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businesstoday.in | LESSONS FROM WISTRON | BUSINESS CONFIDENCE DIPS

Business Today

January 24, 2021 ₹100

BUDGET 2021

THE GROWTH RECIPE

What top experts in economics, business, taxation and politics recommend for economic revival

आज तक
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Tap to see it again.
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बड़ी खबरें
लाइव टीवी

From the Editor

The Growth Recipe

• • • • • • • • •

Welcome to new beginnings in 2021.

The New Year raises new hopes, new expectations, new aspirations — even new anxieties. Finance Minister Nirmala Sitharaman has raised hopes by inviting ideas to spur growth with a promise to deliver "a Budget like never before". Centre has shown an open mind to suggestions. That has given rise to the belief that the government will finally act on the biggest problem facing the economy — demand or consumption. Centre's attempts so far to accelerate supply-side economy, idolising the China model of investment-led growth has turned out to be a wrong diagnosis of the current state of Indian economy. It delivered neither investment, nor growth. Instead, it caused several quarters of unimpeded deceleration as demand collapsed on the back of slowdown, uncertainty and job losses. Covid only worsened the state of the economy.

Business Today invited a power-packed panel to suggest ways to accelerate the Indian economy. D.K. Joshi, Chief Economist, CRISIL; Nilesh Shah, Managing Director, Kotak Mahindra Asset Management Company; Mukesh Butani, Managing Partner, BMR Legal Advocates; Akhil Gupta, Vice-Chairman, Bharti Enterprises; Gopal Krishna Agarwal, National Spokesperson of the BJP on Economic Affairs; and Prof. Gourav Vallabh, Spokesperson, Indian National Congress recommend what to do to next for a high growth curve.

Even as the Centre readies Budget 2021, on page 44, *Niti Kiran* dives into some of the most prominent economic ratios to decipher what they portend. The risk appetite measure — market capitalisation-to-bank deposit ratio — which drives capital market's participation is currently over 100 per cent, suggesting risk appetite is high. The stock market valuations measure — Sensex P/E multiple — is trading at a multiple of 32.9, significantly higher than its five-year trailing average of 23.5, indicating market valuations are expensive right now. The measure of investment demand in the economy — Gross Fixed Capital Formation or GFCF-to-GDP ratio — indicates high activity when the share is rising. However, after contracting by a record 47.1 per cent in the first quarter, the GFCF has still fallen, though a much lower 7.3 per cent, in Q2FY21, its fifth consecutive contraction. Investment, it seems, is the last thing on the minds of entrepreneurs.

Business Today-C-fore's quarterly Business Confidence Index (BCI) has taken a sharp dip in the October-December period as the demand surge in the festive season failed to sustain. The survey of India's 500 top CEOs, CFOs and CXOs overwhelmingly expects Sitharaman to focus on demand generation (41 per cent) in the upcoming Budget. This was followed by new infrastructure for demand creation (4 per cent). Interestingly, only 3 per cent asked for supply-side policies and liquidity, the mainstay of the Centre's Atma Nirbhar Bharat package so far, while expectations from Covid-ravaged exports market are also realistically low with just 2 per cent, followed by an even lower 1 per cent from new private investments. But a substantial 47 per cent hope that the FM will focus on all these areas.

Meanwhile, as India embarks on widespread labour reforms, the trouble at Wistron's plant near Bangalore calls for introspection on the right balance between reforms and oversight. The company operated the plant in complete violation of labour laws. Karnataka labour department is torn between reform and Licence Raj. For instance, it had planned eliminating surprise labour inspections for ease of doing business. Next what? *Rukmini Rao* takes you through the lessons from the Wistron fiasco on page 74.

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Pradeep Nair

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The Point

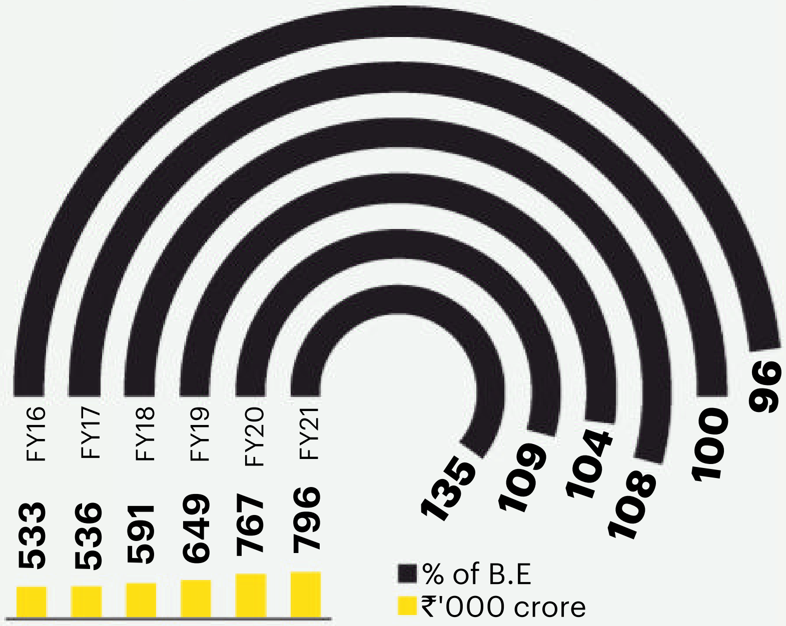
FISCAL TARGET NOT ON TRACK

Centre's fiscal deficit touched 135 per cent of FY21 estimate by the end of November. Stress on finances is showing

By **SHIVANI SHARMA**
Graphics by **TANMOY CHAKRABORTY**

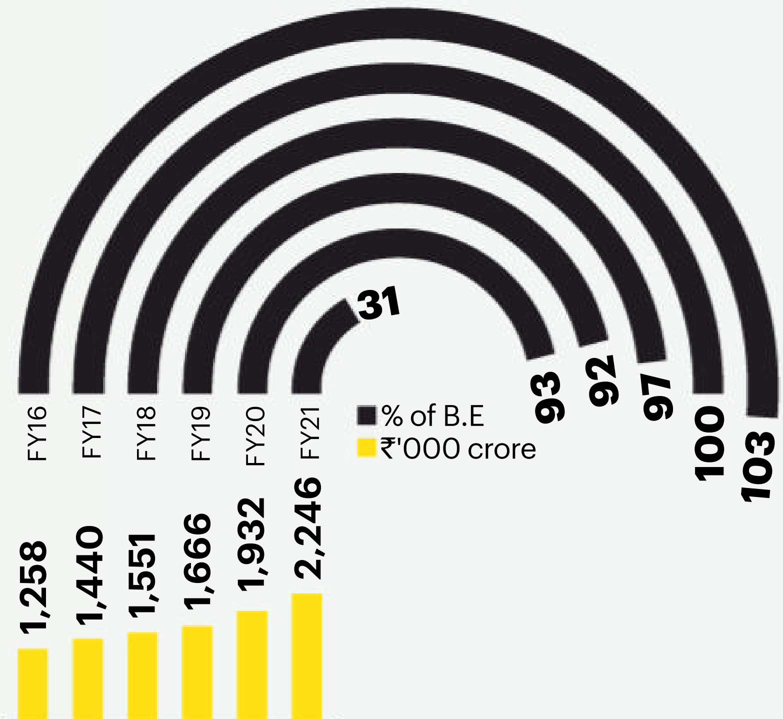
FISCAL DEFICIT AT 135% OF BE IN EIGHT MONTHS OF FY21

GROSS FISCAL DEFICIT



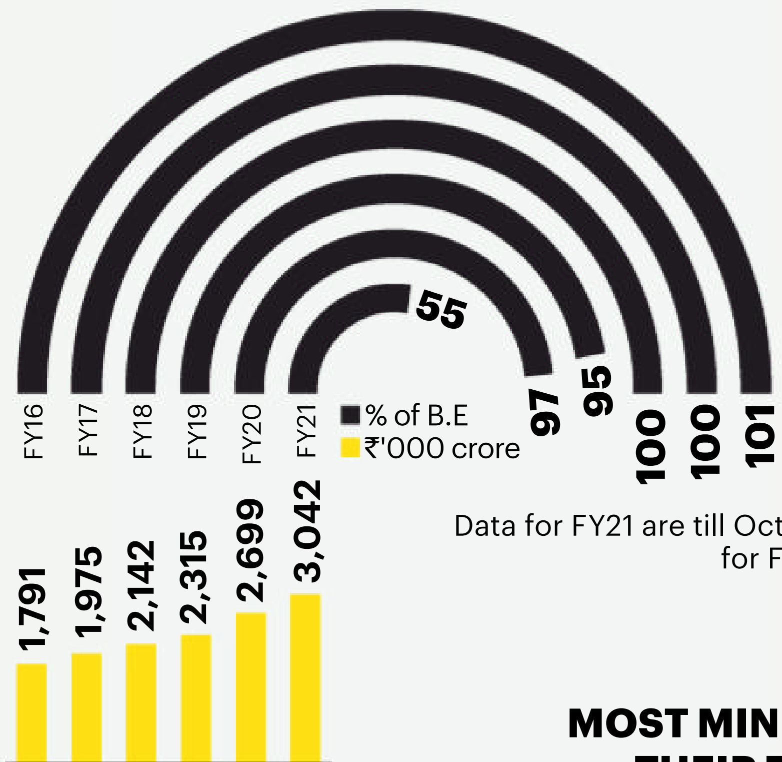
NON-DEBT RECEIPTS AT JUST 31.2% OF BE...

NON DEBT RECEIPTS



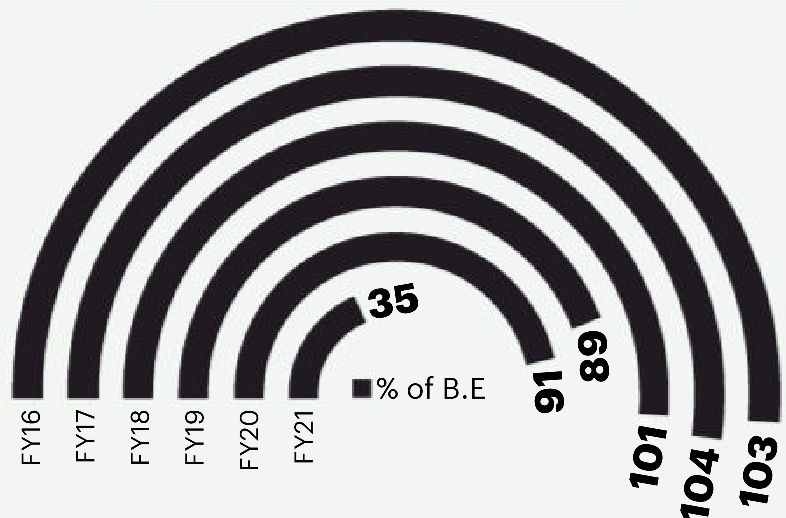
...WHILE EXPENDITURE IS AT 55% OF BE

GOVT. EXPENDITURE



NET TAX REVENUE RECEIPTS MAY FALL WAY SHORT OF TARGET

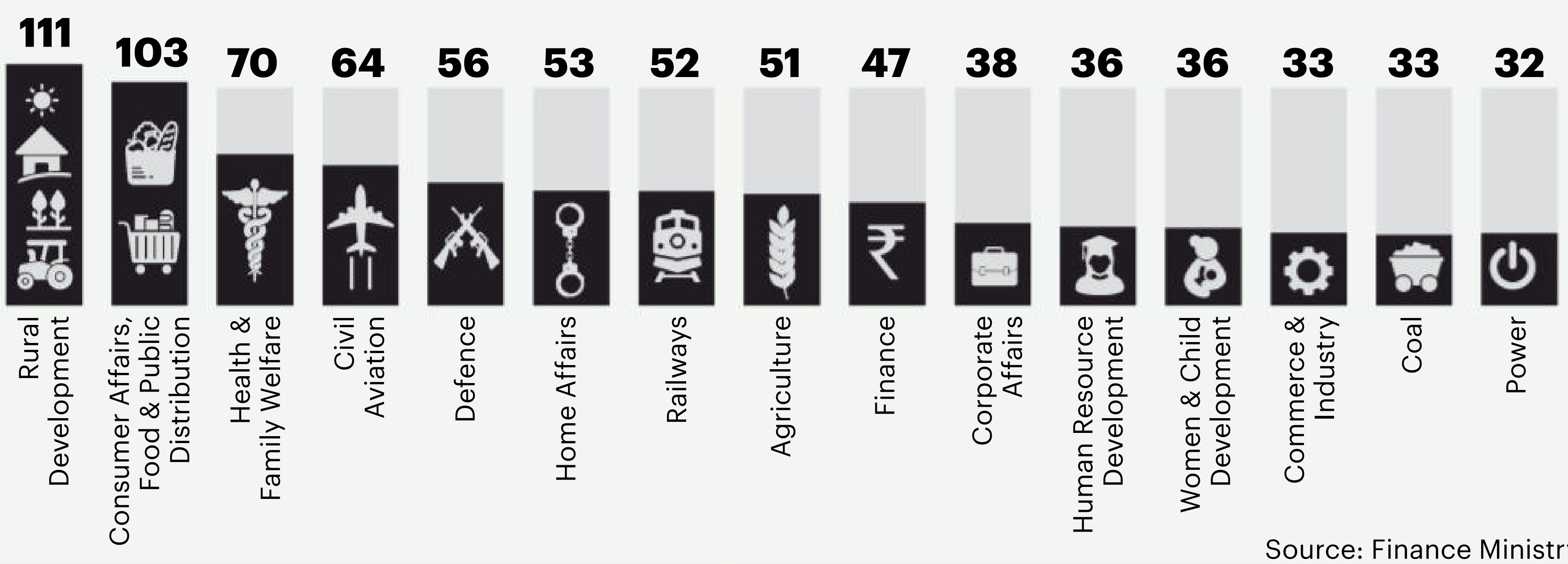
NET TAX REVENUE RECEIPTS



Data for FY21 are till October, except for fiscal deficit (for November); data for FY20 are Revised Estimates (RE)

