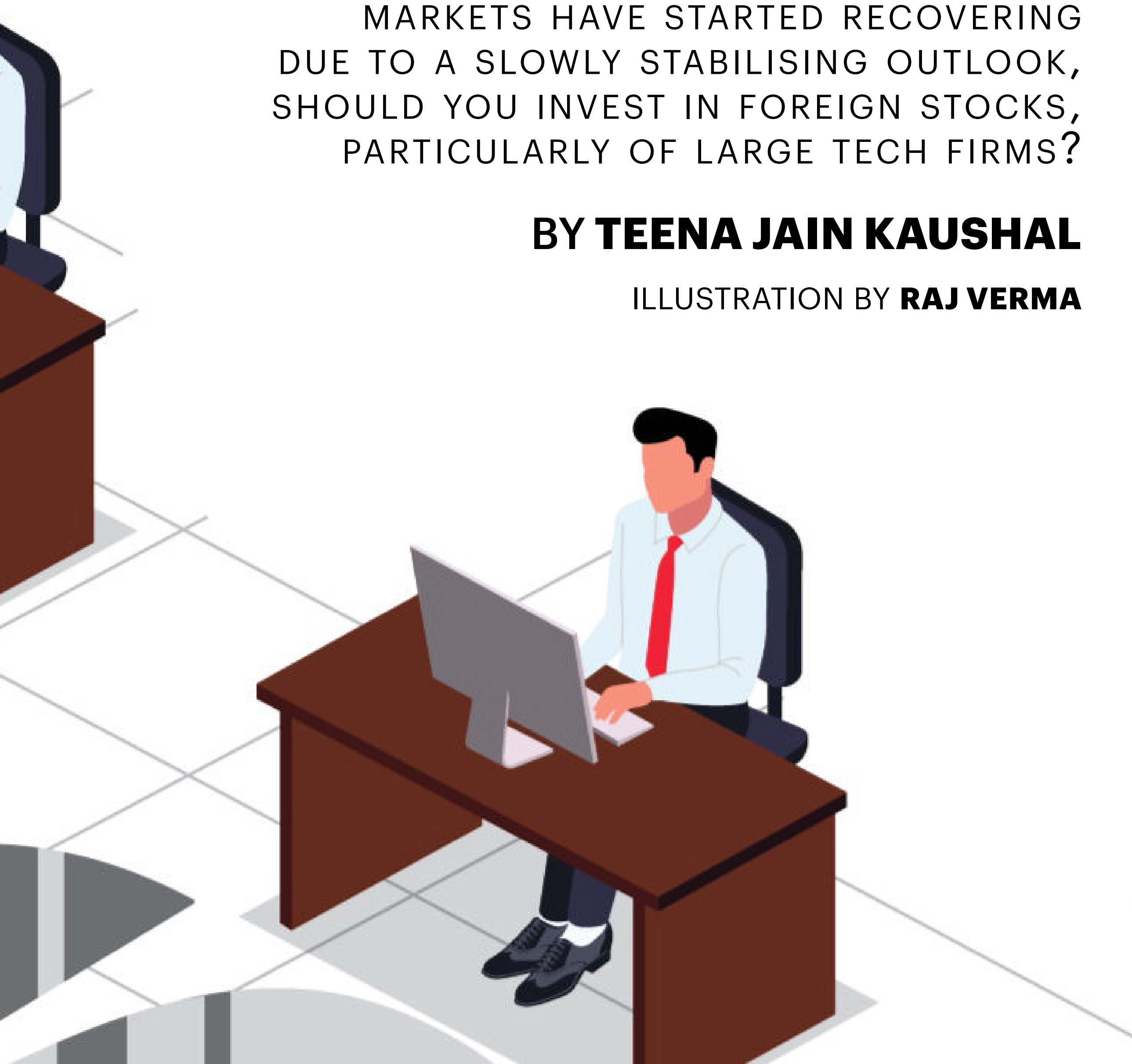
IN SEARCH OF GREENER PASTURES

IN A SCENARIO WHERE INTERNATIONAL MARKETS HAVE STARTED RECOVERING DUE TO A SLOWLY STABILISING OUTLOOK, SHOULD YOU INVEST IN FOREIGN STOCKS, PARTICULARLY OF LARGE TECH FIRMS?

BY **TEENA JAIN KAUSHAL**

ILLUSTRATION BY **RAJ VERMA**



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NOT TOO LONG AGO, many Indians took to investing abroad as stocks of tech firms like Meta (Facebook), Alphabet (Google) and Netflix, among others, hit record highs. It was in the midst of this euphoria that India's capital markets regulator, the Securities and Exchange Board of India (Sebi), had to step in and stop mutual fund (MF) companies from taking fresh subscriptions in international schemes on account of crossing the regulatory limit of $7 billion for overseas investments.

However, the story soon changed when high inflation and recessionary fears in some developed economies sent their stock markets on a downward spiral. Sample this: Nasdaq in the US, China's Shanghai SE Composite Index and Germany's DAX fell by 34 per cent, 15 per cent and 12 per cent, respectively, in CY22. The crash in the global markets was so steep that Sebi again allowed MFs to invest in foreign stocks due to the headroom that became available. However, after underperforming over the past year, international MFs have again started rallying. Consider this: over the past one year, international funds have delivered an average negative return of 4 per cent. However, over the past three-months they have given an average return of 13 per cent,

In Recovery Mode

Foreign markets have recovered in the past three months

DATA TILL FEBRUARY 10, 2023; *DATA TILL FEBRUARY 9, 2023
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according to Value Research (as on February 10). With no increase in the investment limit by the Reserve Bank of India (RBI), recently Edelweiss Mutual Fund and Kotak Mutual Fund have decided to temporarily suspend subscriptions to their seven and one international-focussed MFs, respectively.

So, a good question to ask now is this: is it a good time to invest when international markets have started looking attractive again? Take for instance, the S&P 500 Index, currently trading at a price to earnings (P/E) ratio of 19.72x compared to 25.96x a year ago, and 40x two years ago. Individual stocks such as Alphabet, Tesla and Meta have also fallen sharply by 25 per cent, 43 per cent and 50 per cent, respectively, over the period of one year (as of January 30, 2023).

Experts say this provides an opportunity to buy international stocks at lower prices as their fundamentals still remain strong. Moreover, overseas investing ensures that investors don't put all their eggs in one basket, and provides their portfolios with the much-needed geographical diversification, especially when India accounts for just 3 per cent of the world's market cap.

"Investing internationally works well because of diversification. Investors gain by having some of their portfolios outside their country as international markets or the US markets move in very different directions compared to Indian markets. And that provides a lot of flexibility to a portfolio," said Pratik Oswal, Head of Passive Funds at Motilal Oswal Asset Management Company (AMC) at *BT*'s Market Today Summit recently. He added that the fact that Indian markets were resilient last year and the US markets weren't, showed that diversification "does play out really well". While the Nasdaq fell by 33 per cent in 2022, the Nifty 50 gave a return of 5 per cent.

An important point to keep in mind is the proposal made by Finance Minister Nirmala Sitharaman in Budget 2023-24. Per the proposal, from July 1, 2023 onwards, if you convert the rupee to any other currency for investments abroad, then 20 per cent of the amount will have to be set aside as tax collected at source (TCS). Currently, TCS of 5 per cent is levied on foreign outward remittances above ₹7 lakh.

ATTRACTIVE VALUATIONS

So, should investors cash in on the cheap valuations? "Last year wasn't easy for tech stocks. Do these themes still make sense? I think they do," says Radhika Gupta, MD & CEO of Edelweiss Asset Management. "When we sold international investing, we had been proponents of this in 2016-2018. One of the things we said was that this belief was nonsense that just because Nasdaq made money for every year last decade, it will never lose money. Second, diversification means that there will be years when India does well and these countries do badly, and you can't get hyper about it. You just need to find the right asset allocation," she adds.

Experts believe that while sailing in overseas waters, it is essential to differentiate between mature tech and new-age tech firms. "During Covid-19, we saw a lot of these companies go up, obviously because interest rates were too low and, hence, funding was easy. But on the other side were the mature tech firms such as Google, Facebook, Microsoft; they do have fundamentals, are profitable, and they are growing well. And if you see over the past 20 years or so, a 20-30 per cent fall in tech stocks is not uncommon. So, I would differentiate between the two; I'm not too confident about the new-age tech firms, but I'm very confident about the mature tech space," said Neil Parag Parikh, Chairman and CEO of PPFAS AMC at the Market Today Summit. He added that the mature tech space is stable, and it provides a good entry point for international investing.

So, should one invest in international MFs now? "There is no fur-

Tax Tangle

A look at how your foreign investments are taxed

Mode of Buying	Nature of Income	Tax Rates
Direct Buying	Capital Gains	Long-term capital gains (LTCG) tax rate of 20 per cent applicable for investments held for over 24 months
		If investments are held for less than 24 months, short-term capital gains is charged according to your income tax slab
	Dividend Income	Dividends are taxed in the US at a flat rate of 25 per cent. The broker pays the dividend after subtracting tax, which investors can adjust when filing taxes in India
Mutual Funds	Capital Gains	If held for three years or more, it is treated as LTCG and attracts a tax rate of 20 per cent after indexation. If held for less than three years, it is treated as STCG and taxed as per their tax slab

ther update. What you are allowed to do is take money, net of redemptions. So, depending on each individual fund's situation, we are taking money via SIPs, and we're doing so in compliance with guidelines. In fact, we are seeing people starting SIPs in funds like Greater China at lower levels. Different industry players are taking very different stances. We want to request the RBI to look at enhancing these limits," says Gupta.

FUTURE FORWARD

So, which route is better—investing directly or through MFs? The cost of investing directly is high. Hence, if your portfolio value is large and you have the time to devote to analyse and track foreign stocks, then you can consider investing directly, say experts. Here, investments are made by using the liberalised remittance scheme (LRS) of the RBI, which is available to all resident Indians. Through this scheme, an individual can remit up to $250,000 per financial year for such transactions.

Otherwise, for small investors, the most efficient way to invest abroad is to buy a passive international fund as it is cheaper and hassle-free. One doesn't need to have an overseas broking account, as there are many international schemes that are available in India. The biggest advantage of these funds is that you can invest in rupees without getting into the hassle of remittances and forex charges. So, for the uninitiated, it is always good to make an entry in a staggered manner with 10-15 per cent of equity investment to be allocated to overseas funds. Once you are comfortable with these funds, you can explore further by investing directly in foreign markets, the experts add.

Overseas investing ensures that investors don't put all their eggs in one basket, and provides their portfolios with the much needed geographical diversification

Another aspect to keep in mind while investing directly in foreign markets is capital gains tax, as generally, international investors churn their portfolios a lot. In the case of international MFs, just like debt funds, if they are held for three years or more, long-term capital gains (LTCG) attract a tax rate of 20 per cent after indexation benefit, whereas if they are held for less than three years, short-term capital gains (STCG) is taxed as per their tax slab.

If you invest directly in foreign equities, LTCG tax rate of 20 per cent (plus applicable surcharges and cess) is levied on gains made on them if held for over 24 months. If the investment is held for less than 24 months, then STCG is levied as per your income tax slab. Moreover, dividends are taxed in the US at a flat rate of 25 per cent. The broker paying the dividend subtracts the tax before distributing the remaining profits. However, one can claim credit for the dividend tax paid when filing taxes in India.

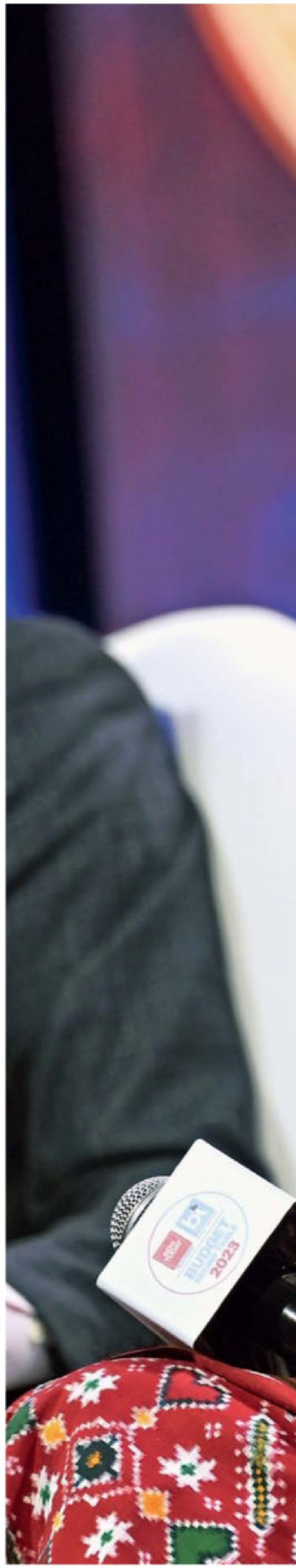
Last but not the least, it is advisable to take the plunge after understanding the costs involved in foreign investing if you are investing directly. For small investors, overseas MFs could be the best route to diversify your portfolio. In the end, it is always a good idea to be on the lookout for greener pastures, whether domestic or international. BT

@teena_kaushal

AN ASPIRATIONAL BUDGET

FINANCE MINISTER NIRMALA SITHARAMAN TALKS ABOUT SOCIAL SECTOR SPENDING, CAPEX, THE NEW TAX REGIME AND WHY THIS YEAR'S BUDGET ISN'T A POPULIST ONE

PHOTOS BY **HARDIK CHHABRA**



REFUTING SUGGESTIONS THAT the Budget 2023-24 proposals were populist in nature, Finance Minister Nirmala Sitharaman tells a panel of *Business Today* and Aaj Tak Editors that the Budget is, in fact, rather forward-looking. Taking questions on a wide range of issues from social sector spending to revision in income tax rates to the Adani-Hindenburg saga, Sitharaman says that the next 25 years of *Amrit Kaal* would be all about addressing India's collective aspirations. Edited excerpts:

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Rahul Kanwal: What is your reaction to the Opposition's remarks on the reduction in allocation for social sector schemes?

I invite them to go and look into the details of the Budget. When it comes to the Mahatma Gandhi National Rural Employment


NIRMALA
SITHARAMAN

Guarantee Act, 2005, (MGNREGA), the allocation is announced at the time of the Budget because it's a demand-driven programme. We keep adding to it by raising the supplementary demand for grants. Before the Covid-19 pandemic, and also after the pandemic, there has never been a drop. However, if the focus is only on MGNREGA, you are missing out on several other items. Who are the ones building homes? There is a 66 per cent hike in Pradhan Mantri Awas Yojana. Will the ₹79,000 crore spent there not benefit the same set of people? We have also given a higher allocation through our water programme, Jal Jeevan Mission. Building water tanks, taking piped water connections to the villages and from there to households, these tasks are now being performed by MGNREGA workers. I would like to ask the Opposition to please spare some time to look at these initiatives and then come back to me.

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Udayan Mukherjee: This ₹10 lakh-crore capex has to be lauded by everyone. But the sectors—roads, railways and defence—that you have targeted, do you think they have the capacity to absorb the number?

Last year, while talking about the supplementary demand for grants in the Lok Sabha, I openly said that I am even giving ₹10,000 crore more for this year because the Indian Railways was moving ahead in terms of things that had been pending for decades. Also, with runways being built in Tier II and III cities, civil aviation is growing in India. Similarly, the roads & highways sector has shown a capacity to absorb a higher allocation. For states, the ₹15,000-crore allocation in Budget 2021-22 was expanded to ₹1 lakh crore in Budget 2022-23. And now that has gone up to ₹1.3 lakh crore because states are showing a clear appetite to absorb more capital expenditure.

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Anjana Om Kashyap: So, is it a populist Budget?

No, it is a programme for the people. Several things kept languishing. It's not just about the centre's need to keep up the engagement with the states, which will happen anyway. It's also about addressing the collective aspirations of this nation.

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***RK:* But given the standoff on our border with China, hasn't there been a reduction in the money allocated to the defence services?**

We have taken care of defence without any pilferages and also with the One Rank, One Pension scheme for our personnel. All of that never happened before. I would also like to highlight our defence preparedness in terms of the increased accessibility by road to the border areas.

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***Siddharth Zarabi:* What is the status of public sector banks at present?**

For the past two years, the non-performing assets of public sector banks have been going down, while their profits have been going up. The health of public sector banks in the last few years has improved considerably. They haven't sought funds for recapitalisation for the past three years. This indicates the health of Indian banks.

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***UM:* Have you also thought about what is stoking so much job creation in nations such as Bangladesh and Vietnam?**

It would be very difficult for me to answer that question if you conflate us with Bangladesh and Vietnam. I am not refuting that they are doing well. However, they create certain kinds of jobs while India is at a stage where industries, while expanding capacity, are also looking at boosting productivity in terms of bringing in higher levels of tech such as Industry 4.0 and Web 3.0. My conversations with industry have revealed that they are on the lookout for people appropriately skilled for those jobs... We are rushing the certification of institutions that can train [people] for the industry.

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***UM:* Why is the huge impetus to the credit cycle not happening in terms of greenfield projects?**

Then what are those immense achievements by the private sector in renewable energy? What about those component manufacturers getting into chip manufacturing? What about electronics? As I said, we have got much used to the core industries. However, even they have a challenge before them. Take the example of steel. No longer can the Indian steel industry claim that it's expanding and producing more steel. No longer can the industry expand capacity unless it is producing green steel. Existing steel will face prohibitive non-tariff barriers as the measure of quality is now green steel.

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***SZ:* What's your philosophy behind sweetening the new tax regime? Some are saying it may lead to disincentivising savings. You first tried this in 2020...**

Not really. I couldn't have anticipated that in 2023, I would need people to spend more, so I brought in those measures in 2020. The new tax regime was brought in because we wanted a simplified and reasonably lower taxation rate, particularly for those people who are in the lower- and middle-income bands. Since we couldn't have done it in one go, we have gone about doing that steadily. That's why we have retained the old tax regime, whilst bringing and making the new tax regime even more attractive through easier compliance for those slabs that the majority of the Indian middle class belongs to. We haven't shut down the old tax regime because people are still using it. I am not forcing anyone to come into the new tax regime, but I would certainly like to make it more attractive so that people see some merit in coming into a system that is a lot simpler.

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***SZ:* On tax slabs, if you're earning up to ₹15 lakh you are in the 20 per cent slab, but the moment you cross that threshold, you go to 30 per cent. The question people are asking is why isn't the rate of personal income tax the same as that of the corporate tax rate of 25 per cent?**

Interesting. Let me work on it the next time.

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***RK:* You'll work on it next time?**

I will work [on it], but then I'm not promising anything!

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***RK:* But this is an idea that appeals to you Finance Minister?**

◀ **DECODING THE BUDGET** *(From left)* Anjana Om Kashyap, Senior Executive Editor, Special Projects, Aaj Tak; Rahul Kanwal, News Director, India Today and Aaj Tak, and Executive Director, *Business Today*; Union Finance Minister Nirmala Sitharaman; Udayan Mukherjee, Global Business Editor, *Business Today*; and Siddharth Zarabi, Managing Editor, *Business Today* TV

As I said, a simpler and more attractive new tax regime... it can start and end at every stage of it.

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RK: ***So, the finance ministry will consider in the months to come a reduction in personal income tax from 30 per cent to 25 per cent?***
No, I am not saying that!

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RK: ***It will be applauded very loudly...***
No, I don't want applause. I have to work.

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RK: ***Are you satisfied with the results you have got from the reduction in corporate taxes? Like, publicly and privately, we have seen you and others in the government nudging India Inc. to do more...***
First of all, I would like to bring in the dimensions that the reduction in corporate tax rate has brought in. It has helped in cleaning up the balance sheet of the industry so that it could de-leverage to return a lot of its loans to banks. The problem of twin balance sheets was also addressed. Thus, the economy has received so many benefits from a reduction in corporate taxes. However, I don't expect the money saved through this measure to come into the industry this year itself. Yes, it will come in. But, more than that, it has helped clear a lot of backlogs. And I see that as a benefit.

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AOK: ***Is markets regulator Sebi investigating the Adani-Hindenburg saga?***
The markets regulator has already given its statement.