MOST MINISTRIES HAVE UNDER-SPENT THEIR TARGET; SOME EXCEEDED

% of Budget Estimates, for April-October



Source: Finance Ministry

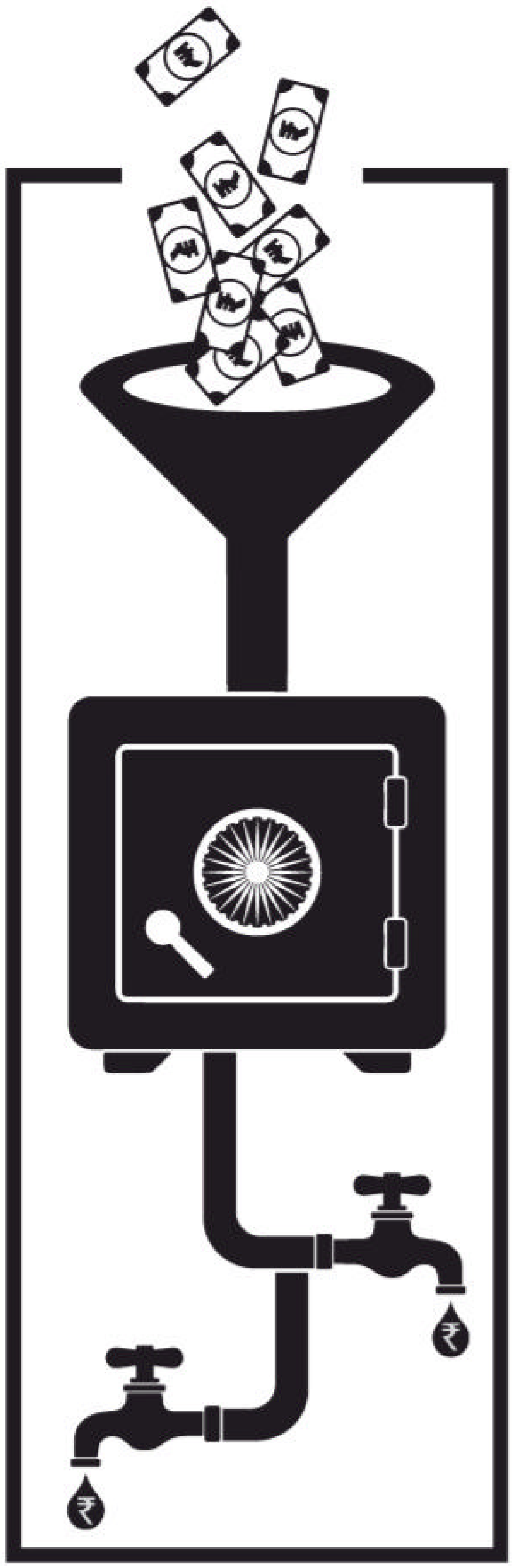
Central Revenue Now Exceeds Spending

↘ Central government expenditure rose 9.5 per cent year-on-year in October to ₹1.8 lakh crore in comparison to robust 46.7 per cent increase in non-debt receipts. It was the first rise in two months

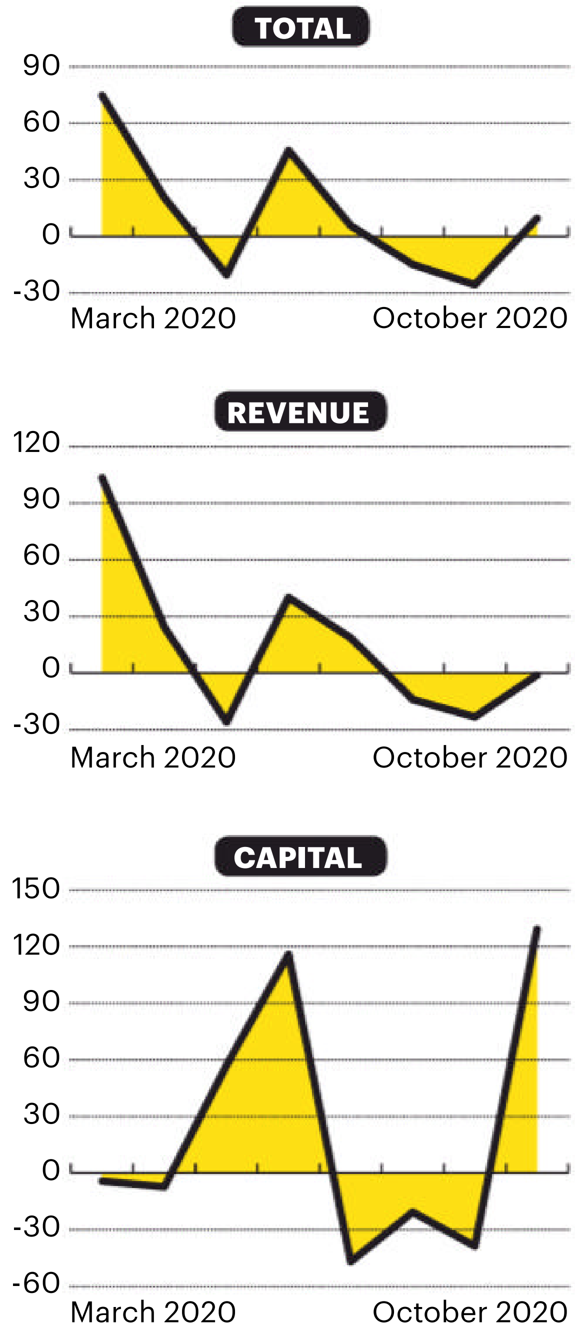
↘ This helped government keep gross fiscal deficit (GFD) at ₹39,160 crore in October as compared with ₹79,000 crore monthly average for April-October

↘ Capital spending more than doubled to ₹31,520 crore from ₹13,760 crore in October 2019

Source: MOSPI



CENTRAL GOVERNMENT EXPENDITURE (Y-o-Y % Change)



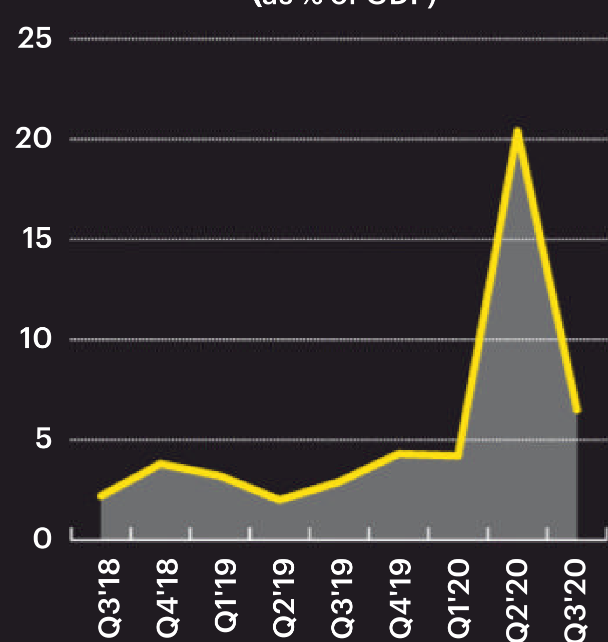
GLOBAL FISCAL DEFICIT NARROWS TO 6.5 PER CENT OF GDP

↘ Global fiscal deficit shrunk to 6.5 per cent of GDP ($1.2 trillion) in third quarter of 2020 from 20.4 per cent ($3.2 trillion) in the previous quarter

↘ Global fiscal spending grew 22.7 per cent year-on-year and stood at 25.1 per cent of GDP in third quarter following 50.3 per cent growth in the preceding period

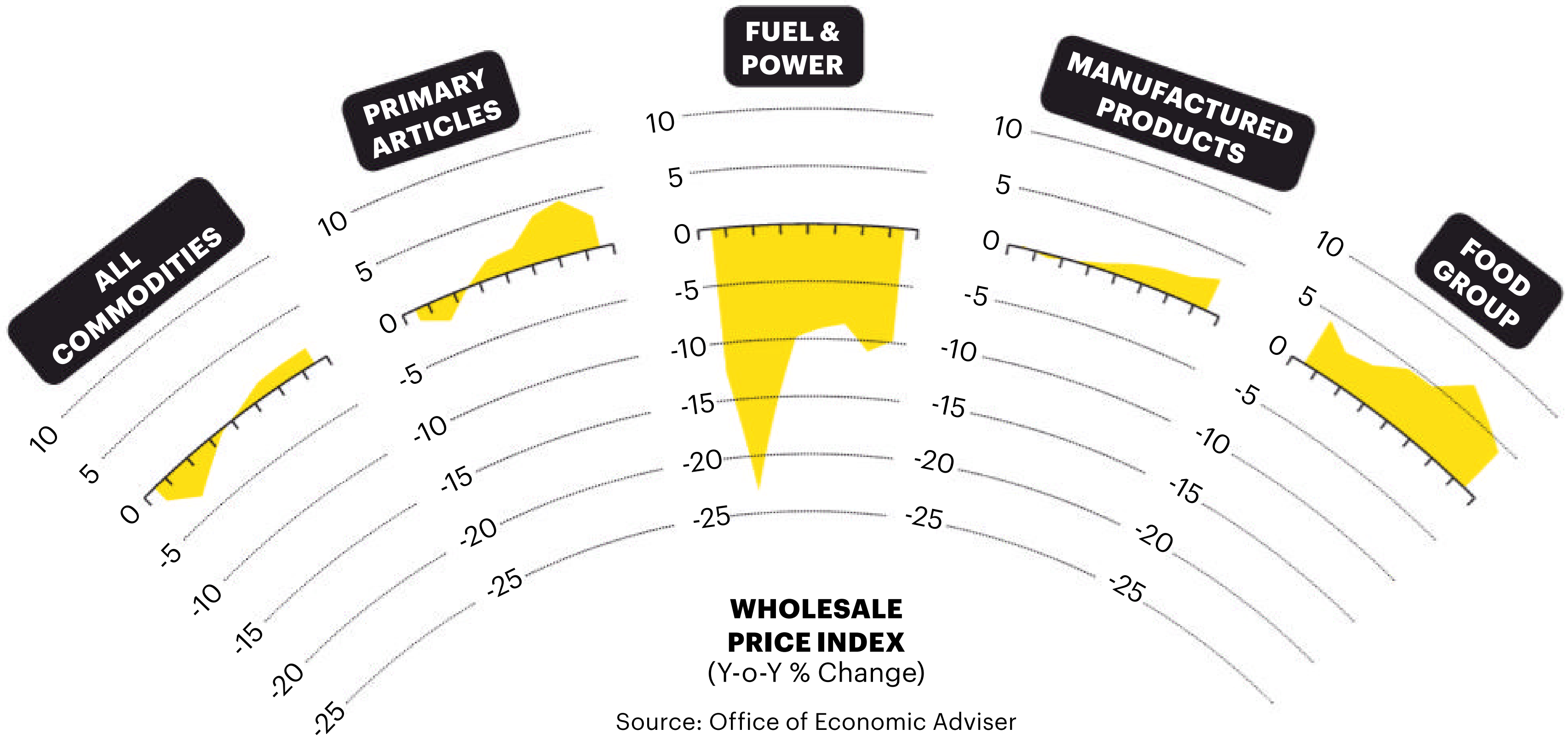
Source: MOFSL

GLOBAL FISCAL DEFICIT (as % of GDP)



WPI INFLATION RISES TO 1.55% IN NOVEMBER

- Wholesale price inflation rose from 1.48 per cent in October to 1.55 per cent in November
- The rise was driven by manufactured products. Prices of manufactured products rose 2.97 per cent compared to 2.12 per cent in October
- Fuel & power inflation remained in the negative zone for the 9th consecutive month



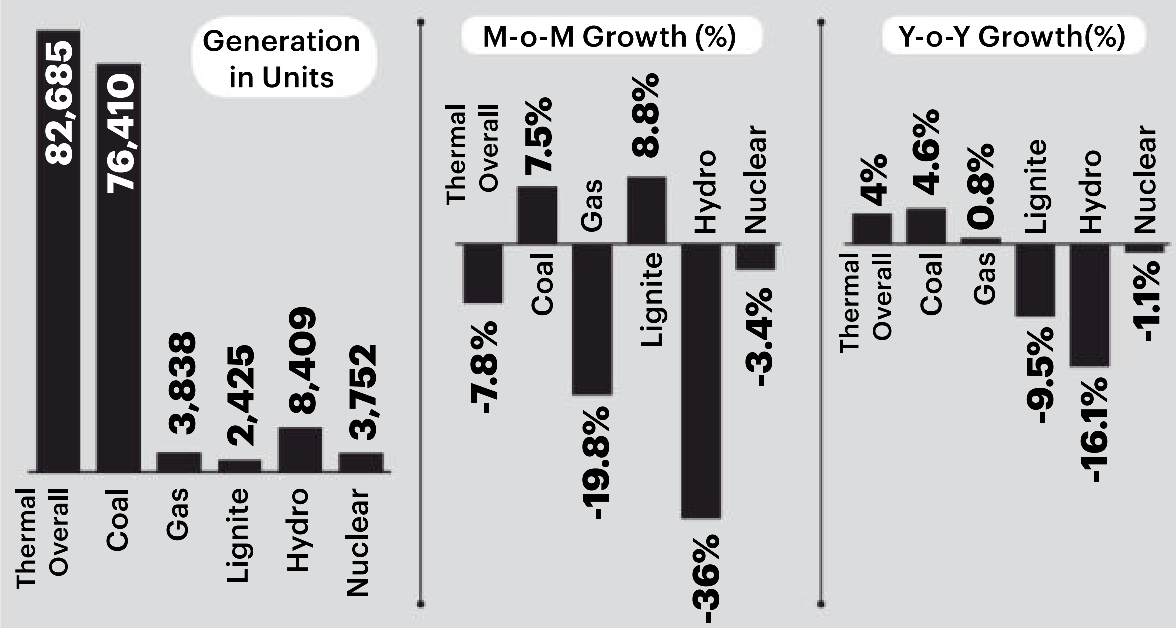
WHOLESALE PRICE INDEX
(Y-o-Y % Change)

Source: Office of Economic Adviser

Power Generation Dips MoM

- Electricity generation fell 13 per cent month-on-month (MoM) in November but was 1 per cent higher than in November 2019
- Conventional as well renewable energy generation witnessed a significant decline on a monthly basis, with steeper decline in the latter