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UM: ***The Adani Group is one of the important players in the infrastructure space. Is it big enough to be termed 'too big to fail'? There are suggestions that the recent setbacks suffered by the group may have an impact on some of our important infrastructure projects. Do you see any serious risks?***
Any institution on the verge of failure or any institution in a high-risk environment for an economy like India can have its impact. I can't say that this would be greater or lesser. I will give you the lived experience of 2019 where I would wonder which non-banking financial company might be in difficulty the following day. Like, who would fall off the cliff? If I had disclosed my fears at that time what would have happened? My job is to run the economy smoothly. Where I have to intervene, I intervene.

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AOK: ***What is your view on inflation, unemployment and farmers' distress?***
We have addressed all of these issues in Budget 2023-24. We have tried dealing with inflation both in the Budget and outside. We are trying our best to tame inflation. Letters of appointment have been given by the government as far as unemployment is concerned. We are also regularly doing programmes related to skilling and upskilling. We are also adding foreign languages in the training process considering overseas opportunities. Lastly, despite various issues for farmers in the year 2020, they have managed to get good produce. We have been keeping interest rates on farmers' loans under control. We have brought them under interest subvention so that their interest rates do not go up. Expansion of the Shree Anna scheme, installation of solar panels that have helped cut electricity bills and several other programmes have proved to be beneficial for farmers. We are committed to doubling farmers' income as promised.

"WE HAVE TRIED DEALING WITH INFLATION BOTH IN THE BUDGET AND OUTSIDE. WE ARE TRYING OUR BEST TO TAME INFLATION"

▶▶▶

UM: ***What is your view on the national debt? How do you pare it down before it becomes a huge problem?***
Debt is a concern and we will bring it down. But why have we reached this level? I empathised with states when the economy dipped in 2020 as they did not have any money. As a result, back-to-back borrowings were undertaken; otherwise where would they be? However, even now we are in a better position than many other countries.

▶▶▶

RK: ***How have you changed as a Finance Minister in the past few years?***
I am now a lot cooler when it comes to taking criticism! BT

BUDGET BURST

GRACED BY A LONG LIST OF LUMINARIES, THE INDIA TODAY-*BUSINESS TODAY* BUDGET ROUND TABLE PROVIDED DEEP INSIGHTS INTO THE ANNOUNCEMENTS MADE IN BUDGET 2023-24 BY TEAM *BT*

PHOTOS BY **MANISH RAJPUT**

THE SMILE WAS RESPLENDENT. Finance Minister Nirmala Sitharaman has not had an easy time helming the economy in some of the most difficult years in recent times. Life was made difficult by the Covid-19 pandemic and the consequent economic slowdown in India, followed by the shock of war in Ukraine that tore supply chains asunder and thrust the West onto the threshold of a recession. As inflation spiked, exports slowed, and the rupee fell,

1. Aroon Purie, (*left*), Chairman and Editor-in-Chief, India Today Group, and Nirmala Sitharaman, Minister of Finance and Corporate Affairs, unveil the special 31st Anniversary Issue of *Business Today*

2

INDIA'S ECONOMIC SUPERHIGHWAY

2. Rahul Kanwal, (*left*), News Director, India Today and Aaj Tak, and Executive Director, *Business Today*, with

Ashwini Vaishnaw, Minister of Railways; Communication, Electronics and IT

» The construction work for India's first bullet train is happening at a very fast pace. Already 140 km of pillars have been cast, almost 28 km of girders have been laid, the bridges over all the eight rivers have reached deck level, and work is going on at all the 13 stations

» High-speed rail is not merely a transportation product. It makes big cities into one single economic zone for growth

» Semiconductors are vital for India's future. Electronics manufacturing was practically negligible 10 years ago. Close to $87 billion of electronics manufacturing is happening in India now, and we are reaching almost $9 billion in exports of mobile phones this year

» The government has contacted each and every participant of the chips ecosystem, and they have committed to come here

» There is a very strong, positive reaction by chip majors for India. The decision on fab applications will be announced in 14-16 months from the date of opening the bidding process

the FM held steady and unleashed a spectacular capex war that sought to bring the economy on keel and provide jobs to a population traumatised by the horrors of a once-in-a-century pandemic. After presenting her fifth and last full Budget for the current government's tenure, the FM looked relaxed and assured as she held forth on her Budget initiatives at the India Today-*Business Today* Budget Roundtable on January 6 in New Delhi's posh ITC Maurya hotel. The day-long programme, of which the FM's was the last and showstopping session, was graced by a long list of luminaries—including Union ministers, opposition leaders, finance ministry Secretaries who were instrumental in drafting the Budget, industry leaders and leading economists, among others. Attended by more than 200 top industry leaders, the programme provided a high degree of insight. Some highlights are given here for your perusal. BT

ON THE HIGHWAY TO PROSPERITY

Nitin Gadkari,
Minister of Road Transport and Highways

» The central government is aiming to develop India's road infrastructure on par with that of the US by the end of 2024

» There are robust future plans for the Bharatmala project and Green Express highways

» The government is trying to create awareness about road safety along with improving road engineering

» NHAI's infra investment bonds—NHAI InvITs—are supporting the government's national monetisation pipeline

» Politics prevents exempting VIPs from paying tolls

READING THE BUDGET'S FINE PRINT

(*From left*) **Sourav Majumdar**, Editor, *Business Today,* with

T.C.A. Anant,
Former Chief Statistician of India; Former Member, UPSC

Soumya Kanti Ghosh,
Group Chief Economic Advisor, SBI

Abheek Barua,
Chief Economist, HDFC Bank

Ramesh Chand,
Member, NITI Aayog

» The government has done well by giving precedence to growth over populism at a time when general elections are due in 2024

» Ruling parties are finally being forced to seek votes based on economic performance, rather than merely announcing doles ahead of elections

DEBATING THE BUDGET

(*From left*)
Rahul Kanwal, with

Sudhanshu Trivedi, BJP MP, Rajya Sabha, and National Spokesperson, BJP

Supriya Shrinate, Chairperson, Social Media & Digital Platforms and National Spokesperson, Congress

Ashwani Mahajan, National Co-convener, Swadeshi Jagran Manch

» Although PM Narendra Modi has termed the MGNREGA scheme as a monumental failure of the UPA government, his government has continued to increase the outlay for the scheme even after nine years in office, said Supriya Shrinate

» Unlike the UPA government, the BJP-led government has presented a Budget that will strengthen the fundamentals of the economy, said Sudhanshu Trivedi

» In the backdrop of the Adani-Hindenburg issue, Shrinate demanded a discussion in Parliament as public sector institutions like SBI and LIC have exposure to the Ahmedabad-based group

» Agreeing with her, Ashwani Mahajan said that the issue should be discussed in Parliament

» The Budget displays a clear intent of moving towards an era of enhanced capex and asset creation, and reducing the over-reliance on revenue expenditure and subsidies

» At a time when the private sector has been shying away from investing in the infrastructure sector, a higher government allocation of ₹10 lakh crore for the infrastructure sector will help provide a fillip to projects across a diverse spectrum

» India will need to do things differently to ensure that investments in manufacturing complement other sectors of the economy

THE LONG AND SHORT OF TAXATION

Nitin Gupta,
Chairman, Central Board of Direct Taxes

» The new tax regime is expected to be a game changer

» The number of tax slabs have been reduced and the surcharge for the rich and super-rich has been moderated. So, a lot has changed despite there being no deductions or exemptions

» You can file the returns of income in a very simple manner, without the help of a professional

» Certain people are taking advantage of the trust that the government has reposed in them by claiming wrongful deductions and exemptions. The changes proposed in the Budget are expected to make these a thing of the past

THE PRIORITIES OF A BUDGET BEFORE AN ELECTION

Siddharth Zarabi (*left*), Managing Editor, *Business Today* TV, with

Jayant Sinha,
BJP MP, Lok Sabha

» Capital expenditure is the secret sauce for growth as it yields long-term growth, apart from creating a massive number of jobs

» Investments in infrastructure, such as railways, airports, highways and metro lines have a multiplier effect on the economy

» The government is creating assets that are going to turn us more productive and more efficient over the next 30 to 50 years

» Investments in infrastructure projects yield benefits to the economy to the tune of 2.5 times; it's even higher for airports at six times

» By keeping inflation and interest rates under control, the government has provided the right environment for private capex growth

THE HITS & MISSES IN TAXATION

(*From left*) **Ved Jain,** Senior Tax Advisor

Neeru Ahuja, APAC Tax Head, Deloitte

Sanjay Tolia, Partner, PwC

» It is expected that more and more people over the next two years will join the new tax regime. As a majority of people go for the new tax regime, the old regime will lose its relevance

» Tax rates have remained stable for corporates and that is a good thing for businesses

» The government should have extended the deadline for 15 per cent corporate tax rate for a company manufacturing in India, which was introduced in 2019, to beyond March 2024

» There is no advantage in the old tax regime for resident individuals. The new regime should be appreciated as it supports making investments

» Increasing the tax exemption limit to ₹7 lakh is the biggest plus along with reducing the surcharge for income exceeding ₹5 crore

DRIVING INDUSTRIAL GROWTH

(*From left*) **Patu Keswani,** CMD, Lemon Tree Hotels

Parvesh Minocha, Chairman, Feedback Infra

Navneet Munot, MD & CEO, HDFC Mutual Fund

Kunal Bahl, CEO, Snapdeal

Rahul Garg, Founder & CEO, Moglix

Prashant Tripathy, MD & CEO, Max Life Insurance

Aabha Bakaya, Presenter and Senior Editor, *Business Today* TV

» India has a real opportunity of becoming a large economy in the next 25 years, not only in terms of per capita GDP increase, but also as an example of a sustainable and inclusive society

» Unless there is another Black Swan event, the hospitality industry will grow for the next four to five years, with hotel room prices doubling in the next two years

» While the Budget has a lot of positives, the scrapping of tax benefits for large-ticket traditional life insurance plans while making rebate-linked savings unattractive for the average taxpayer is a pain point

» The start-up industry has requested for the equalisation of long-term capital gains tax on unlisted equities. Currently, if you invest as an overseas investor in an Indian company, you get a lower tax rate when you sell your shares in a start-up, versus if you invest in a company as a

THE BUDGET MAKERS

(*From left*) **T.V. Somanathan,** Finance Secretary

Sanjay Malhotra, Secretary, Department of Revenue

Tuhin Kanta Pandey, Secretary, Department of Investment and Public Asset Management

» The government has set a realistic growth target; the global economic environment is not conducive for a 10 per cent GDP growth rate like in the past

» Increase in customs duty is a tool that has been used by many countries like Japan and Korea in the past, who are now global powerhouses

» The government is confident about achieving its ambitious ₹10-lakh crore capital expenditure target for the next financial year

» The government is on course to spend ₹7.3 lakh crore (out of the ₹7.5 lakh crore Budget Estimate) in FY23; the shortfall is due to some states not being able to utilise the funds initially planned

» The current economic realities dictate that the fiscal deficit may remain higher than the FRBM (Fiscal Responsibility and Budget Management) target of 3 per cent

domestic investor, which makes it unattractive for domestic investors to invest in start-ups

» The start-up ecosystem has been asking for the easing out of angel tax but that has not come through. Access to money is essential for the start-up sector and investments from angels play an important role in that

A BUDGET FOR THE WORKFORCE

Dharmendra Pradhan,
Minister of Education

» The education sector has received the highest allocation of ₹1.25 lakh crore in post-independent India

» The ministries of Education; Health and Family Welfare; Electronics and IT; and the departments of Science & Technology; and Space will be spending a substantial sum on both skilling and education of around 300 million students

» The National Education Policy, 2020, is expected to help create citizens with a global mindset who not only solve the country's problems but also complement the global workforce

» ₹9,000 crore has been allocated towards skilling to create a robust MSME ecosystem

BY **SANJEEV KRISHAN**

PREPARING FOR THE *AMRIT KAAL*

Budget 2023-24 focusses on infrastructure development, laying the foundation for achieving the $5-trillion economy target and improving prosperity for the populace

THE UNION BUDGET 2023-24 is testimony to the government's commitment to accelerate India's economic growth while balancing sustainability. There has been a paradigm shift in overall macroeconomic priorities, from Covid-19 recovery to scaling new heights. The thrust of the Budget is on infrastructure development through higher capital expenditure, which now stands at ₹10 lakh crore (up 33 per cent from last year), laying the foundation for achieving the ambition of a $5-trillion economy and improving prosperity for the populace. Strong infrastructure is a cornerstone of any developed economy, and this increased spending will provide great impetus to other critical areas such as education and skill development, urban development, green economy, job creation and improving global competitiveness.

It is a well-known fact that compared to its global peers, India suffers from higher logistics costs. If we are to truly develop as a strong manufacturing hub for the world, this is something we must correct. The government has acknowledged this in the latest Budget by attempting to develop a robust logistics network. Around 100 critical transportation-related infrastructure projects have been planned to enable first- and last-mile connectivity. The Railways received the highest-ever Budget allocation of ₹2 lakh crore this year. The focus on funding coastal shipping projects and reviving 50 airports (including heliports, water-dromes and advanced landing grounds) will improve connectivity across major economic clusters. This is in line with the multimodal-focussed Gati Shakti initiative introduced in the Budget last year. However, there has been no incremental allocation towards the FAME II scheme that has been a key driver of electric mobility in India. In the context of the National Electric Bus Programme that envisages deployment of 50,000 electric buses, a lack of additional budgetary support—beyond the initial plan—towards deployment of electric buses could be a missed opportunity.

Though no new areas have been identified under the production-linked incentive (PLI) schemes, initiatives such as lowering of duties on component imports including lithium-ion batteries, parts of mobile phones and televisions, lab-grown diamonds, and concessional tax rates on new manufacturing co-operative societies should aid the Make in India agenda. At the same time, there could be plans to roll out more such schemes over the course of the year, and this shall indeed be a welcome move.

Cities in India are at the heart of economic growth, and a new fund with an annual allocation of ₹10,000 crore would provide a vital push to the development of urban infrastructure across Indian cities. Emphasis has been placed on urban planning and reforms to create sustainable cities of tomorrow. This could mean efficient use of land resources and enhanced availability and affordability of urban land.

India's commitment to a greener world as it transitions to a major economic hub is evident from the outlay of ₹35,000 crore allotted for energy transition. This includes an outlay of ₹19,700 crore for green hydrogen that can create an opportunity for export of green hydrogen and hydrogen-embedded low-carbon products. The Budget aims for India to reach annual green hydrogen production of 5 million tonnes by 2030, thereby reducing the dependence on fossil fuel imports and helping us shift away from a carbon-intensive economy. The vision builds on the theme of 'Lifestyle for the Environment' that Prime Minister Narendra Modi announced during COP26 in 2021, and it will help achieve the goal of carbon neutrality by 2070.

In terms of availability of skilled manpower in emerging sectors like medical devices, where India has huge potential to boost manufacturing, the focus on dedicated courses across key educational institutions is likely to enable availability of industry-responsive manpower. Leveraging the experiences of Covid-19, the government has proposed to facilitate R&D by providing access to ICMR labs for faculty of public and private medical colleges. In addition to this, 157 nursing colleges are to be established in co-location with existing medical colleges.

The Budget also places emphasis on promotion of R&D in priority areas. Three centres of excellence for artificial intelligence (AI) will be set up at top educational institutions. New-age courses for Industry 4.0 such as coding, AI and robotics will be introduced, and 30 Skill India International Centres shall be set up specifically to skill the youth. This will empower them to play a more significant role as India confidently marches towards inclusive prosperity. The importance of technology in traditional sectors such as agriculture has also been highlighted. Digital public infrastructure for agriculture shall be set up to support the growth of the agri-tech industry. An agriculture accelerator fund shall be set up in a bid to encourage young entrepreneurs in rural areas to aid in solving challenges of farmers through innovative tech-led solutions.

On the tax front, the key driver has been to simplify compliance, rationalise taxes and maintain the stability of the tax regime with the end goal of amplifying ease of doing business in India. Particular emphasis has been laid on GIFT City IFSC, with the introduction of several incentives and ironing out of the challenges faced in approvals and registration by launching a single-window clearance system. For individuals, the Budget has proposed to enhance the disposable income of the middle class and that is likely to augment the overall economic situation at the micro level.

The intention of the government appears to be to re-emphasise the focus on AatmaNirbharBharat through substantial capital expenditure, furthering Digital India, promoting sustainable choices such as green energy and improving economic stability, as they shall together drive inclusive development. The trickle-down effect of the 'Saptarishi' is likely to touch all sectors, including real estate, banking & finance, manufacturing, logistics and tourism. In essence, they will serve as a collective catalyst to paving India's way towards a $7-trillion economy by 2030. **BT**

The author is Chairperson of PwC in India. Views are personal

BY **SUMANT SINHA**

FOCUS ON ECONOMY, QUALITY OF LIFE

The Budget 2023-24 emphasises on infrastructure development and entrepreneurial growth in the country, leading it to stride further and faster on its trajectory of development

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EVERYONE AROUND THE nation anticipated that the Union Budget 2023-24 would bring in numerous reforms. These included updating tax slabs, increasing value and breadth of tax-exempted investments, and providing resources for medical and related expenses. Women, students, potential homeowners and small businesses were hoping that the Budget would address their troubles caused by rising inflation, unemployment and slow growth in the global economy.

In the first Budget of the *Amrit Kaal*, Finance Minister Nirmala Sitharaman did not disappoint them. She presented a Budget of ₹45 lakh crore, nearly 7 per cent higher than the projected expenditure for the current financial year. It strikes the right balance on multiple counts, viz. between short-term fixes and medium-term solutions for economic management; between strategic structural interventions and populist measures in a pre-election year; between growth-oriented fiscal expansion and inflation-reining expenditure re-orientation.

Four cross-cutting themes, listed below, are particularly notable and praiseworthy:

Focus on the common citizen: The change in income tax slabs and tax rates and increased exemptions have got the biggest initial thumbs up from citizens. It will certainly enable greater disposable incomes and help sustain the recent growth witnessed in sectors like construction, real estate, gems and jewellery and fast-moving consumer goods. The social sector spending, at ₹8.28 lakh crore, is 18 per cent of total government spending. This is probably lower than the previous years as a percentage of the total Budget, but certainly higher in absolute terms.

Thrust on capital expenditure: Several credible studies have shown that public investment in infrastructure is more effective than other types of public spending in increasing economic output, particularly over the medium term. Therefore, an allocation of ₹13.7 lakh crore towards effective real capital expenditure, making up 4.5 per cent of the overall gross domestic product (GDP), is just the kind of aggressive approach that was needed to counter the impending economic slowdown. More than a third of this is to two ministries—the Ministry of Road Transport and Highways and the Ministry of Railways—reflecting the importance of transport and logistics as critical growth enablers. An allocation of ₹10,000 crore to the Urban Infrastructure Development Fund, and a 66 per cent increase in the allocation to the Pradhan Mantri Awas Yojana are steps in the right direction, too.

The Budget strikes the right balance on multiple counts amidst the tough economic conditions

Unleashing the MSME sector: Several announcements for supporting micro, small and medium enterprises (MSMEs) were made. Rightly so, since this sector accounts for 95 per cent of the industrial units, contributing approximately 50 per cent to India's exports and employs 100 million people. It is the largest source of employment in the country. Tactically, the Budget has sought to sustain two trends in the MSME sector witnessed in 2022: one, recovery from the pandemic-induced shock; and two, integration into the global supply chains, as other countries and large corporations seek to diversify theirs. By continuing the successful credit guarantee scheme with a revamp, the government has killed two birds with one stone—that of ensuring that MSMEs are able to access collateral free credit and that credit cost is 1 per cent lower—in an environment where we are already witnessing interest rates inch up.

Improvements in ease of doing business through need for reduced paperwork and one-stop interfaces for information provision and accessibility is the second welcome proposal in the Budget. Through a third proposal that buyers will be able to claim a deduction for expenditure incurred only when payments are actually made, the FM has sought to address the issue of delayed payments to the MSMEs. This was a key ask flagged in pre-Budget consultations by industry bodies such as Assocham.