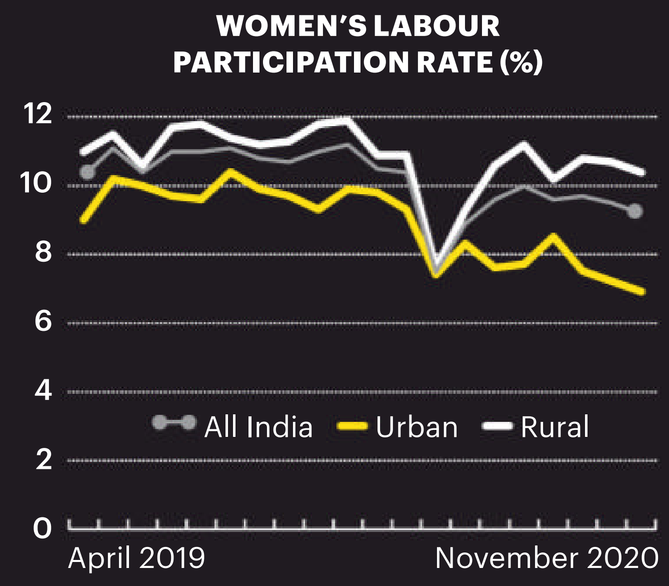
ELECTRICITY GENERATION FROM CONVENTIONAL SOURCES IN NOVEMBER



Source: CEA

WOMEN WORKFORCE SHRINKS DUE TO ECONOMIC SLUMP

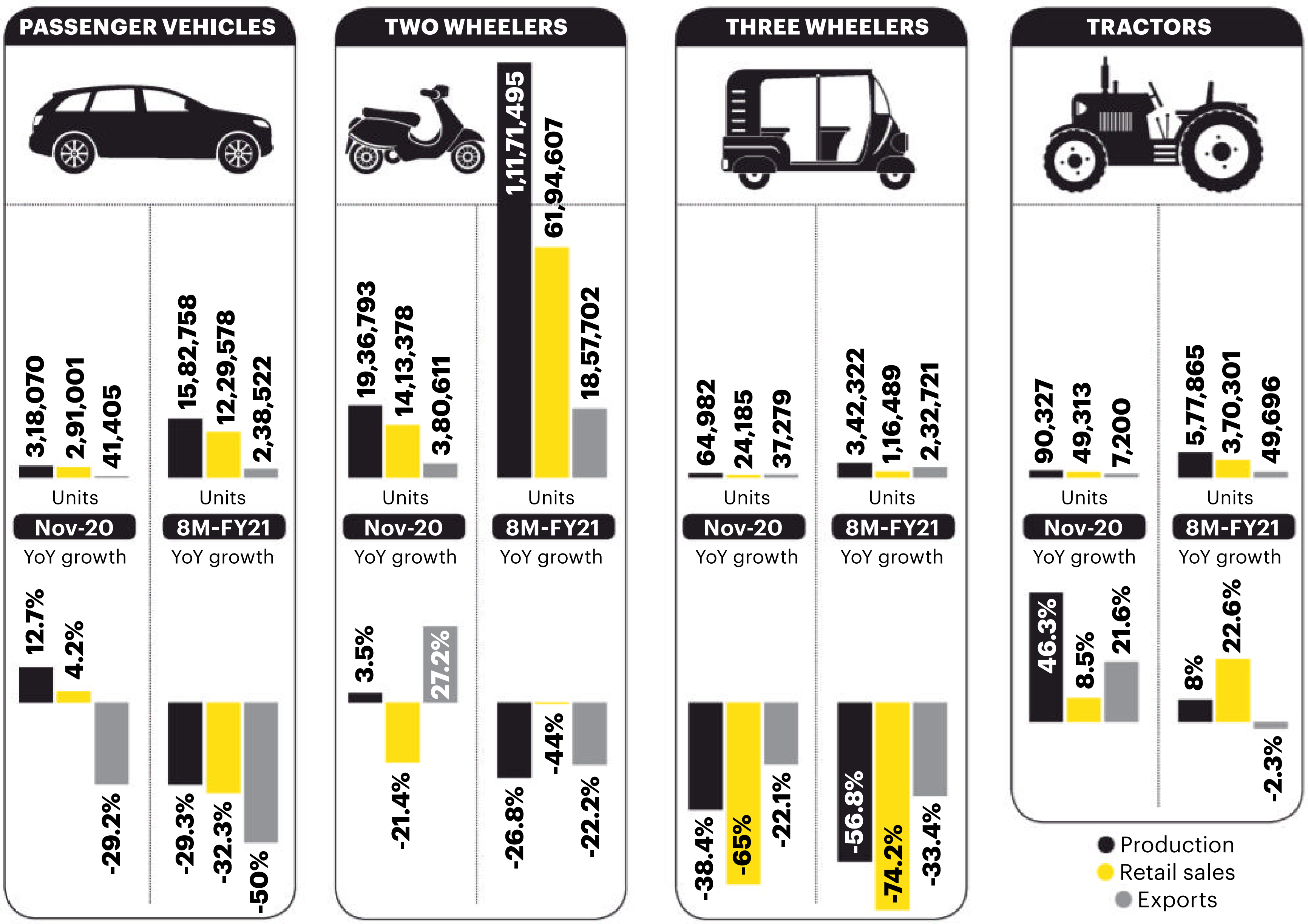
- Women's labour participation rate, already low in India, fell further during the pandemic from 11.2 per cent in January to 9.2 per cent in November; in comparison, nearly 67 per cent of all working age men are employed
- Urban India saw the steepest fall, from 9.9 per cent in January to 6.9 per cent in November



Source: CMIE

AUTO SECTOR'S ROAD TO RECOVERY

- In November, production of passenger vehicles rose 12.7 per cent to 3.2 lakh units, of which 13 per cent were exported; retail sales, though, rose only 4.2 per cent in spite of the festive season
- Production of two-wheelers rose 3.5 per cent to 19.36 lakh units. Nearly 20 per cent was exported
- Tractors have been the best performing segment of FY21 (up to November). In November 2020, production rose 46.3 per cent to 90,000 units



Source: SIAM, FADA

MAHARASHTRA ALL SET FOR $ TRILLION ECONOMY

The State Mobilizes INR 2,00,000 Crores of Investments in One Year

Shri Uddhav Thackeray,
Hon. Chief Minister Maharashtra

Maharashtra Industrial Development Corporation (MIDC)

MIDC is Government of Maharashtra's nodal investment promotion agency. The corporation is not only the country's largest Industrial development authority but one of South East Asia's most competent Investment Promotion Authority. Over the last 5 decades, MIDC has enabled the state to achieve an undisputed leadership position with regards to investments and industries.

Shri. Subhash Desai
Hon. Minister for Industries, Maharashtra

It was set up in the year 1962 by the special act of the state government with the mandate to achieve balanced industrial development in Maharashtra. It is the special planning body which operates through a vast network of local offices. It acts as an important link between investors and the government being the single point of contact for all investor relations. MIDC administers the investment lifecycle in the state from outreach to aftercare and is responsible for providing essential infrastructure to businesses like land, power, water and more. The organization manages 289 industrial parks built over 2.25 lakh acres of land across the state. MIDC as an investment promotion agency is strongly supported by the state government's pro-industry policies and incentive schemes.

Magnetic Maharashtra 2.0

In June 2020, Hon'ble Chief Minister Uddhav Thackeray unveiled Magnetic Maharashtra 2.0; the state's investment and growth stimulus strategy. Initiatives under this strategy enhanced the state's policy framework and overall investment sentiment. With focus on economic recovery, the strategy features some of the boldest and most impactful investment reforms.

Key Interventions proposed under Magnetic Maharashtra 2.0 to boost state's investment competitiveness include:

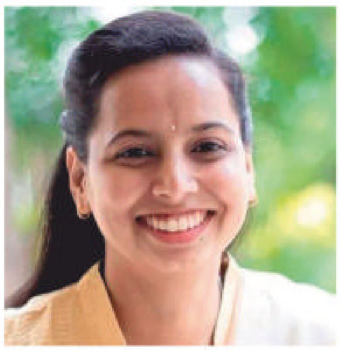
1. MIDC Land Bank

■ MIDC has the largest land bank in the country of 2.25 lakh acres of industrial area and is geared to further acquire additional 40,000 acres of land for companies looking to invest in Maharashtra.

• The acquisition is targeted in the regions viz. Pune-Chakan-Talegaon-Satara belt, Mumbai-Thane-Raigad belt, Aurangabad-Jalna region, Nagpur-Amravati belt and Nashik-Ahmednagar region.

2. Plug and Play Infrastructure

■ MIDC will offer a ready-to-move-in factories complete with advanced utilities, and affordable pricing structure to be made available with sectoral tailoring. It will host a diverse base of entrepreneurs, local suppliers and anchor units.



Ms. Aditi Tatkare, Hon. MOS, Industries, Maharashtra

■ Industrial Shed Spaces will be provided on a rental basis to enable quick setting up of Industries without a major cashflow impact on the investor. This helps a new investor immediately start operations from day 1 while offsetting the company's risk appetite and liquidity crunch especially in a post-COVID scenario.

3. Maha Parwana

■ The Government of Maharashtra has unveiled a mega single permission system to fast track industrial permissions as quickly as 48 hours.

■ This will facilitate investors to get all the permissions through a single-window clearance system and enable industries and their operations to start instantly.

■ All FDI and Investment Proposals exceeding INR. 50 Crore will receive an assurance letter from the government to start construction and production without seeking certain permits.

4. Maha Jobs:

■ Designed by the state to act as an Industry employment bureau, Maha Jobs will have a dual impact. It will help industries meet the talent shortfall that they face the recent with ready access to unskilled, semi-skilled and skilled talent. In parallel, it will also allow youth of the state to list his/her skillsets on the portal across 17 sectors and 950+ job roles.

■ Currently it hosts 2.94 lakhs applications and 2731 registered employers. This matchmaking of talent will help the state achieve an optimal mix of utilization and boost manufacturing productivity.

5. Dedicated Country Desks

■ Maharashtra houses large and small businesses as well as MNCs from several countries.

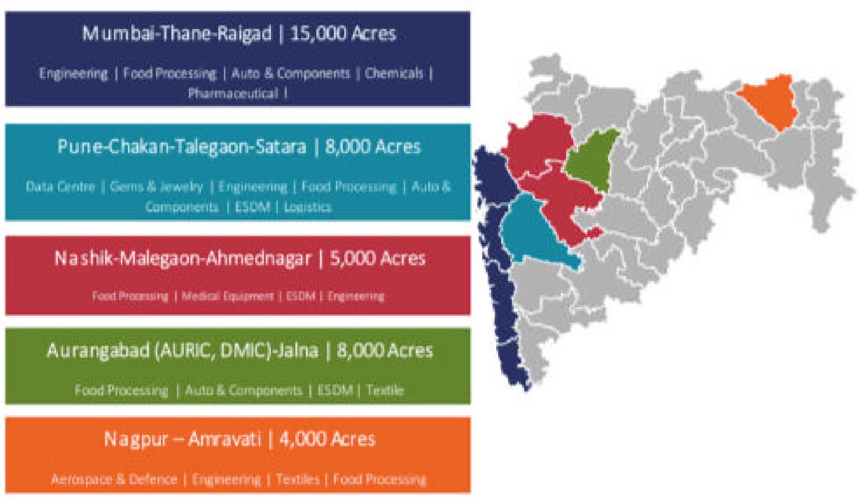
■ In order to boost its bilateral ties and to provide dedicated handholding to investors and industry associations of partner countries, the state has setup country desks for each of its priority partners with the aim of providing extended support and facilitation.

6. Investor First Programme

■ Relationship Managers (RMs) and Relationship Executives (REs) have been assigned to all the companies investing above INR 50 crore. RMs & REs will be responsible for overall co-ordination and providing necessary support to the Investors on continuous basis.

First in Foreign Direct Investment

Maharashtra has been at the forefront of FDI inflows in India, attracting the largest share of 30% of India's cumulative FDI inflows during April 2000 – 2020. The state's journey has included an increase in FDI inflow from INR 2,543 Crores in 2004-05 to INR 79,216 Crores in 2019-20.



Most Attractive Investment Destination

MIDC has an excellent track record of attracting investments into the state. The state's capacity to harbour industrial ecosystem coupled with visionary leaders and policymakers that successfully deploy resources in strategic manner makes Maharashtra a business destination like no other. Maharashtra has been growing rapidly and is on its path to becoming the nation's first trillion-dollar economy.

Under the leadership of the Hon. Chief Minister and Hon. Minister for Industries, the Industries department along with MIDC signed 54 MOUs worth about INR 1,12,000 Crores in June, November and December 2020 under the Magnetic Maharashtra 2.0 program.

Magnetic Maharashtra 2.0 in June saw investment commitments of about INR 17,000 Crores from 14 companies. In November, there were additional investment commitments of about INR 35,000 Crores from 15 companies. These engagements saw participation from national as well as global business leaders from USA, UK, Japan, Singapore, South Korea and Spain, which reinforced their confidence in the state. In December, in the third chapter of Magnetic Maharashtra 2.0, the Government of Maharashtra inked MOUs with 25 domestic companies worth over INR 61,000 Crores. The MoU signing companies belong to diverse sectors such as Automobiles, Logistics, IT/ITes, Engineering, Food Processing, Data Centre, Electronics, Oil and Gas, Chemicals and Pharmaceuticals. Employment of over 2.5 lakhs is expected from these investments.

These MOUs underpin the fact that Maharashtra continues to be the power-house of industrial development in India. The state's commitment to consistent improvement in policy, skilling, infrastructure and above all its relationship with the global business fraternity has fructified through these MOUs.

In addition to investment MOUs, MIDC has also signed strategic investment cooperation agreements with key corridor partners such as USISPF (US – India Strategic Partnership Forum) for USA, KOTRA (Korea Trade Investment Promotion Agency) for South Kores and WAIPA (World Association of Investment Promotion Agencies) for global investors. Besides these investment commitments, Maharashtra also attracted regular investments of about INR 14,500 Crores during past one year. With these investments, coupled with its robust FDI pipeline the state has succeeded in mobilising industrial investments of over INR 2,00,00 Crores.

Thrust Areas

1. Additional Dindori

■ Dindori falls in the Nashik district of Maharashtra at the north-west corner of the state. It holds great potential for industrialization and is classified as a D+ area offering maximum incentives. Nashik is the most popular region in India for grape farming and wine processing resulting in an established and mature food processing ecosystem. It is also a pronounced defense manufacturing hub with the presence of pubic as well as private sector players.

Apart from manufacturing the region is an emerging destination for IT companies.

■ The industrial area is located 26 Km from Nashik, 169 Km from Mumbai and 235 Km from Pune. Nearest airports are in Shirdi, Navi Mumbai (proposed) and Pune; ports include JNPT, MBPT, Dighi and closest railway stations are in Nashik and Devlali. Some of the prominent players in the area are VIP, SULA, Sun Pharmaceuticals, Siemens, Exide batteries, LT, KSPG automotive among others.