Turning the LiFE movement into action: The Prime Minister had launched the global initiative Lifestyle for Environment (LiFE) on World Environment Day in June 2022. The Union Budget 2023-24 has provided significant resources to turn it into action. Strong thrust has been provided to clean energy and cleaner transport sectors through allocations for the National Green Hydrogen Mission, transmission lines from Ladakh and the Faster Adoption and Manufacturing of Electric Vehicles scheme (FAME). The role of nature-based solutions in both climate mitigation and adaptation has been recognised through allocations for mangrove plantations and wetlands and biodiversity conservation. And consumers, corporates and communities have been provided a tool in the form of the Green Credit Programme to voluntarily but meaningfully invest in environmental protection.

To sum it up, Budget 2023-24 by the Prime Minister Narendra Modi-led government is a prudent one, within the context of challenging economic conditions. BT

The author is Chairman and CEO of ReNew Power; and President of Assocham. Views are personal

Desert Festival, Jaisalmer

BY **ROMAL SHETTY**

MISSION 2047: A TECH-DRIVEN INDIA

As the latest Budget lays emphasis on developing India's tech know-how in every walk of life and economy, its future looks brighter than most of its peers

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AT THE WORLD Economic Forum summit held in Davos earlier this year, we witnessed the euphoria around 'this is India's century'. Undoubtedly, this is a consequence of India's favourable policy regime, economic and demographic fundamentals and the resilience demonstrated by the nation during Covid-19. As the fine print of Budget 2023-24 becomes clear, I feel confident about how we can address the challenges of contemporary India by unleashing the full potential of its people by leveraging technology.

The vision of a "tech-driven and knowledge-based economy with strong public finances", and a commitment to sustainability, was amply evident in the Budget announcements. The steps unveiled to make India future-ready through skilling, green initiatives and the use of tech are welcome. While these building blocks will undoubtedly propel India towards its *Amrit Kaal* goals, the country will reap the outcomes of these measures not just at 100 years of independence, but for many decades to come. It is, in fact, an opportunity to accelerate India's development using tech that is most exciting.

Why is this important? Right from education and skilling and creating jobs to research for interdisciplinary business applications, ease of doing business and addressing social challenges, the building blocks of the new-age ecosystem are rooted in digital tech. India's ability to mass-ify tech and use it at scale is one of the key pillars driving economic growth.

TRANSFORMATION THROUGH TECH

Aadhaar, UPI and other platforms of the early India Stack are great examples of the catalysts powering India's transformation. Building on this, the use of existing components and developing new platforms is something that the government must be acknowledged for. For example, the government-backed Open Network for Digital Commerce can become a game changer in giving small merchants across India access to a decentralised e-commerce network. If successfully implemented, consumers will be able to discover any seller, product or service using any compatible app or platform. Similarly, the commitment to building an open-source agricultural digital stack will enable farmers to get better credit, plan crops, source inputs and more. This coupled with the agricultural accelerator programme has the potential to significantly transform India's rural economy.

At Deloitte India, we have experienced the benefits of tech in rural India through our collaboration with the Haryana government. Deloitte had set up a fit-for-purpose model along with ASHA workers, medical experts, students and the government during Covid-19 to provide healthcare in rural areas through remote monitoring. It also ran a pilot in three villages in Haryana to tackle anaemia under the *Anemia Mukt Mahilayen* programme. Telecom connectivity and the hundred 5G labs to be set up in engineering institutions can prove pivotal in priority areas like classroom education, precision farming, intelligent transport system and healthcare.

Tech will continue to evolve and a partnership between the government, academia and industry will be critical in developing innovations. It is commendable that the Budget makes a start with the Centre of Excellence framework for 5G and AI Labs to achieve the vision of "making AI in India and making AI work for India", along with incentivising development of new-age technologies.

EASY DOES IT

As India builds on its capabilities and competitiveness, it will continue to move up the value chain. There are many possibilities lying in wait for India. For instance, managing drones like an air traffic controller for a firm in another country, or providing cybersecurity globally from India are

ILLUSTRATION BY RAJ VERMA

The vision of a tech-driven and knowledge-based economy with strong public finances was amply evident in the Budget announcements

just some examples. For these aspirations to become a reality, not only will we need to innovate continuously, but we also need a supportive regulatory environment. As data moves freely across borders, India has opened its doors to address the global challenge of data security and privacy. For countries and firms looking for digital continuity solutions, the Budget offers a proposal to set up data embassies in GIFT City. This is a welcome move to manage India's regulatory priorities with emerging opportunities.

While some of the initiatives discussed above are very tangible for the average citizen, there are several programmes that are critical for ease of living and doing business. For example, the proposed National Financial Information Registry will address the problem of asymmetrical information in the financial sector and help companies borrow. Another is the government's efforts to digitise the compliance experience for assessees, as that has increased since the inception of GST. The successful implementation of e-invoicing and GST analytics has led to sharpened fraud detection, stricter audit protocols and digital GST forensic tools.

These aspects have helped grow the average GST collections consistently.

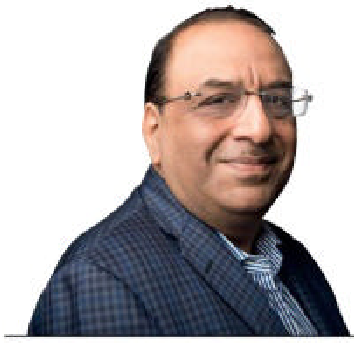
Following the trend, the Budget has offered several policy measures to achieve a robust digital economy. However, the most commendable announcements was of using tech to ensure the dignity of every human being. Machine-hole—the concept of using machines to clean sewer holes announced in the Budget—therefore, is both a symbolic and pragmatic solution that defines what India wants to be known for as a nation.

GREEN GROWTH PATH

Even as India spends billions on physical infrastructure and incentivises manufacturing through production-linked incentive (PLI) schemes, championing the green objective is an ethos engrained in Indian tradition. Therefore, the Budget intends to not just increase economic activity, but also make it sustainable in the longer run. There is an all-round focus on the critical aspects of energy transition and energy security paradigm, with an outlay of ₹35,000 crore. The objective is to promote indigenous manufacturing and use innovative tech across new energy areas, including green hydrogen, battery storage and compressed biogas. Basic customs duty has been exempted on imported capital goods/machinery required for manufacturing of lithium-ion cells. Other PLI schemes on manufacturing of battery cells, EVs/fuel cell EVs and auto components will further boost domestic innovations.

So, while India rules the world of IT and allied services, this Budget has laid emphasis on the quantum of tech that is yet to be conquered. The intentions of the government are right, and the conviction displayed by it is that of a developed economy. The bold vision will propel India forward. And collaboration will help us build a better future together. BT

The writer is the CEO-designate of Deloitte India. Views are personal



Taxing Transactions as They Are

According to proposals in the Union Budget 2023-24, the government plans to tax transactions for their true character, and not the form they are in

BY **DINESH KANABAR**

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THE UNION BUDGET 2023-24 has been widely hailed as a positive and progressive Budget, and rightly so. The key pre-Budget expectations were that there would be a thrust on capital spending, particularly in the infrastructure sector, and that there should be consistency in the tax regime with not too many changes. Finance Minister Nirmala Sitharaman has obliged on both counts. Moreover, she has avoided populist proposals that are common in pre-election Budgets.

There is a massive thrust in the Budget on capital spends, up by more than a third over the preceding fiscal. This should help continued creation of jobs and expansion of the economy. There are no changes on the corporate tax front and the widely rumoured changes to the capital gains tax regime were not on the table.

The proposal to set up a settlement scheme for arbitration matters of the government and public sector undertakings is interesting and we eagerly await details. The commitment to reduce forms and decriminalise offences is also welcome.

On taxation of individuals, there was a reluctance by taxpayers to move to the new tax regime. To remedy this, the Budget proposes to increase the threshold level of taxation to ₹3 lakh (from ₹2.5 lakh earlier), reduce the number of slabs and reduce the overall tax, increase the tax rebate and reduce the maximum marginal rate of tax from 43 per cent to 39 per cent—all benefits only for those who opt for the new tax regime. This will clearly help make the new tax regime, which does away with deductions and exemptions, a default tax regime. Every individual will need to analyse the deductions foregone, particularly the interest on housing finance loans, before making an informed choice. Interestingly, the tax-free limit for leave encashment for salaried employees has been increased from ₹3 lakh to ₹25 lakh.

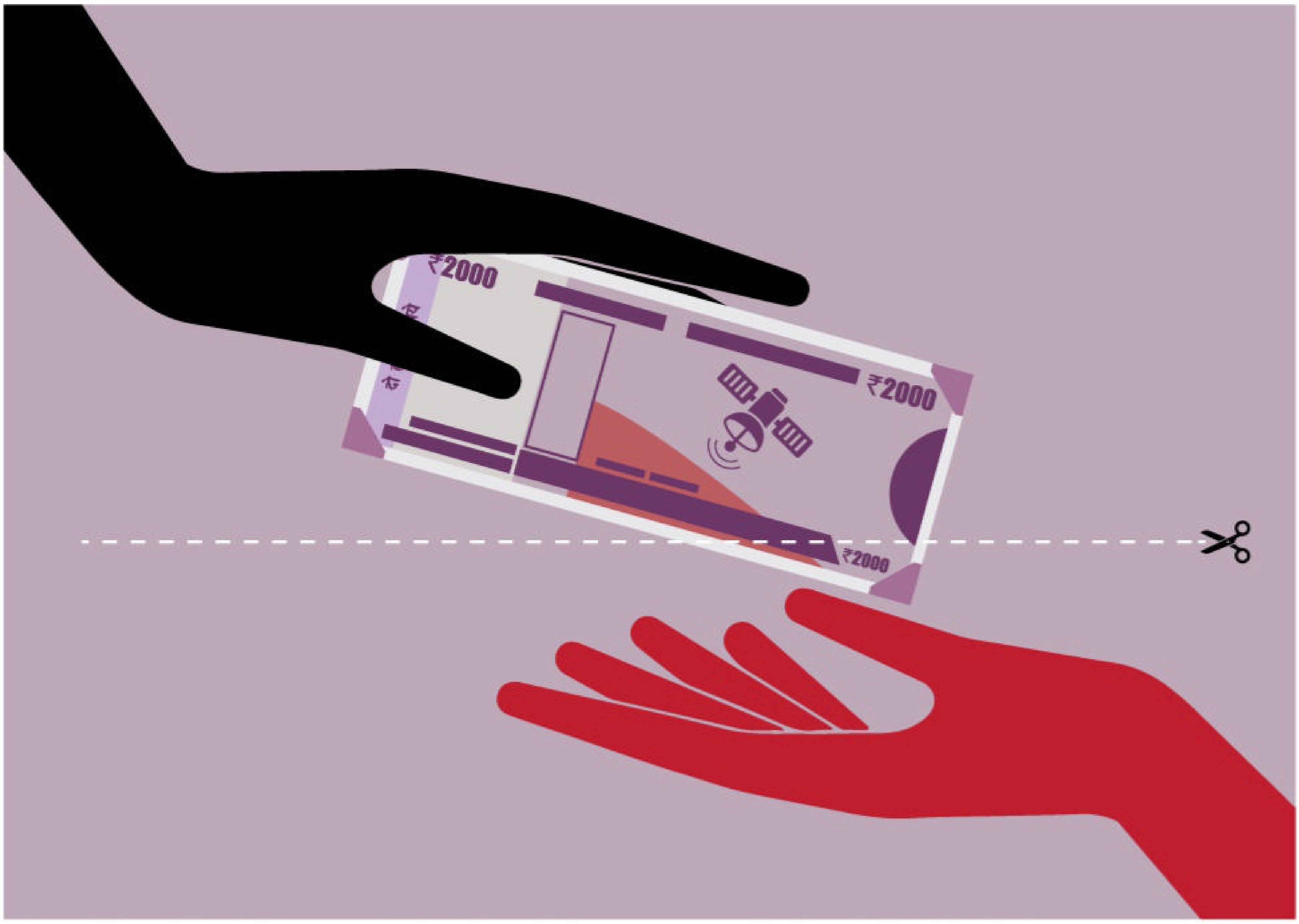
The capital gains tax exemption limit to invest in a residential house has been capped at ₹10 crore. This will ensure that citizens buy a house for genuine residential needs and not as a tax-planning avenue. While this is understandable in the context of proceeds of other assets invested in a house, the proposal needs reconsideration where proceeds of one house are invested into another. The current regime continues for capital gains made up to March 31, 2023, and we may witness taxpayers realising gains to avail the current regime.

Proceeds received from life insurance policies (other than on death), where the annual premium exceeds ₹5 lakh, will be taxable. This will make insurance policies a genuine life insurance product rather than a savings one.

Another proposed amendment is taxation of gains on market-linked debentures; these will now be taxed at full rates as short-term capital gains rather than as listed securities that are taxed as long-term capital gains. Clearly, the gains on these debentures are in the nature of interest and ought to be fully taxable. Debentures issued earlier, whose proceeds are realised after April 1, 2023, will also be hit by the new provisions.

One proposal that has the potential of derailing REIT and InvIT issues—and therefore needs serious reconsideration—is a new tax. According to the proposal, the repayment of the principal amount

ILLUSTRATION BY **RAJ VERMA**



of a loan in the instrument will be constituted as "other income". While it is understandable that not taxing these amounts could result in double non-taxation, taxing these amounts as other income could have a very serious impact on the industry. It would be in the fitness of things if these amounts were taxed as capital gains.

With a view to easing the cash crunch being faced by the MSME sector, it has been proposed that the expenditure incurred by clients of MSMEs be tax-deductible when the amounts are actually paid. While this proposal is welcome, we need to be cognizant of the fact that all transactions with MSMEs will now need to be tracked to determine tax deductibility.

There is a massive thrust in the Budget on capital spends, which are up by more than a third over the preceding fiscal

There are two overarching themes that emerge from the tax proposals in this year's Budget. First, the government would like to do away with smart tax-planning avenues such as those to escape capital gains tax or arguing that taxability of perquisites of a business or profession has to be only of non-cash items. Second, the government would like to tax transactions for their true character and not the ostensible form, such as taxing interest on market-linked debentures or taxing high-premium insurance policies that are essentially savings instruments. We should not lose sight of these two emerging trends.

All in all, this is a very welcome Budget that should continue to spur growth and help us realise the GDP growth projections. BT

The writer is CEO of Dhruva Advisors LLP. Views are personal

PRECIOUS BREWS

From the Ming dynasty to pandas and from gold flakes to silver tips, there are unique features that make these some of the most expensive teas in the world

BY **SMITA TRIPATHI**

QUICK, HOW MUCH do you think a kg of tea costs? On an average it costs around ₹500 per kg. But that is the commercial variety available off-the-shelf in supermarkets and grocery stores. Loose leaf tea in exclusive tea boutiques can cost upwards of a few thousand rupees per kg. However, that is nothing compared to the most expensive tea in the world—the Da Hong Pao from China—priced at over $1 million per kg. What makes it so pricey? For starters, there are only six such tea trees that still exist on the planet. Referred to as mother plants, these are found in the Wuyi Mountains of the Fujian province of China. They were last harvested in 2005, which means the few grams of tea available with collectors are worth more than double their weight in gold. In 2002, just 20 gm of the precious tea was sold for 180,000 yuan or almost $28,000 (₹23.16 lakh at current exchange rates) at an auction. The tea, declared a national treasure for its rarity, literally translates to Big Red Robe. As per legend, an emperor of the Ming dynasty donated his robe to get a jar of this special oolong tea—thought to have medicinal properties—for his ailing mother. So special is this tea that Chairman Mao gifted 200 gm of it to then US President Richard Nixon on his official visit to China in 1972.

But it's not just the Chinese who value Da Hong Pao. In 1849, British botanist Robert Fortune went to the Wuyi Mountains on a secret mission—to steal the seeds, or better, cuttings, of

IT'S TEA TIME: The global tea industry is estimated to be worth $21.3 billion by 2024, according to United Nations projections

PHOTO BY **GETTY IMAGES**

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the special Chinese tea that Britons had grown to love, and plant them in India. When these seeds reached India, they merged with the indigenous Indian tea and gave rise to the tea industry in the country.

While Da Hong Pao is the most expensive tea in the world and available only at auctions, there is another Chinese tea that is pretty expensive. And while it doesn't have Ming dynasty connections, it is related to a rare animal found in China. The Panda Dung tea uses the panda's dung as fertiliser. This fertiliser is high in nutrients as pandas eat bamboo from which they absorb only 30 per cent of the nutrients. The balance remains in the droppings, which act as fertiliser for plants. The tea was first grown a decade ago in the Ya'an Mountains of China's Sichuan by an entrepreneur and panda enthusiast. Among much fanfare, the first batch was sold for $3,500 (₹2.90 lakh) for 50 gm, making it one of the most expensive teas. It is no longer in production, making it a collector's item.

Japanese tea is in high demand at tea auctions. Recently, less than a kg of hand-rolled green tea leaves from Japan sold for a record-breaking 1.96 million yen—or about ₹12.82 lakh

Now here's an exclusive tea that you can actually sip. The Yellow Gold Tea Buds from Singapore-based TWG Tea is priced at S$611 (₹38,000) for 50 gm. What makes this Chinese yellow tea variety special? Each tea bud is covered with 24-carat gold, which once infused yields a delicately metallic and floral aftertaste. The company even gives instructions on preparing the tea. Pour 75° Celsius water over 2.5 gm of leaves per cup and infuse for 3-4 minutes. Remove leaves and serve.

TWG also sells Imperial Gykuro, a rare Japanese tea of which only around 5 kg are harvested every year. The tea is painstakingly cultivated under handmade rice straw mats for three weeks. The tea absorbs significant quantities of minerals that wash through mats during rains and morning dew. Thanks to the shade, the jade-coloured tea grows very slowly developing a sweet and concentrated flavour. It is priced at S$1,272 (₹80,000) for 50 gm and is

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often out of stock, given its limited quantity. It can be pre-booked.

Japanese tea is in high demand at tea auctions. In November, less than a kg of green tea leaves from Japan sold for a record-breaking 1.96 million yen—or about $15,500 (₹12.82 lakh). This surpassed the previous record of 1.08 million yen or $8,500 (₹7 lakh) set in 2021. The record-breaking tea leaves were grown in Fujinomiya, a city in Shizuoka prefecture, known for its high-quality green teas.

In India, one of the most expensive teas is the Silver Tips Imperial Tea. Grown at the Makaibari Tea Estate in Darjeeling, the tea comes from special buds that look like silver needles. The tea leaves are plucked only on full moon nights because of the belief that the planetary alignment on full moon nights helps optimise the flavour of the tea. As a result, it can be plucked only three to four times during the harvest season, making production limited. The semi-fermented oolong tea has a fruity aroma and was sold for $1,850 (₹1.53 lakh) per kg in 2014 at an auction. Currently it is available for $36 (₹3,000) for 50 gm, or $720 (₹60,000) for a kg on the Makaibari website. The tea estate says that the tea is anti-ageing and relaxing, and is best sipped at bedtime.

In December last year, 1 kg of tea from Assam sold at an auction for ₹1,51,000. Called Golden Pearl from the Nahorchukbari estate in Assam's Dibrugarh area, the tea was bought by a Russian tea company.

The global tea industry is estimated to be worth $21.3 billion by 2024, according to United Nations projections. Not surprisingly, global tea consumption is dominated by China (38 per cent) and India (19 per cent). According to the UN, the tea sector proved resilient against economic recessions triggered by Covid-19. Expectedly. After all, it's always teatime, as the Mad Hatter remarked to Alice in *Alice in Wonderland*. **BT**

@smitabw

1. The Makaibari Tea Estate in Darjeeling is home to Silver Tips Imperial Tea, considered one of the most expensive in India

2. Singapore-based TWG Tea sells exclusive teas such as Yellow Gold Tea Buds and Imperial Gykuro

3. Global tea consumption is dominated by China (38 per cent) and India (19 per cent)

[redacted]

FRAME IT RIGHT

Be it for YouTube or Instagram Reels, most people seem to be enamoured with vlogging. Whether you're a serious vlogger or doing it just for fun, you'll still need good equipment. Here's our pick of gadgets that will not only capture good-quality videos, but also make recording seamless and hassle-free

BY **NIDHI SINGAL**

APPLE IPHONE 14 PRO MAX

₹ 1,39,990

The iPhone lets you shoot videos, edit and upload them to your platform of choice on the go

PHONE BUDDY

If you've decided to use your phone to vlog but don't plan to invest in a flagship phone with all the bells and whistles, how do you ensure that you shoot super-smooth videos? Invest in a good quality gimbal like the DJI OM 5. This is a handheld three-axis smartphone gimbal stabiliser that comes with a grip tripod and a built-in extension rod that helps capture jerk-free videos. Install the DJI Mimo App—it works with iOS 10.0 or above, and Android 7.0 or above—and you have access to smart features like ActiveTrack 4.0, which tracks the subject even when moving quickly, or ShotGuides, which suggests a shot sequence, especially useful if you're a newbie vlogger. And it is compatible with a range of smartphones.