2. Additional Butibori

■ This is a newly developed industrial area in Nagpur Division classified as D+. It is connected to Hingna and Nagpur city that are approximately 25km away. Nagpur is the geographical center of India permitting uninterrupted access to all corners of the country. The state government has channelized resources towards developing infrastructure and connectivity of the region with the Samruddhi Maha Marg which is a 700 Km corridor connecting Mumbai to Nagpur and, the Multi-Model International Passenger and Cargo Hub Airport at Nagpur (MIHAN) a composite project international airport, adjoining SEZ, road terminal, rail terminal and other allied services.

■ Nagpur is also one of the largest districts in Maharashtra in terms of GVA, it has one of the highest per capita income. There is a strong presence of industries in food processing, IT, logistics and Textile sector. Prominent players operating in the area include CEAT, Maruti Suzuki, Sintex, Mahindra, Bajaj Steel and more.

3. Amravati Textile Park – Nandgaopeth

■ The textile park developed in Amravati district is classified as D. It is good connectivity with railways and roads which connects it to the bigger cities such as Mumbai, Jalgaon

and Nagpur. This accessibility helps to boost trade and business in the area.

■ Textile is the major industry in the district. It includes spinning, weaving and finishing of textiles. The textile park has major players like Siyaram Silk Mills, Donear Industries and Raymond Luxury Cotton.

4. A URIC

■ It is being developed as one of India's first Greenfield Smart Industrial Cities. It is located on the Delhi-Mumbai Industrial Corridor (DMIC) across an area of over 10,000 acres. AURIC has its own set of DCR rules and has single point contact for building permission, water permission etc. It is well-connected to all major Indian cities through a dense rail, road and air network: 10 minutes away from the Aurangabad International Airport. The Jawaharlal Nehru Port Trust (JNPT) operated dry port which is India's largest seaport is only 40 kilometers away.

■ The industrial hub introduces Walk to Work Concept, positioned to create over 150,000 employment opportunities along with housing for over 300,000 people including industrial workforce and their families while truly embracing the concept of live, work and play with all amenities like residential complexes, schools, hospitals, restaurants and more. It also introduces novel concepts such as optical fiber at doorstep, recycling of grey water along with best quality industrial infrastructure.

5. Bulk Drug Park

■ Maharashtra accounts for 30-40% of the country's pharmaceuticals output. The state houses around 3,139 pharma manufacturing units and corporate offices, with major centres located in Mumbai, Thane, Tarapur, Nashik, Aurangabad and Pune. Maharashtra's Bulk drug and Intermediates' export stood at USD 551.2 million during April – Dec 2019 compared to USD 566 million in 2018-19. To consolidate the state's position as a leader in bulk drugs, the government is developing a dedicated bulk drug park in Raigad. The park will have tailored infrastructure and utilities that fit requirements of the industry and investors.

6. Dighi Industrial Area

■ Dighi Port Industrial area is being developed as a self-sustained, futuristic, investment destination in Raigad along the DMIC corridor. It will act as a port, trade and industrial hub. The industrial area is planned to span 15,000 acres in first phase and will have pharma, engineering and food zones.

■ The closest airports to Dighi are in Mumbai, Pune and Navi Mumbai (proposed) that are 130 Km, 150 Km and 100 Km from the industrial area. Apart from Dighi Port, which is less than 50Km, JNPT and MBPT are also accessible from Dighi at 90 Km and 125 Km. Some of the prominent players are Pidilite, Godrej, Asianpaints, Parle Agro, Kellogg's, Castrol among others.

7. Khalapur

■ It is an upcoming industry hub in Raigad in Konkan District. The industrial pocket is planned to be more than 2,000 acres. Raigad is one of the most industrially developed districts along the coastline of Maharashtra. It is a well-developed industrial export zone due to the presence of the Jawahar Lal Nehru Port and its proximity to both Mumbai and Pune city. Chemical, Pharmaceutical, Steel, Food Processing and Engineering are some of the industries present in the area. Some of the prominent players are Cipla, Uttam Steel, India steel works, Novozymes and more.

8. Chakan Ph 5 and Talegaon Ph 2

■ Chakan and Talegaon are well-developed industrial pockets located in Pune. Pune is Maharashtra's second largest state after Mumbai and offers one of the most evolved industrial climates in the country with a strong presence of companies from automotive, IT engineering sectors. Apart from being a manufacturing force, Pune is also known as the education city of India offering one of the richest talent pools available.

■ Chakan Ph 5 and Talegaon Ph 2 are coming up within a 5Km radius of existing industrial areas. The regions house large companies like Continental, Emerson, GM, Mitsubishi, JCB, Bridgestone, Tata Motors, Mahindra and more.

Shri. B. Venugopal Reddy, IAS, Principal Secretary, Industries, Maharashtra

9. Japanese Industrial Park, Supa

■ Supa is an up and coming industrial area in Ahmednagar district classified as a D+ region. More than half of the sugar production in Maharashtra is produced in this district. It is located 40 Km from Ahmednagar, 90 Km from Pune and 115 Km from Aurangabad. Connected to nearest airport and railway station in Pune.

■ The Japan External Trade Organization (Jetro) and Maharashtra Industrial Development Corporation (MIDC) have signed a memorandum of understanding to set up an exclusive industrial park for Japanese companies in the Pune region. It is spread across 1,200 acres of land. Some of the prominent companies in the region are Carrier, Midea, KSB, MINDA, Boxovia, Larsen & Tourbo among others.

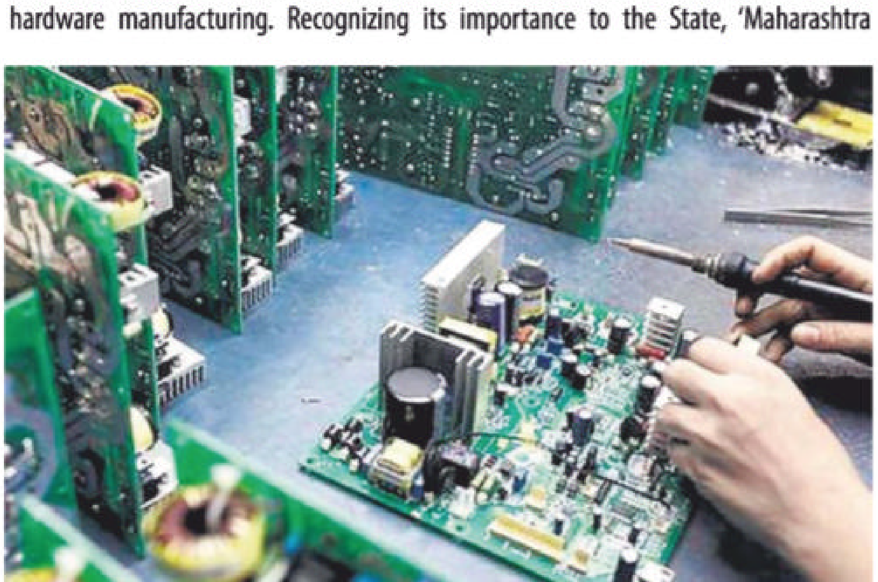
Thrust Sectors

1. Industry 4.0: With rapid development in the field of information technology and hardware, the world is fast witnessing the fourth industrial revolution consisting of Internet of Things (IoT), IOT based Kiosks, Embedded Technology, 3D Printing, Artificial Intelligence, Robotics, Nanotechnology and other such new technologies. We shall promote investment towards emerging industry 4.0 technologies.

2. Aerospace and Defense Manufacturing: India is world's largest importer of arms (contributed 12% to the global imports during 2013-17) and offers a readymade market for aerospace and defence manufacturers. India's defence expenditure has grown by 231% in last one decade and is expected to reach INR 7.74 lakh crore (US$120 billion), in the next ten years. Considering the historical base of the several ordnance factories in Maharashtra, the State is well placed to take advantage of aerospace and defence investments in India and give impetus to Make in India initiative of the Central government. The State also has an Aerospace & Defence Manufacturing Policy 2018.

3. Promotion of Integrated Data Centre Parks (IDCP): As per the stipulation of Government of India to store data within the country, there is a huge demand for data storage. Considering the location of Mumbai City, its power infrastructure and undersea cables landing at Mumbai, it has the potential of becoming largest data storage hub in the World. Integrated Data Centre Parks wherein, a developer company builds infrastructure required for Tier - 4 data centres and various other companies can use this data storage space will be promoted & incentivized.

4. Electronic Systems Design (ESDM) and Manufacturing & Semi-conductor Fabrication (FAB): Domestic demand for electronics hardware products is increasing every year in the country and most of it, is met through imports. Maharashtra, with established ecosystem for electronics hardware manufacturing is poised to take advantage of Government of India's efforts towards domesticating electronics hardware manufacturing. Recognizing its importance to the State, 'Maharashtra



Dr. P Anbalagan, IAS,
Chief Executive Officer, MIDC.

Electronics Policy-2016' has been announced.

5. Textile Machinery Manufacturing: Maharashtra has been a leader in textiles by virtue of cotton production. Textile manufacturing machineries are largely imported. The State will promote textile machinery manufacturing as thrust sector and will offer suitable incentives.

6. Logistics & Warehousing: Logistics and warehousing industry in India is growing at a CAGR of 10% and has the potential to be worth INR 13.21 lakh crore (US$205 billion) by 2020. Maharashtra's strategic location and seamless connectivity with national and international geographies on account of its port and airport linkages, makes it an ideal location for logistics and warehousing activities. The State Government has announced a special Logistics Parks Policy 2018.

7. Green Energy and Biofuel Production: Switching to renewable energy sources like biofuels (including ethanol), biomass from all crops etc. will not only make the State clean but decrease State's reliance on oil imports. Further this might increase crop realization for the State's farmers. To this end state, will permit

cultivation of non-edible oilseeds suitable for bio-fuel production in tribal & degraded forest areas and allow its harvesting etc. The State shall provide additional incentives for the sector.

8. Sports & Gym Equipment Manufacturing: With improving economic climate, rising disposable incomes and changed perception towards fitness is fueling the demand for sports and gym related goods and services in India. It has opened new business opportunities for manufacturing of sports and gym equipment's. The state shall promote investments in the sports and gym equipment manufacturing.

9. Nuclear Power Plant Equipment Manufacturing: India aims to manufacture nuclear power plant equipment and fuel assemblies locally under its Make in India program. This would also provide equipment's for the second phase of Kudankulam Nuclear Power Plant. Maharashtra shall provide support for manufacturing highly niche segment of nuclear power machinery.

10. Electric Vehicles (Manufacturing, Infrastructure and Servicing): With depleting oil resources and rising pollution, Electric Vehicles (EVs) provide an alternative to a sustainable future. This aims to provide an impetus to the entire e-mobility ecosystem which includes electric vehicle manufacturers, charging infrastructure development companies, fleet operators, service providers, etc. The State Government has categorized Electric Vehicles manufacturing, infrastructure and servicing as a thrust sector. The State Government has also launched EV & Related Infrastructure Policy 2018.

11. Agro & Food Processing (secondary & tertiary processing units): The secondary and tertiary processing units have immense growth potential and value addition. Therefore, the State Government shall endeavor to set up mini food parks (MFPs) in all districts of the state. MFPs shall be set up on minimum 10 acres of land. For developing mini food park land pooling from adjoining farmers will be admissible. These parks shall have dedicated infrastructure required for specific commodity-based units. Special incentives will be given for this.

12. Information Technology (IT) & IT enabled Services (ITeS): Home to over 1,200 software units and 30% share of the country's software exports, Maharashtra provides a well-established ecosystem for IT & ITeS companies. Pune and Mumbai are the major IT & ITeS centers in the State. To place Maharashtra amongst one of the most preferred investment destinations in IT sector, the State has declared it as a thrust sector also has a separate incentive policy.

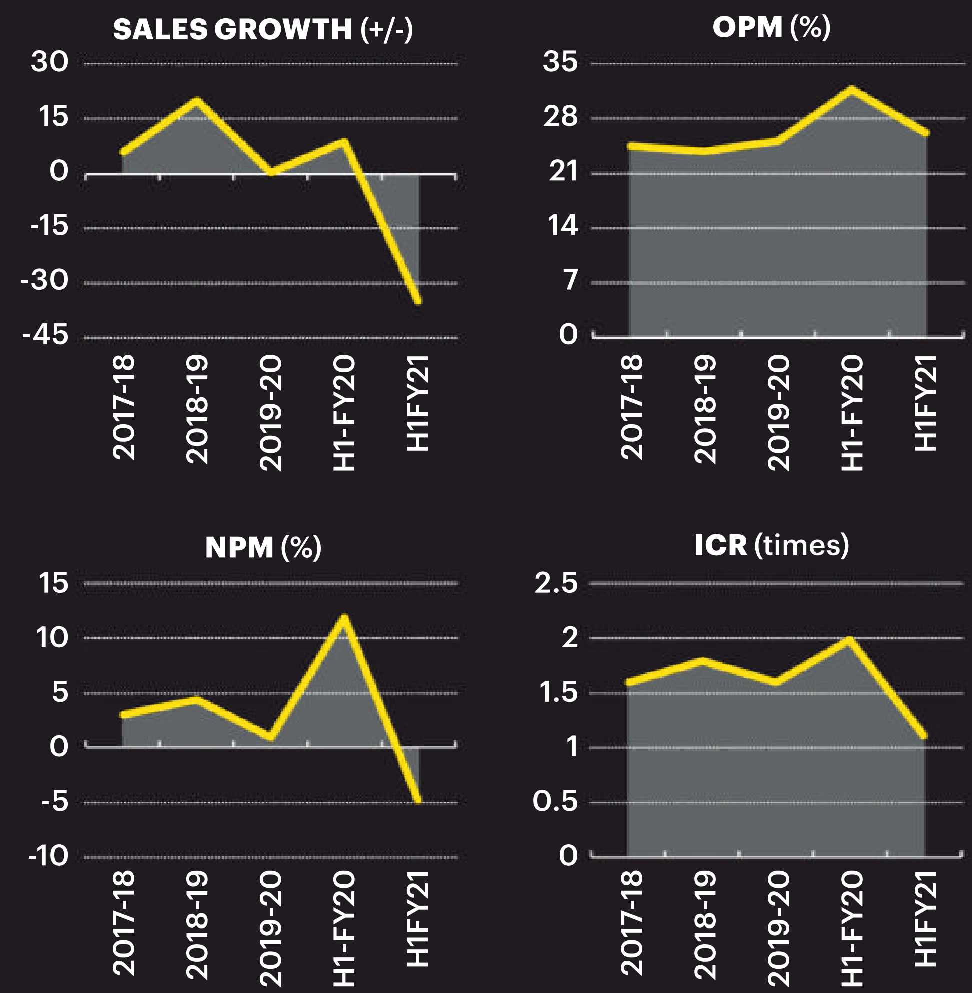
13. Mineral/Forest Based Industries: In order to encourage the value addition / use of forest produce in Industries, particularly in forest rich & mineral rich areas, forest-based industries, mineral based industries & agro-industries / plantations will be promoted. Since these Industries will be in tribal areas, funds from Tribal Sub Plan (TSP) will be utilized for creating infrastructure.