Available on: *amazon.in*

DJI OM 5

₹ 10,990

If your camera of choice is the trusted smartphone, then this gadget is your best friend

THE SHARP SHOOTER

If you aren't keen to invest in a dedicated vlogging camera, Apple's iPhone 14 Pro Max has you covered. Using its cinematic mode, you can shoot professional videos with a shallow depth of field and focus transitions for a cinema-grade look in 4K HDR at 24 fps. Its Action mode is the perfect way to avoid shaky videos—whether you're walking, running or in a moving vehicle. Capable of capturing videos at multiple frame rates, this is a one-stop solution: using the A16 Bionic chip that powers the phone, you can edit heavy video files on the go and upload them right then and there on to your platform of choice. Plus, it's a capable mobile phone.

Available on: *apple.com/in*

ACTION HERO

Love adventure sports? You need a vlogging camera that keeps pace with your active lifestyle, like this one from GoPro. Boasting GoPro's signature design, its latest action camera features a new 1/1.9-inch sensor capable of recording video at up to 5.3K resolution at 60 fps in 10-bit colour depth. Its large sensor enables an aspect ratio of 8:7 for the largest vertical field of view, which can be easily cropped into different aspect ratios for Instagram and other apps using the GoPro Quik app. In addition, the HyperSmooth 5.0 technology keeps the footage steady even if the camera is rotated 360 degrees while capturing footage. Three new Night Effect Time Lapse presets make capturing pro-quality Star Trails, Light Painting and Vehicle Light Trails easy.

Available on: *amazon.in*

GOPRO HERO11 BLACK

₹ 51,500

If you love live-action shots, this powerful camera will capture all the twists and turns of your adventure

SONY ZV-1F

Soon to be launched in India

This one is the perfect compact camera for vloggers who want to keep it simple

DIGITAL HANDYCAM

Sony's ZV-1F is 'the' small camera meant for vlogging. Featuring the Exmor RS CMOS sensor and an ultra-wide 20-mm prime lens by Zeiss, it can capture detailed 4K/30p videos. Real-time tracking and Eye AF are a class apart, and it also has a boken button. The camera has 10 presets for pro-level footage, a built-in directional microphone, a fully articulating touchscreen and a dedicated record indicator. The Imaging Edge Mobile Plus app ensures seamless transfers to your smartphone, which can also be used as a remote.

Available on: *sony.co.in*

INCREMENTALLY POWERFUL

Samsung packs in a fantastic camera in the Galaxy S23 Ultra, its latest flagship. And while the phone does pack a punch, the refresh is incremental

BY **NIDHI SINGAL**

REVIEW

How does one improve on phones that pack in everything, when there have been just incremental improvements in usable tech? The answer lies in enhancing the phone's camera capabilities. And Samsung has taken this path for its latest flagship, the Galaxy S23 Ultra, which continues with the legacy of last year's Galaxy S22 Ultra.

Upgrading from last year's 108 megapixel (MP) primary camera, the 200MP primary camera on this device is one of the best in the business. It captures the minutest details. Low-light imaging is outstanding—shots of the night sky show no noticeable noise. Although images are shot at 16MP by default (using pixel binning), a quick tap on the top presents options to choose from 50MP to 200MP. While the back sports a four-camera setup, selfie lovers are in for a treat. Selfies clicked by the 12MP front shooter are an improvement over the ones clicked by the S22 Ultra's 40MP one, especially in low light. The phone's imaging prowess extends to video as well—the rear camera is capable of shooting stable videos at 8K 30 fps!

The 6.8-inch display is a stunner, even under the scorching sun. The phone is also a delight to stream videos and read books. The best aspect is the detailed shots the screen displays. The phone's customised Snapdragon 8 Gen 2 chip is no slouch, and tasks like editing 4K videos or gaming are a breeze. Samsung has improved on the thermals too. As a result, there aren't any heating issues. And even with the same 5,000mAh battery as that of the S22 Ultra, the backup has improved. Lastly, the built-in S Pen doesn't feel as premium as the one on earlier Note devices. But nonetheless, every stroke is butter smooth on the screen.

From the fantastic display to the S Pen, the stunning camera to the long battery backup, the S23 Ultra is packed to the hilt. But in the end, it is still an incremental upgrade. BT

Available on: *samsung.com/in*

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IRS 2019 Q4 (TR)

THE YOGIC WAY

Naveen Soni, President of Lexus India, believes yoga helps him cut through the clutter and concentrate better

BY **SMITA TRIPATHI**

PHOTO BY **SUDHIR DAMERLA**

YOGA JOURNEY Naveen Soni was introduced to yoga as part of an employee engagement programme

FOR 56-YEAR-OLD Naveen Soni, President of Lexus India, yoga is a way of life. It all started in 2006-07 when he was still with Toyota and the company started the concept of employee engagement. As a part of that, they did various meaningful activities including setting up a public library, having sessions on leadership, etc. To help employees lead more healthy lives, yoga was introduced. The organisation engaged a yoga guru who would come to the office and post-work there would be a one-hour yoga session for those who were interested. "It was my first introduction to yoga," says Soni, who resides in Bengaluru.

Over the years, as many employees dropped out and others joined, Soni continued to practice regularly. All the way up to 2020 when offices were shut down due to the pandemic. He then started taking online classes. "Online classes give you complete flexibility. Even when I am travelling, I can do an online class and be regular with my yoga session," says Soni.

While he tries to do yoga at least four times a week, he admits that due to time constraints the average is two to three times a week. "Thanks to yoga the body becomes more agile and flexible, and the capacity to take on more physical responsibility increases," says Soni, who took over as President of Lexus India in January 2022.

"Yoga helps concentrate all your energies. It brings you peace and calm, and your concentration abilities are enhanced. What I have come to realise is that during the day yoga helps bring clarity to my mind. There is so much information overload on any given day and I feel yoga helps me cut through the clutter and concentrate on what is important," explains Soni.

For Lexus India, its highest ever sales were achieved in 2022, since its inception in 2017. Soni says SUVs are the flavour of the season and that the average age of the luxury buyer is going down. Unlike earlier, when your first car was a mass-market car, or even a second-hand car, and you gradually progressed to a luxury car, today the first car is a luxury car, he says.

"Yoga helps concentrate all your energies. It brings you peace and calm, and your concentration abilities are enhanced. What I have come to realise is that during the day yoga helps bring clarity to my mind"

While Lexus introduced the NX at the beginning of 2022 and LX at the end of the year, it launched the RX— another SUV—at the Auto Expo in January. From a global perspective, Lexus plans to shift completely to electric vehicles by 2035. "You will see more electric vehicles coming from us," says Soni. In 2022, Lexus added five service points to its seven existing guest experience centres. This helps it cover nearly 85 per cent of the market where Lexus vehicles are in demand. BT

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HOWZZAT Sairaj Dhond enjoys booking big stadiums and playing cricket there

ON THE FIELD

Cricket keeps me alive, says Sairaj Dhond, Founder & CEO of Wakao Foods

BY **SMITA TRIPATHI**

"**Cricket is religion**," says 34-year-old Sairaj Dhond, Founder & CEO of Wakao Foods, a Goa-based sustainable start-up that offers ready-to-cook and ready-to-eat products in the Indian market. Dhond represented the state of Goa in cricket tournaments during his school and college days. However, as is the case with most people, life took over and cricket took a back seat.

Over the past few years, he has rekindled his love for the sport. "I am doing well now professionally so I have the leverage to again explore the game. I realised there were several people like me," says Dhond, who now plays cricket for several clubs in Goa. "We now play Members Leagues' against other clubs." Dhond has played in London, Paris and Dubai, and also in stadiums in Dharamshala and Dehradun. "We are like those wannabe international cricketers," laughs Dhond. "We could never get an opportunity to play in these stadiums. Today we can afford to book them and play in them," he smiles.

Dhond explains how this is now an organsied sector where companies book stadiums where international matches are held and organise tournaments for people from across India to play. Teams from Delhi, Mumbai, Goa, etc., participate and play against each other. "This is something that just keeps me alive."

For Dhond, sports was an integral part of his growing-up days. His mother is a national-level basketball player. "I play over ten kinds of sports but cricket is my first love."

Dhond is a serial entrepreneur—Wakao is his fourth venture. He is a lawyer by training but quit after practising for a year and joined his family hospitality business where he lasted six months. He then set up his first venture, which was for solar heating installations. He then moved to LED lighting, and after that he restored an old heritage home in Goa and sold it before starting Wakao Foods two years ago. Wakao is bootstrapped with Dhond owning 100 per cent of the company. Its products are currently available across the country through the online model. Going forward, Dhond wants to set up the QSR model. BT

@smitabw

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ACE STROKES

THE MUMBAI LEG OF THE *BT* GOLF TOURNEY TAKES THE CORPORATE CROWD BY STORM **BY TEAM *BT***

CLOSE TO A hundred golfers teed off on a balmy Sunday morning at the Willingdon Sports Club on January 29 to get the invite-only Mumbai edition of *BT* Golf 2022-23 presented by Royal Ranthambore, well underway in style.

Even though most of the participants on the field were familiar with the twists and turns of the course, the multiple hazards scattered across the fairways provided for a testing round of golf, made even more challenging by the rapid greens and pin positions.

As the who's who of Mumbai's corporate world, from Vijay Chauhan, CMD of Parle Products to Shyam Mani, Non-executive Director of Tata Motors Finance, and Atul Laul, President at Reliance Industries, among others, took on each other at the greens in the salubrious conditions, competition quickly heated up.

Finally, D.S. Benupani, Commissioner of Income Tax; Kailas Shinde, Joint MD at CIDCO; and Naseem Shaikh, Partner at Nosh Agencies, emerged winners in the 0 to 14 handicap, 15 to 24 handicap and ladies' categories, respectively, at the tournament co-presented by Indian Oil Corp. and Qatar Airways,

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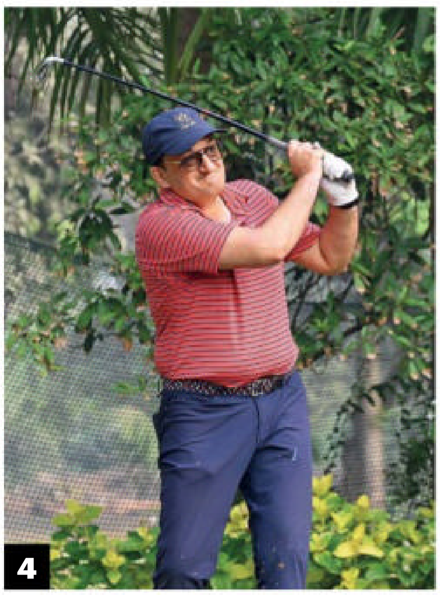

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1. Participants of the *Business Today* Golf 2022-23 presented by Royal Ranthambore–Mumbai edition tournament at the Willingdon Sports Club on January 29

2. Rahul Kanwal (*left*), News Director of India Today and Aaj Tak, and Executive Director of *Business Today*, in conversation with Shaina N.C., National Spokesperson of BJP

3. Naseem Shaikh, Partner, Nosh Agencies

4. Mehul Johnson, MD, Indiabulls Real Estate

5. Singers performing at the *BT* Golf event in Mumbai

6. *(From left)* *BT* Golf award winner in the 0-14 handicap category D.S. Benupani, Commissioner of Income Tax; Pradipta Basu, Assistant VP-Marketing, Radico Khaitan; and Shaina N.C.

7. (*From left*) Pradipta Basu; Shaina N.C.; and *BT* Golf award runner-up in the 15-24 handicap category Atul Laul, President, Reliance Industries

8. Participants registering for the *BT* Golf 2022-23 Mumbai event, presented by Royal Ranthambore

Royal Ranthambore Heritage Collection PRESENTS bt GOLF

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PHOTOS BY **MANDAR DEODHAR** AND **MILIND SHELTE**

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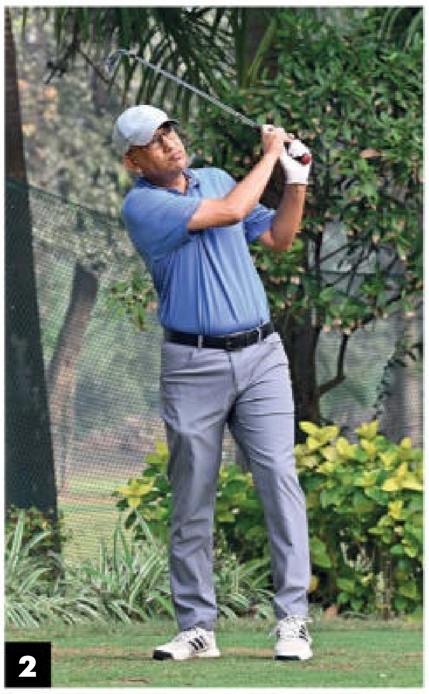

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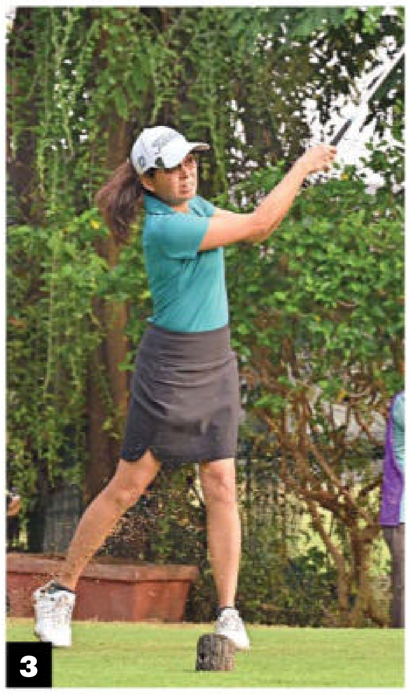

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1. A. Balasubramanian, MD and CEO, Aditya Birla Sun Life AMC

2. Vinay Dube, Founder and CEO, Akasa Air

3. Shilpa Singhal, Artist

4. Darius Vakil, Director, Ontario Teachers' Pension Plan

5. Rajeev Chopra, Independent Consultant, Hospitality

6. Pramod Bhambani, Advisor, Newforce Ltd

7. Aditya Mehta, COO, Bombay Shirt Company

8. *(From left)* Ankur Sachdeva, President-Operations, Radico Khaitan; Pradipta Basu; Shaina N.C.; *BT* Golf award winner (ladies) Naseem Shaikh; Rahul Kanwal; Karthik Vishwanathan; Alok Nair, Chief Revenue Officer, *Business Today*; and Sourav Majumdar, Editor, *Business Today*

9. Neha Grover, Vice President, Nykaa

10. Jalaj Kakkar, Director, Corporate Coverage, CredAble

11. Ashish Aggarwal, Founder, GOLFEZ

12. Jehangir Jejee-bhoy, Independent Counsel, Bombay High Court

13. Chaitanya Sinh, Co-founder & CEO, BOMBAX

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with mobility partner MG Motor and tourism partner Rajasthan Tourism. On hand was BJP National Spokesperson Shaina N.C. to give away the prizes at the historic golf course that was abuzz with activity and celebrations of the winners.

While giving away the awards, she also appreciated the performances of the packed field of players at the exclusive event. “It’s always good to see people participating in any sport, and I would like to congratulate not just the winners but all those who played here today for participating in the true spirit of the sport,” she said.

As for the winners, Naseem Shaikh was elated with her performance. “I was quite positive in the morning, though I did not come to win. I just wanted to play a good round, and I’m happy, I was able to do that,” said the winner in the ladies’ category.

While the winners were celebrating, some like this year’s runner-up, Jalaj Kakkar, Director of Corporate Coverage at CredAble, who has participated in earlier editions of the tournament was already looking forward to the next edition. “I was really looking forward to seeing *BT* Golf make a comeback. It’s a great event and it’s always good to meet new people. Looking forward to coming back to win it the next time,” he said.

While the array of top leaders from the world of commerce and governance revelled in conditions perfect for golf, age was no factor as they rubbed shoulders with younger participants with great enthusiasm, and competitive spirit, giving them a run for their money.

Commencing in 1996 as a standalone single-city Pro-Am, *BT* Golf has evolved into one of India’s most-sought after golf events and its revival after a three-year break has sparked a flurry of interest from golf aficionados and business leaders alike.

Action now shifts to the Hyderabad leg of *BT* Golf 2022-23 presented by Royal Ranthambore that will be played at the Boulder Hills Golf & Country Club on February 25. BT


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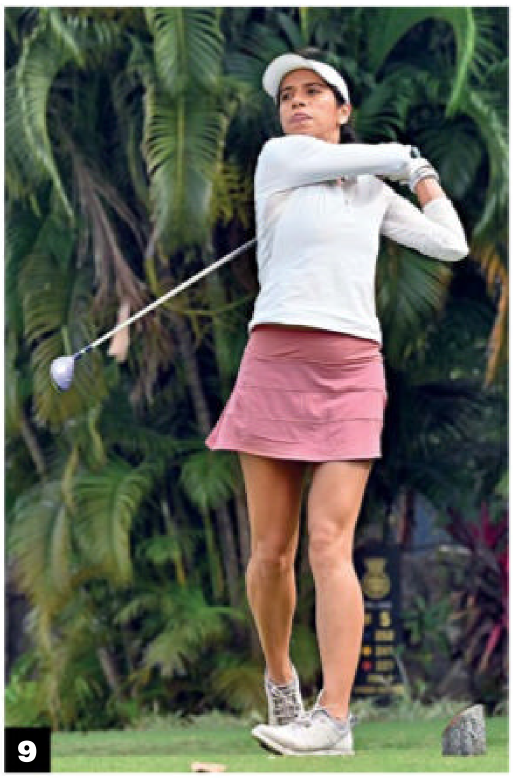
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BEST ADVICE

PRASHANT JAIN | MD, GE POWER INDIA; REGIONAL GM, GE STEAM POWER SOUTH ASIA

GE Power India is a major manufacturer and supplier of power generation and transmission equipment

PHOTO BY **HARDIK CHHABRA**

'Solutions should be for biz, society'

What was the problem you were grappling with?
The paradigm shift between COP21 and COP26 in the energy sector in India posed a challenge to companies working in the sector, like ours. We had to create economic empowerment for the country, which still heavily relies on coal, to help it reduce emissions by 33-35 per cent by 2030—its COP21 target. Here, we had to envision how the existing thermal plants can support renewables' integration into the grid and the transition to low- or zero-carbon emission sources. Also, at an organisational level today, GE Power India is on its own transformation journey to become an independent entity.

Who did you approach for advice?
I approached some strong leaders who I've known or worked with before. I take inspiration from them and enjoy connecting with them, in order to find ideas to solve problems.

What was the advice you received?
The advice that I received was to work towards solutions that benefit both the business and society at large.

How effective was it in resolving the problem?
It was very effective. As I seek to follow this advice and find the right balance, I believe it's critical to keep our employees at the centre of our transformation plan. As an energy sector business, our goal is not just to be best-in-class in our business, but also to support our partners and stakeholders to also become best-in-class. It's only the beginning and we have lots of work to do in partnership with our stakeholders. We are on our journey towards contributing to our own and India's energy transition process. Today we are executing around 27 GW of emissions control projects to improve air quality; additionally, we are improving efficiency by doing operations and maintenance of coal-fired power plants, making it flexible. We have a long way to go, but I believe in my team and their commitment towards our vision. BT

—TEAM *BT*

Vol. 32, No. 5 for the fortnight February 20, 2023 to March 5, 2023.
Released on February 20, 2023.
Total number of pages 100 (including cover)

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