14. Biotechnology and Medical Diagnostic Devices: In order to leverage the state's advantage in hi-tech manufacturing, Maharashtra aims to be a leader in biotechnology and Medical & Diagnostics Devices manufacturing. MIDC will setup dedicated Biotechnology Parks at suitable locations in the state which shall have dedicated infrastructure including Common Effluent Treatment Plant (CETP, including collection and treatment), and Testing & Certification Labs.

REALTY PLAYERS' SALES DOWN 35.2% IN H1

- Sales of a sample of 134 real estate companies fell 35.2 per cent in first half of FY21 compared to a CAGR of 6.5 per cent between FY16 and FY20
- The lockdown brought down sales to almost nil for a large chunk of developers
- Other parameters such as interest coverage ratio also deteriorated (from 2 in H1 of FY20 to 1.1 in H1 of FY21); operating profit margins also turned for the worse'

Source: ACE Equity, CARE Ratings

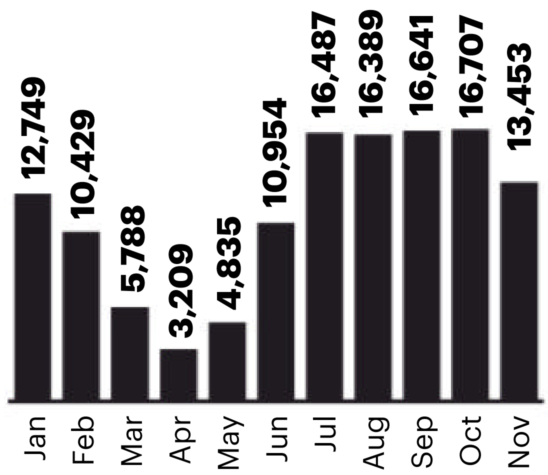


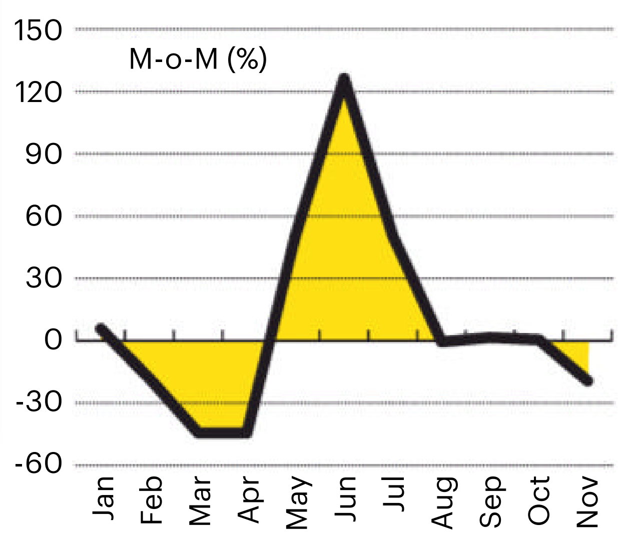
Number of Companies Registered Dips 19.5 per cent

- A total of 13,453 new companies, with collective authorised capital of ₹1,681.03 crore, were incorporated in November, 19.5 per cent less than 16,707 in October
- As on November 30, 20,93,777 companies had been incorporated in the country. Of these, 7,53,558 were closed, 2,239 were dormant, 6,844 were under liquidation and 39,253 were in the process of being struck off the MCA list

Source: MCA

NUMBER OF COMPANIES REGISTERED (in 2020)





Economy

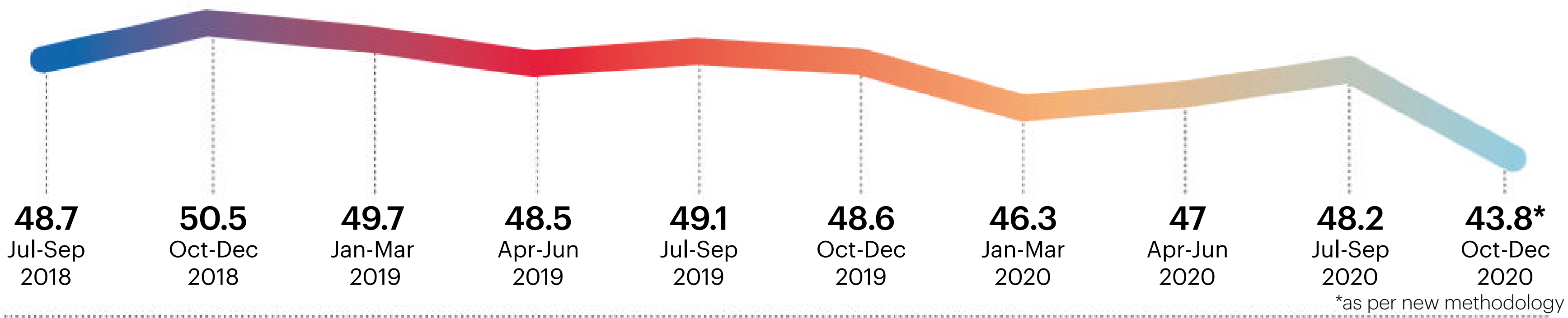
Hope and Despair

CORPORATE LEADERS EXPECT ECONOMIC RECOVERY TO TAKE OVER A YEAR AS THE PANDEMIC CONTINUES TO AFFECT BUSINESSES, FINDS THE LATEST BUSINESS TODAY'S BUSINESS CONFIDENCE INDEX SURVEY

BY MANU KAUSHIK
ILLUSTRATION BY SIDDHANT JUMDE

Worrisome Dip

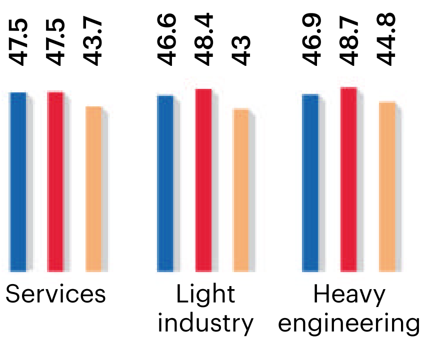
BCI Falls to Record Low Level in October-December Quarter



*as per new methodology

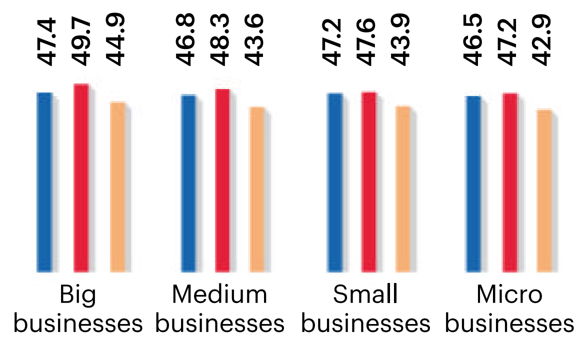
BCI by Sector

Light Industry is Most Downbeat



BCI by Size*

Sharp Dip in Confidence Across Board



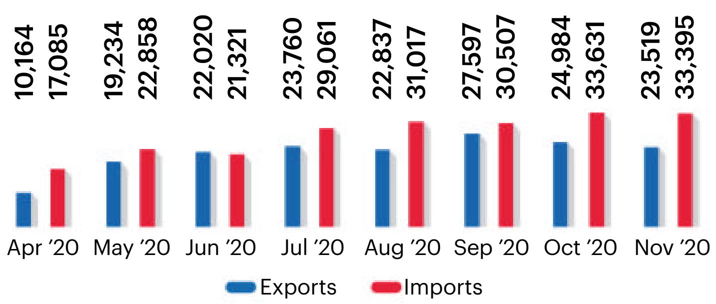
*Big businesses: Turnover > ₹500 crore; Medium businesses: Turnover ₹100-500 crore; Small businesses: Turnover ₹5-100 crore; Micro businesses: Turnover < ₹5 crore

Apr-Jun 2020 Jul-Sep 2020 Oct-Dec 2020

Macro Update

Gap between exports and imports shrinks, inflation another bright spot

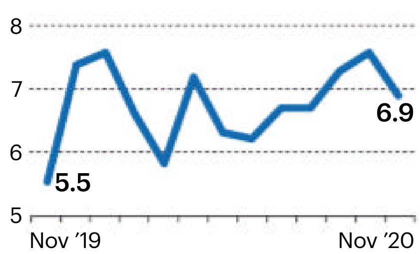
Exports Dip MoM



Figures in $ million

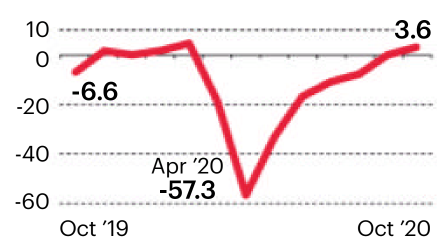
Inflation falls

CPI Inflation (%)



Industrial production shows recovery on cards

IIP (Y-o-Y % change)



IIP of April and May 2020 calculated by CMIE from the index numbers

First things first! Business Confidence Index (BCI) has changed. For over nine years since BCI started, the survey has set the benchmark for gauging the mood of corporate India. But to improve upon the survey, we have tweaked the methodology in the latest survey. The good news is that in a sea of similar confidence surveys (most of which were commissioned after Business Today's BCI), the new methodology has raised the game by measuring the sentiments with sheer precision.

The bad news is that corporate India seems to remain largely despondent about their business prospects and economy per se. On a scale of 100, BCI fell sharply to 43.8, its lowest point ever, as compared to 48.2 in the previous quarter and 47 in the quarter before that. Market research agency C fore quizzed 500 CEOs and chief financial officers across 12 cities for the survey.

"In September and October, the sentiments had picked up a bit due to demand boom around the festive period. Corporate sector is not sure whether it was pent-up demand which got released or will it sustain over a period of time. People have again turned cautious due to uncertainty in the global and domestic markets. Inflation is rising due to surge in commodity prices, exporters are worried about the second wave of infections, and there's a general uncertainty around

NEW METHODOLOGY

The BCI methodology has been changed in the current survey to reflect the sentiments better. The key difference between previous and new BCI calculation is that in the new methodology we ask respondents about condition of their business in absolute terms, and not in comparison to the previous quarter. We have also given equal weightage to the actual business condition in the present quarter (earlier it was 20 per cent) and to confidence level of respondents for the next quarter (earlier it was 80 per cent) the Budget," says Abheek Barua, chief economist, HDFC Bank.

The survey shows that the respondents were pessimistic about the quarter (Oct-Dec) that just went by. For instance, on a scale of 1 to 10, most respondents gave a rating below five on all five parameters: overall economic conditions, financial situation, demand conditions, hiring conditions, and profit margins. In case of hiring conditions, where respondents were most pessimistic, they gave average rating of 4.1.

The survey highlights that 61 per cent respondents believe that the economic recovery will take more than a year. Also, 41 per cent respondents don't plan to make fresh investment for at least a year. "Capacity utilisation will remain below the pre-Covid level for the rest of this fiscal year. Barring some sectors like steel and cement where some capacities are likely to be added, we expect a broad-based improvement in capacity addition in the second half of FY22. The major triggers for improvement include roll-out of the vaccine, and a better visibility of the global and local demand scenario," says Aditi Nayar, Principal Economist at ratings agency ICRA.

While the respondents were less hopeful in the last quarter, their outlook for the January-March quarter is equally grim. For instance, in all the five parameters – economic prospects of the business, overall economic situation, demand conditions, hiring conditions and profits – their average rating is below 5 (on a scale of 1 to 10). The rating is lowest at 4.1 for hiring conditions.

"There has been an improvement in hiring trends but it's more replacement hiring. We see hiring cycle reaching pre-Covid level by the first quarter of FY22," says Ronesh Puri, Managing Director of global search firm Executive Access.

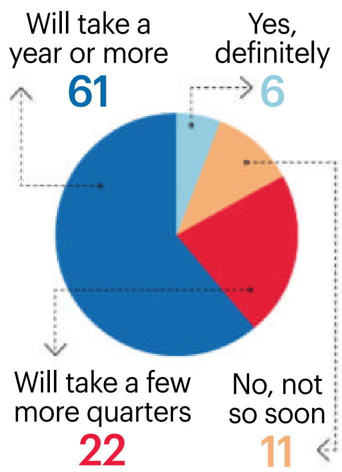
According to the survey, 72 per cent respondents say the AtmaNirbhar Bharat package has not helped their businesses while another 14 per cent say they have availed interest moratorium. Prime Minister Narendra Modi had announced the AtmaNirbhar Bharat package worth ₹20 lakh crore in May. Later, it was expanded to include more benefits, taking the total to ₹29.87 lakh crore.

Economists believe the government can do more to help stressed sectors since

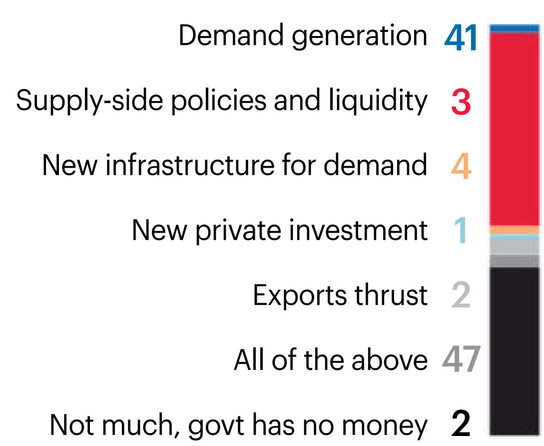
Down and Out

Average score is less than five on all parameters on a 10-point scale

Do you believe economy will revive in Q3 FY21?



What do you expect from Budget 2021 to revive the economy?



Fourth Quarter Blues

Few Expect Jan-March Quarter to be Any Better on a 10-point Scale

Economic Prospects
4.7

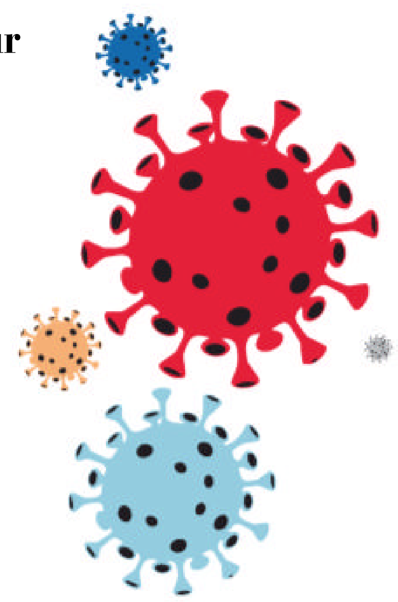
Overall Economic Situation
4.6

Demand Conditions
4.5

Hiring Conditions
4.1

Profits
4.3

Is Coronavirus still hurting your business?



It does not; economy has got used to it
12

Yes, my business is down up to 25%
11

Yes, my business is down 25-50%
43

Yes, my business is down 50-75%
30

Yes, my business has collapsed
4

(All figures are in %)

only a few companies have benefitted from the loan restructuring mechanism due to stringent norms. "A lot of sectors were expecting direct fiscal support. The relief package has come in dribs and drabs. Since the worst is believed to be over, if the government gives direct cash, it will get spent," says HDFC Bank's Barua.

Interestingly, the survey shows that people are expecting Finance Minister Nirmala Sitharaman to focus on demand generation (41 per cent) in the upcoming Budget followed by new infrastructure for demand (4 per cent), supply-side policies and liquidity (3 per cent), exports (2 per cent) and new private investment (1 per cent). A large chunk, 47 per cent, is hoping the FM focuses on all these areas.

The survey found that coronavirus-induced pain continues to bother corporate India. For instance, 43 per cent respondents say their businesses are down 25-50 per cent due to the pandemic, and 30 per cent say it is down 50-75 per cent. "Most small- and medium-sized businesses are still not out of the woods. There are winners and losers in the current scenario, but typically, large companies have performed better than the smaller ones, which is why GDP numbers are on road to recovery," says an economist.

Recently, RBI said real GDP is expected to break out into positive territory with meagre growth of 0.1 per cent in December 2020 quarter, and pick up further to 0.7 per cent in last quarter of FY21.

As a supplement to the survey, we do an assessment of other economic indicators. These include export-import, index of industrial production (IIP) and consumer price inflation (CPI).

IIP recovered sharply in October with 3.6 per cent growth. Retail inflation (CPI) softened a bit in November at 6.9 per cent but above RBI's comfort zone. Both exports and imports picked up slightly in three months to November.

The steep fall in the latest BCI is a sign of persistent distress in the corporate world. The survey results show that even though business leaders are largely sceptical of the government's efforts, they remain hopeful of the next big thing on the horizon – Budget 2021. BT

@manukaushik

FUELED BY THE FUTURE

Maruti Suzuki is all about going green in form of CNG and Smart Hybrid. Being the pioneer of this Green Revolution, Maruti Suzuki has made its entire range available as factory fitted S-CNG cars. We take a look at this incredible transformation

Maruti Suzuki, India's largest car manufacturer has been reforming mobility by providing innovative technologies for over three decades. We are at a crucial juncture in this journey where the Indian Government is focusing on cleaner fuels and environment-friendly mobility solutions. CNG, being an eco-friendly fuel with higher fuel efficiency and lower running cost, is best placed in meeting both consumers' interests as well as national priorities. The Government is commited towards increasing the CNG distribution infrastructure across the country. Hence the demand for CNG vehicles is seeing an upsurge. Maruti Suzuki then is best placed to leverage this opportunity.

Maruti Suzuki India Ltd introduced factory-fitted CNG vehicles in 2010. Over the course of a decade, CNG cars from Maruti Suzuki have evolved to be S-CNG which offers higher performance, safety and savings while being eco-friendly. The S-CNG technology consists of interdependent engine control units and intelligent injection systems that seamlessly communicate with each other to provide an optimum air-fuel ratio during combustion, ensuring better performance and high fuel efficiency. It is offered in various models which include the new Alto, Celerio, WagonR, S-Presso, Ertiga, Eeco and the commercial range consisting of Tour H1 (Alto), Tour H2 (Celerio), Tour V (Eeco), Tour S (Dzire), Tour M (Ertiga) and also Super Carry.

> **CNG, BEING AN ECO-FRIENDLY FUEL WITH HIGHER FUEL EFFICIENCY AND LOWER RUNNING COST, IS BEST PLACED IN MEETING BOTH CONSUMERS' INTERESTS AS WELL AS NATIONAL PRIORITIES**

IN CONVERSATION WITH Shashank Srivastava, Executive Director (Marketing & Sales), Maruti Suzuki India Limited

Please tell us about the Maruti Suzuki S-CNG technology?

It is a CNG technology pioneered by Maruti Suzuki in 2010 and is designed and manufactured by our engineers. The technology is made best suited for Indian conditions in terms of safety and performance. Literally, the S in S-CNG stands for Solid Performance, Safety and Savings.

Traditionally, CNG cars have been fighting a perception battle of lacklustre performance. So, how does Maruti Suzuki S-CNG technology address that?

You are right about the perception battle. Traditionally, users experienced the CNG technology that was an aftermarket retrofit. However, Maruti Suzuki is providing a factory-fitted solution. The technology is designed such that the car is smart enough to deliver the desired level of performance on any terrain. It has an intelligent injection system that maintains a perfect air to fuel ratio in the combustion chamber. The car is engineered for CNG fuel and each part is accordingly tuned whether it is a suspension or braking system.

With the BS6 emission norms in place, it is even more important that factory-fitted solutions are adopted so that these norms are adhered strictly.

Having spoken of perception battle, CNG cars are also considered unsafe by some. What is your take on this?

Maruti Suzuki S-CNG cars are completely safe. Like I said, the Maruti Suzuki cars are engineered for CNG fuel and we ensure that each part is accordingly designed. Safety for us is paramount and we leave no stone unturned for it. Let me explain it with a few details-

S-CNG cars feature a leak-proof design that is reinforced with stainless steel pipes and therefore are corrosion resistant. Well, the cars also come fitted with a safety micro switch to ensure engine is off during refuelling. Also, non-return valves ensure no leakage and dual-solenoid system ensures that the CNG is released only on command. We also offer ultimate convenience with features like Auto switch between petrol & CNG fuel, and also a NGV receptacle which helps in faster refuelling of gas.

The primary reason people choose CNG technology is for monetary savings. How do you see that?

Yes, the S-CNG cars come up with more savings than any other fuel option currently available. The running cost per km is lesser than both Petrol and Diesel. Being a green fuel, it adds to the many benefits of the technology.

Also, Maruti Suzuki cars are offered with 2 years standard warranty which is extendable upto 5 years or one lakh kms. We ensure complete peace of mind with our solutions.

What is Maruti Suzuki's sales vision as far as CNG powered vehicles are concerned?

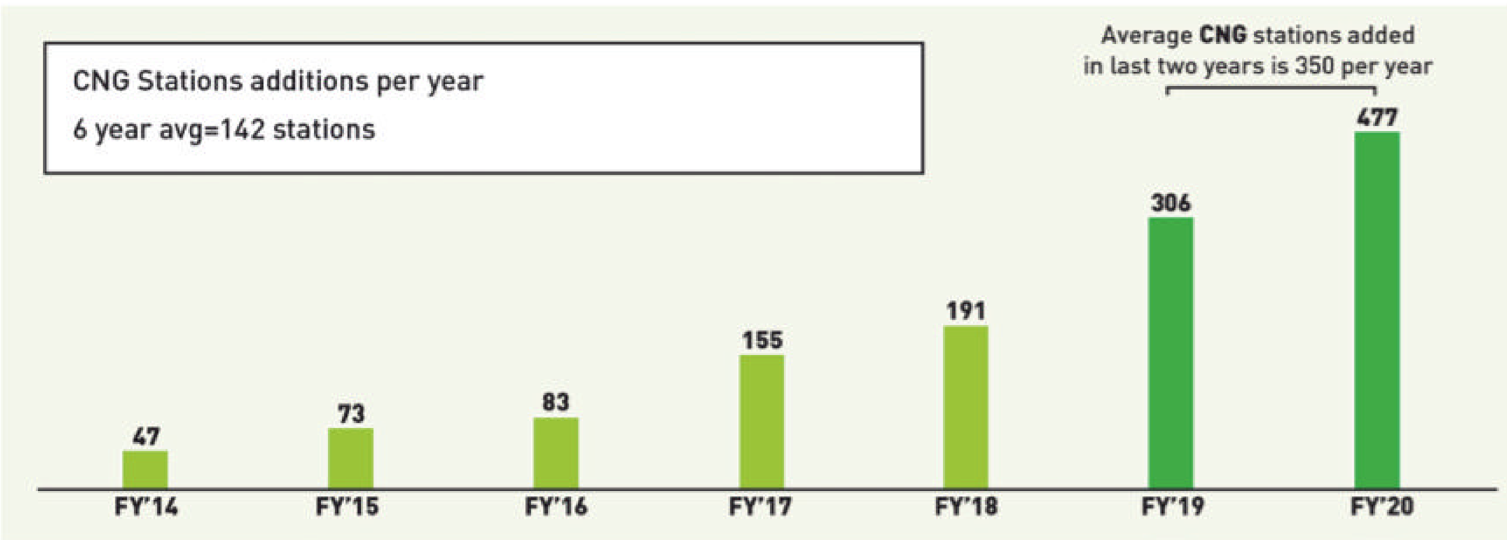
We sold more than one lakh S-CNG vehicles in the last financial year. Despite the current situation due to pandemic, we are working tirelessly to better our last year performance. The company remains committed to its Mission Green Million as communicated in the last Auto Expo.

Fuel Of The Future Now Available Round The Corner

There are many ways to go green. Some say electric is the future and some say hybrids. But market leader Maruti Suzuki was amongst the first to realize that the future lies in CNG. So the company has been launching models with CNG tech. Here is proof that the government thinks the same too

Controlling pollution and making India a greener country is the need of the hour and the Indian Government is committed to it. Vehicular pollution needs to be further curtailed and, by the looks of it, the easiest way to go about it is to switch to a greener fuel. CNG then is the next best thing to do. There was a time when purchasing a CNG car was inconvenient due to limited availability of the fuel.

The Government is constantly adding new CNG stations. Average CNG stations added in a year increased threefold in FY 2018-19 and FY 2019-20. The government has already completed the bidding of 8,000 new CNG stations in various regions across the country and commissioning of the same would progressively be completed by FY 2027-28. With this, CNG distribution will cover ~70 per cent of the population of India.

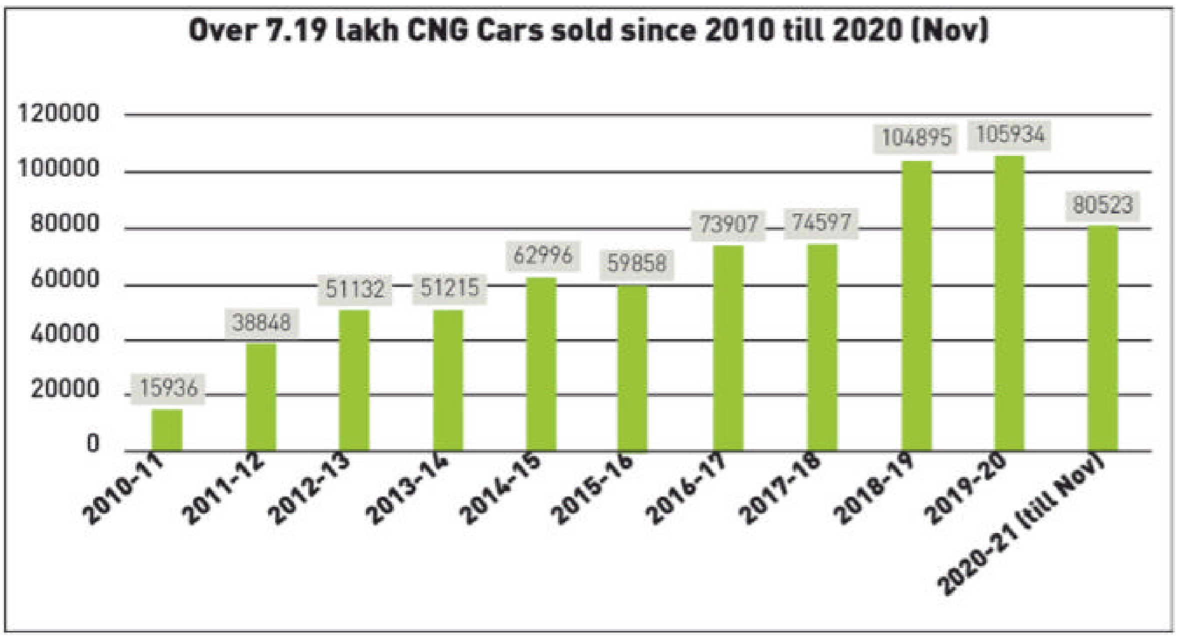


THERE IS A STRONG CUSTOMER SHIFT

There was a time when customers would end up buying a diesel over petrol or CNG cars. However, due to the steep rise in the cost of diesel along with diesel cars becoming even more expensive as they need to comply to strict BS6 norms, demand has fallen sharply. The numbers speak for themselves and in the April-November 2020 period, less than 0.5 per cent diesel cars were sold in the overall hatchback segment. While people want to step into their own new cars, they also want them to be affordable in the long run. This is where CNG cars come into the scene. Maruti Suzuki S-CNG cars are affordable to run and maintain. Social responsibility in making India green also plays a major role.

'Green' is the way forward

As indicated earlier in the article, the Government's vision is clear about expanding the network of cng stations at a rapid pace. Maruti Suzuki too is aligned with the Government's vision and plans to add a substantial number of S-CNG cars in the future. The Company aims to achieve sales of one million green vehicles including CNG and smart hybrid in the next couple of years. Maruti Suzuki sold more than 1 lakh S-CNG vehicles in the last financial year. Despite the current pandemic situation, Maruti Suzuki is quite optimistic about surpassing this number in the current year. Currently Maruti Suzuki offers a plethora of models powered by S-CNG and this includes the Alto, Celerio, WagonR, S-Presso, Ertiga, Eeco and the Commercial Range consists of Tour H1 (Alto), Tour H2 (Celerio), Tour V (Eeco), Tour S (Dzire), Tour M (Ertiga) and also the Super Carry.



LATEST TECHNOLOGY WITH **PEACE OF MIND**

There was a time when driving a CNG powered car was rather troublesome. But all that changed in 2010 when Maruti Suzuki launched the S-CNG range. These new generation green wheels came with the latest technology and also peace of mind for customers.

■GROUND-UP INTEGRATION

S-CNG cars are assembled right on the factory floor just like gasoline cars. Maruti Suzuki has undertaken extensive R&D to make its factory fitted S-CNG setup safe, reliable and durable. It is this ground-up integration that has enabled Maruti Suzuki to achieve all this while retaining driving pleasure and meeting stringent BS6 regulations.

■SOLID PERFORMANCE

Everyday drivability is quite important when it comes to a CNG car, especially because most drivers have a higher daily usage in terms of kilometres covered.

When you opt for a Maruti Suzuki S-CNG car, you get: -

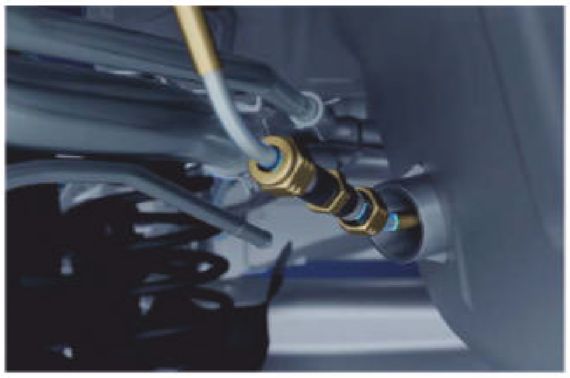
Intelligent Injection system: Maruti Suzuki S-CNG cars come with an Intelligent Injection system along with interdependent ECUs. This system continuously communicates & maintains optimum air-fuel ratio to ensure better performance along with high fuel efficiency across different terrains.

Re-tuned underpinnings: CNG cars are a bit more complex cars and hence need added reinforcements. Hence the braking system, suspension setup as well as the chassis of factory-fitted S-CNG cars is retuned in the factory to offer optimum performance on any kind of terrain.

■SAFETY GUARANTEED

Maruti Suzuki's factory-fitted CNG cars with S-CNG technology offer enhanced safety in every car: -

Rigorous Testing: Maruti Suzuki S-CNG cars are extensively tested for safety and durability. This means that every Maruti Suzuki S-CNG car has gone through kilometres of on and off track testing.



Stainless steel pipes and joints: Stainless steel pipes and ferrule joints offer a leak-proof and corrosion-resistant design. This also ensure longer life of components.

Integrated Harness: To eliminate any risk of short circuits, the wiring harness is well-integrated within the setup.

Micro Switch: Every factory-fitted S-CNG car comes equipped with a micro switch which makes sure that the car doesn't switch on at the time of CNG refilling. This further ensures more safety on a daily basis.

■CONVENIENTLY CLEVER

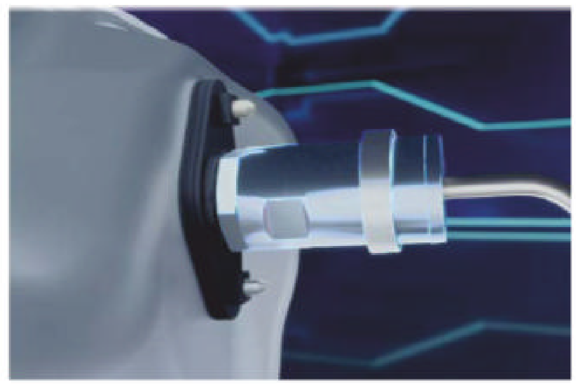
Here is how convenience is synonymous with S-CNG technology in Maruti Suzuki's factory fitted CNG cars.

Auto switch: This helps to instantly and easily switch between CNG and petrol; the change-over switch with

auto-mode is there to help you. So in case you run out of CNG, the car will not stall thanks to a seamless switchover.

Fuel level indicator: S-CNG cars come with a precise fuel level indicator in the dashboard that helps you in tracking the CNG fuel level of your vehicle.

NGV Receptacle: This is a specialized nozzle that helps in faster CNG refuelling.



■WARRANTY NO LONGER VOID

Unlike retrofitted CNG kits that come with a limited to negligible warranty, with S-CNG cars, the warranty benefits are covered up to five year or 1 lakh km. Also, if you go for an S-CNG car, you can get your car serviced at more than 4,000 authorized service centers across the country. Rest assured that with every S-CNG vehicle you make a smart and environment friendly choice.

Mission Green Million

Maruti Suzuki has embarked on a rather green journey which has never been seen before

Maruti Suzuki reached a key milestone of a whopping 20 million passenger vehicle cumulative sales in the Indian market in less than 37 years of existence. The achievement makes Maruti Suzuki the only Company in India to cross the landmark figure and is a testament to the faith of millions of customers in Maruti Suzuki's vehicles. While the Company succeeded in realizing the milestone of 10 million vehicle sales in close to 29 years, the next 10 million passenger vehicles were sold in a record time of eight years.

Over the last decade MSIL's customers have steadily adopted cleaner, greener and smarter technologies. Indeed with its wide portfolio and innovative technologies, over the last 15 years MSIL has successfully achieved sales of over 1.35 Million green vehicles including cng & smart hybrid. With this in mind, Maruti Suzuki initiated 'Mission Green Million' at Auto Expo 2020, in line with its commitment of introducing newer, greener and customer friendly technologies for Indian customers strengthening its resolve in the domain of sustainable mobility. It's is not just green vehicles which the Company has sold. Maruti Suzuki has initiated many projects in the ecosystem which in turn have worked towards a greener tomorrow.

Not just greener cars but much more is being done by Maruti Suzuki

- The increasing use of rail transport has helped reduce over 3,000 MT of CO_2 emissions in the past six years as it saved over 94,000 truck trips and around 100 million litres of oil.
- In 2019-20, nearly 13 million vehicles used the dry wash system, saving 1,248 million litres of water.
- 6.3 MVp photovoltaic solar plant already commissioned
- During 2019-20, the total ground water withdrawal decreased by 13.5 per cent as compared to the previous year.
- 3,182 million litres of water recycled and reused
- 20% Reduction in CO_2 emissions of the Company's fleet in the last 15 years.
- Cumulative 1.16 million CO_2 emissions saved by using alternative fuel-driven vehicles since 2005-06

THE GROWTH RECIPE

How the FM can make it a 'never before' Budget. Top experts weigh in

BY TEAM BT
ILLUSTRATION BY NILANJAN DAS

FINANCE MINISTER NIRMALA SITHARAMAN will present Budget 2021 in the backdrop of an exceptionally chaotic 2020. In Q1 of FY21, India's lockdown-struck gross domestic product (GDP) contracted an unprecedented 23.9 per cent, the worst among major economies. When the economy opened up, pent-up demand pushed up consumption, but GDP still shrank 7.5 per cent in Q2. And even though the RBI predicts that the economic shrinkage is over and GDP will grow 0.1 per cent and 0.7 per cent in third and fourth quarters, respectively, FY21 is destined to go down in history as India's fifth recession.

It is in this backdrop of extreme stress that Sitharaman sought growth inducing ideas with the promise to deliver "a Budget like never before". Under the circumstances, that's a herculean task. After all, the elbow room to spend is constrained by falling tax revenue and rising fiscal deficit, which touched 135.1 per cent of Budget estimate in November. So, what is it that she can do to unleash the potential of India's economy? To suggest a growth recipe, Business Today hosted a Pre-Budget Roundtable comprising D.K. Joshi, Chief Economist, CRISIL; Gopal Krishna Agarwal, National Spokesperson of the BJP on Economic Affairs; Prof. Gourav Vallabh, Spokesperson, Indian National Congress; Mukesh Butani, Managing Partner, BMR Legal Advocates; Nilesh Shah, Managing Director, Kotak Mahindra Asset Management Company; and Akhil Gupta, Vice-Chairman, Bharti Enterprises. The discussion was moderated by Rajeev Dubey, Editor, Business Today. Edited excerpts:

Business Today (BT): Where is the Indian economy now? Do you see any improvement in economic situation? Where do we go from here?

D.K. Joshi: The economy has performed better than expected. Second quarter GDP is proof of that. We have seen many upgrades of growth forecast, including by RBI. Our own forecast now is -7.7 per cent contraction as against -9 per cent earlier with the fourth quarter registering a mild positive growth. Second, people are learning to live with the virus. That has helped the economy with positive pent-up demand. The most positive news is that the Covid curve has been under control for some time now.

But recovery is not uniform across sectors. Smaller firms have been hit much more than the larger ones. So, next round of banking NPAs could arise from smaller firms. The pick-up is led by manufacturing, although services are also trying to claw back. But as long as there is fear of the virus, demand services will continue to suffer from residual anxieties.

The rural economy is doing better than urban. Clearly, agriculture has not been impacted. Government support has had a rural bias. There is no scheme like MGNREGA, which has been expanded by ₹50,000 crore, for the urban poor. Finally, we are unhappy with higher inflation, but high food inflation particularly WPI food inflation which is a close proxy for what farmers get is benefiting them.

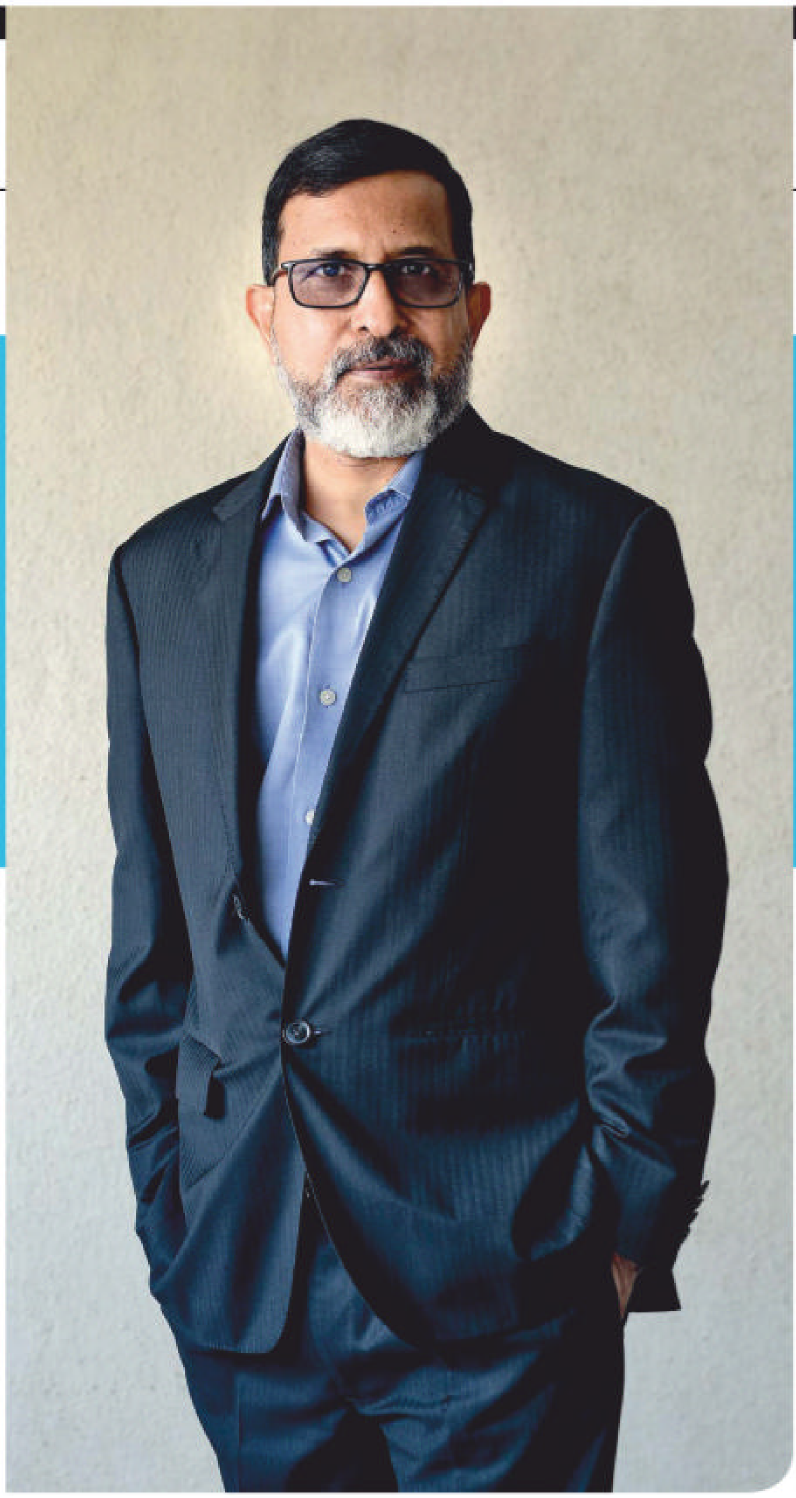
4.18%

GDP growth in FY20, lowest since 2002. The economy has been facing stress even before Covid

Nilesh Shah: Today's period is like 1991. We have gone through an unprecedented crisis and seen the worst-ever quarterly GDP contraction. But it is an unprecedented opportunity.

If you go by RBI's estimates, more than two crore Indians spend $10-15 billion annually on foreign travel. Because of Covid restrictions, few will travel abroad this year. If they spend on domestic tourism and other things, our economy will benefit. Similarly, every year, over 2,00,000 students spend $7 billion to study abroad. That number will fall significantly this year. Can we retain those students in our universities?

In the last 21 years, Indians have spent $373 billion in net gold imports. We have spent more money abroad than we have received as foreign direct investment and foreign portfolio investment. Covid-19 has pulled down



PHOTOGRAPH BY MANDAR DEODHAR

Increase government spending

Need to trigger urban employment

D.K. Joshi, Chief Economist, CRISIL

gold imports and smuggling. That money is going to remain in India. We can utilise that for investment.

We have a $60 billion trade deficit with China. There are APIs we have to import, but when Ganesh *murtis* start coming from China, it is a question mark on our policies. Due to Covid-19, trade deficit with China will come down to $30-35 billion. Can we ensure that this remains contained?

You have seen a German company shifting its entire manufacturing from China to Andhra. Samsung is shifting its mobile handset manufacturing to India. It is also trying to shift its entire high definition colour TV plant from China to India. We have to convert this into a torrent.

If we convert this crisis into an opportunity, like in 1991, and ensure people consume products made in India, and also become part of global supply chain, it will lead to better growth.

Gopal Krishna Agarwal: Agriculture has been showing good growth for two quarters. It has grown despite fall in GDP. This is where the Centre has been focusing. The FM recently said the Budget will be growth oriented. Focus on infrastructure spending will continue. Disinvestment plans are on track and GST resource generation has improved. IIP has shown healthy recovery.

The global economy is confident about India. We are seeing higher inflows into capital markets. Our forex reserves are at a good level.

The government is focusing on manufacturing. It is negotiating on bilateral trade. There was confusion about Atmanirbhar Bharat closing the economy but that has been clarified by the government.

The government is working on four policies to boost manufacturing. These are industrial policy, new logistics policy, e-commerce/retail trade policy and foreign trade policy. These will give our firms a level-playing field to be globally competitive.

Interest rates have come down substantially. Liquidity is being pushed so that companies don't face resource crunch.

Labour reforms have been announced and will be notified soon. We have also seen agriculture reforms. The government is committed to private investment in agriculture marketing and opening up *mandis*. These will bring investments in agriculture. The focus is on agriculture, manufacturing, creating a level-playing field, improving factors of production and helping through government spending.

Despite inflation risks, the government has said it will not get bogged down by fiscal constraints. Inflation has to be tackled more from supply side and less by curbing demand.

The vaccine is on the cards. The FM said we have the capacity to make and distribute vaccines. Health infrastructure is poor, and this is where the government has focused in the Budget.

Gourav Vallabh: GDP figures for last 10 quarters are 7.1 per cent, 6.2 per cent, 5.6 per cent, 5.7 per cent, 5.2 per cent, 4.4 per cent, 4.1 per cent, 3.1 per cent, -23.9 per cent and -7.5

per cent. Without new investments, can any economy revive? The answer is no.

Investment comes from households and private and public sectors. In October 2020, 6.6 per cent households hoped for better income, which fell to 5.2 per cent in November. So, 95 per cent households feel they will face greater resource constraint next month. They will not invest in this scenario. During the UPA rule, this was around 50 per cent. Household and private investments account for 75 per cent of gross fixed capital formation. When credit is not growing, how will private investment pick up? Household investment is not picking up as there is no hope for household earners.

During the pandemic, government data for the first half of the fiscal shows only 40 per cent of capex got invested. This is reflected in unemployment numbers. In November, 35 lakh people lost jobs, as per CMIE data. In October, it was 6 lakh. Job market is not picking up, investment is not picking up. How can we say there is a recovery? Without investment, the economy cannot revive. This is for the organised sector. The unorganised sector has a bigger problem.

40%

The proportion of capex invested in first half of FY21, according to government data

Last, demand is not picking up. Our manufacturing sector is at less than 70 per cent capacity utilisation and the government is doing supply-side interventions.

In the immediate term, the government has to give money to people who have lost jobs. In the moderate term, it has to raise resources by way of Covid bonds.

Mukesh Butani: We need to give context when we say there is economic recovery. Even as an optimist, when the government announced the first quarter deceleration of 23 per cent, one would not have imagined that this is where we would be just before we announce Q3 figures.

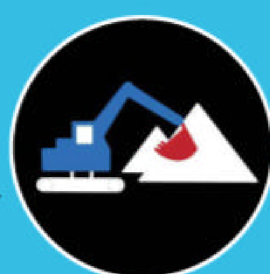
Professor Vallabh pointed out we had sufficient economic shocks even without the pandemic. If Covid had not happened in FY21, we would have done well with 5 per cent GDP growth. Unfortunately, that is not the situation now. If we end this year with negative growth rate of 5-7 per cent, which seems likely – and for all we know we may be in for positive surprise — I think we would do well. The test would be how the economy pans out next year.

Growth in manufacturing and agriculture has come at the right time. If there is an 8-9 per cent revival next fiscal on a lower base, we would have done well. As the economy recovers post-Covid, what would be critical would be policy directions, especially in the healthcare sector, which we all know has tremendous potential.

Government spending is critical. Often, when policy makers see fiscal deficit going out of control, they see expenditure cut as the easiest way out. We shouldn't forget that when the economy was jiggling at 5-6 per cent and dropped below 5 per cent for two quarters, the government

Reduce industrial power and logistics costs to make exports competitive

Free up entrepreneurship

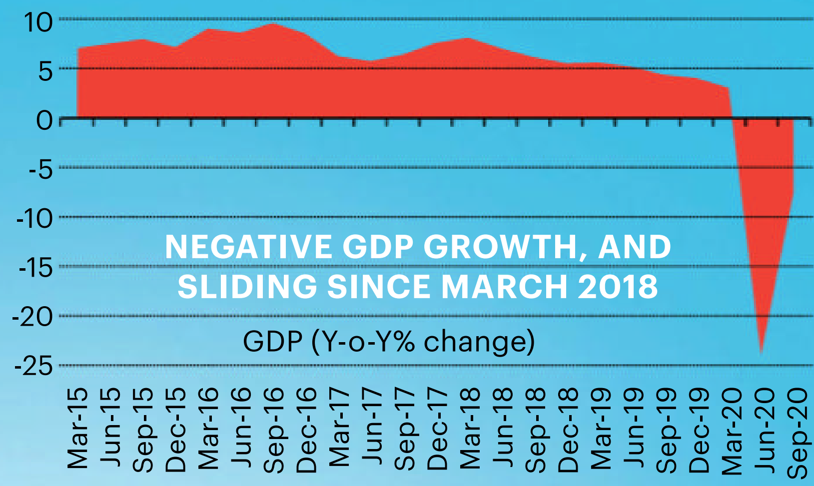


Nilesh Shah, MD, Kotak Mahindra Asset Management Company

PHOTOGRAPH BY RACHIT GOSWAMI

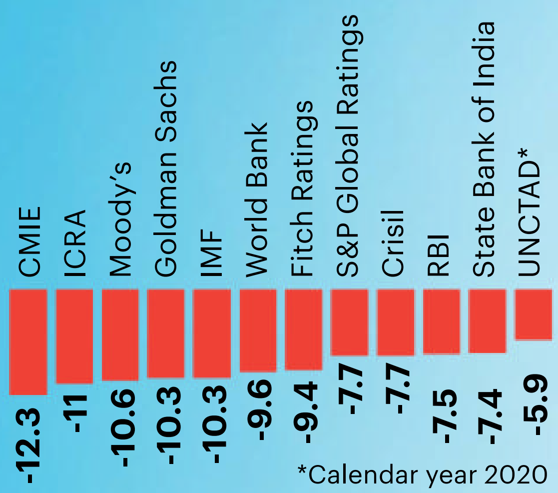
WHAT THE FM IS UP AGAINST...

Graphics by **TANMOY CHAKRABORTY**



LITTLE HOPE FOR FY21

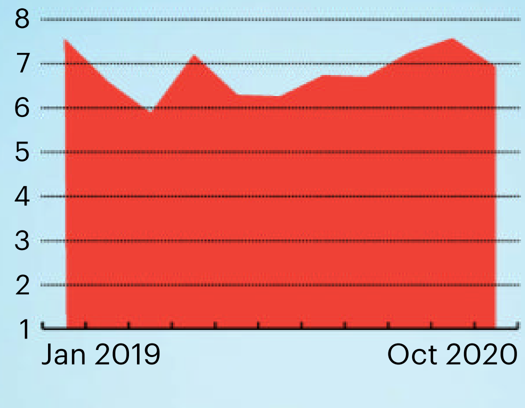
GDP Growth Projections (%)



*Calendar year 2020

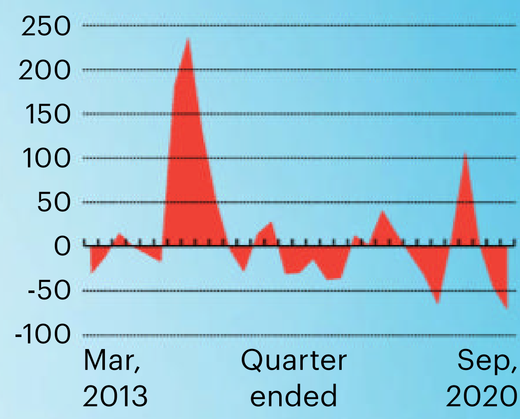
HIGH CONSUMER INFLATION

CPI (Y-o-Y % change)



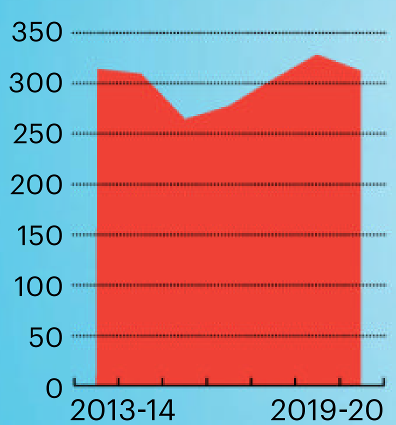
INVESTMENT COLLAPSE

Y-o-Y % change



STALLED EXPORTS

Exports ($bn)



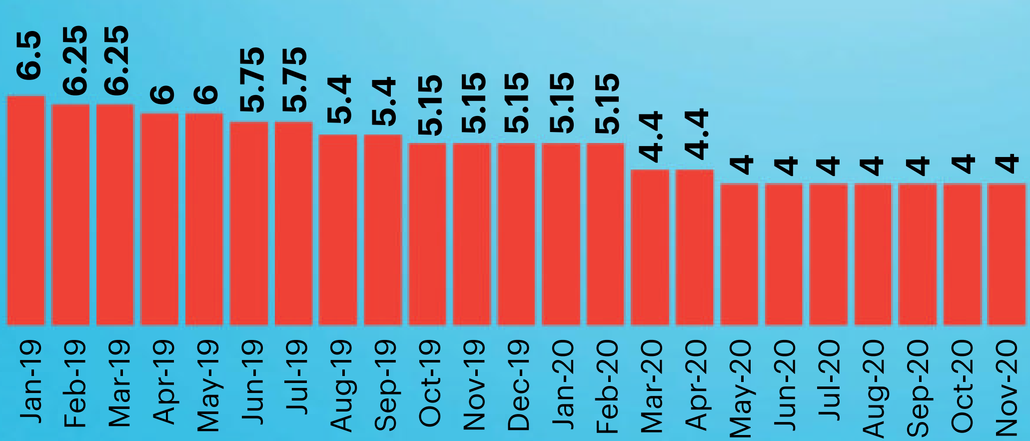
$60

BILLION Trade deficit with China, likely to come down to $30-35 billion

...AND FACTORS THAT MAY HELP HER STEER THE ECONOMY

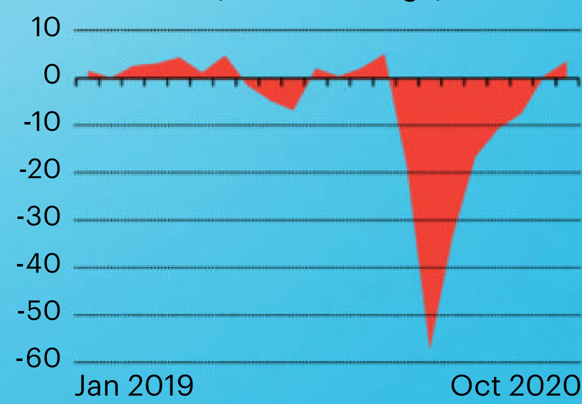
INTEREST RATES TOUCH ROCK BOTTOM

Repo Rate (%)



INDUSTRY SHOWS SIGNS OF COMING BACK TO LIFE

IIP (Y-o-Y % change)



was still the more material spender. Government spending will play a role. Private sector confidence will return once we come out of the Covid crisis. It will take a while, two to three quarters. It's a mixed bag and I remain positive. I see the glass half full and look forward to this being a directional Budget.

BT: What are the three-four things the government should do to spur growth?

Butani: I want to mention three things, FTA, domestic trade policy and manufacturing.

The reason for widening trade deficit is underutilisation of existing FTA benefits. The government needs to review existing FTAs. India should actively boost bilateral and trilateral trade. The two trade agreements that can emerge as substitute for RCEP are the Japan-Australia trilateral supply chain resilience initiative and the early harvest scheme put in place with Thailand. Third is FTAs with Mauritius, the US and Russia. We should also accelerate the EU agreement.

The 2018 Baba Kalyani report on SEZs has some excellent recommendations. It's good to see it back on the table.

15%

Manufacturing gross value added in 2020, down from 18.5% in 2010/11

48%

Fall in the PSU Index since 2008. The Sensex has risen 2.25 times during the period

There are several recommendations before DGFT. Merchandise exports after Covid-19 are a focus area. Exports to China, South Korea, Vietnam and Indonesia are showing positive trends. In services, Service Export From India Scheme (SEIS) should cover business services, communication and construction.

We need to resume stalled mine projects, which have huge employment potential. This will boost energy consumption, jobs, rail transportation.

Joshi: In the short term, government has to spend more. And given limited fiscal space, it has to do more with less. Demand support in the short run has to depend on the government and for that it needs to open its purse strings. You can't be tightfisted about spending like you were in the first half. Next is creating demand by spending on infrastructure. The implementation of the massive infrastructure scheme that the government has announced should start quickly. The Budget is an appropriate juncture for that.

Reforms pay off with a lag. We had reforms in 1991, but growth touched 8 per cent in the 2000 decade. For lifting the growth potential, efficiency enhancing reforms should continue and not be a single event.

Shah: Our exports are not competitive due to power and logistics costs. In India, power for agriculture is free and transmission and distribution losses are high. Manufacturers pay more for power because of this unfair burden sharing. Can the Budget take away the extra burden? Globally, most cargo moves on water, followed by the railways and road. Environmentally, too, road is more polluting. But our railway freight bears the burden of passenger subsidy {and is uncompetitive}.

The second thing the Budget should do relates to the PLI Scheme. We need to learn from mistakes in the Textiles Upgradation Fund (TUF) Scheme. Honest entrepreneurs took far less loans from TUF while crooks borrowed more. Easy TUF financing is the source of some large NPAs in textiles.

The final thing is freeing entrepreneurship. We have come a long way in Ease of Doing Business. But private investment is still on the back foot. The most important thing is rule of law. We have over four million cheque-bounce cases in courts. We need to create a fast-track mechanism to resolve commercial disputes.

China is five-and-a-half times bigger than us. Its credit creation is four-and-a-half times bigger. Its debt to GDP ratio is four-and-a-half times higher. How can it create such huge credit? Its velocity of money is high as disputes are settled much faster than in India.

Vallabh: We need strategies for increasing public, private and household investments. We have to give confidence to household investors. That can be done by direct monetary support. The focus should be on job creation. If not, we have to select sectors where job creation opportunities are highest. We have to strike a balance between demand and supply. There is a problem in supply side also as industry is working at less than 70 per cent capacity. In agriculture, farmers have to get the right price for their produce.

Agarwal: The Budget has to focus on infrastructure spending. If that is hampered, the whole demand thing, ease of living, ease of doing business, will be hampered. Second is opening defence for MSME manufacturing. MSMEs need to be supported through cluster development or assured buying. The Budget will have to focus on middle class and urban sector. On trade agreements, instead of multilaterals, bilateral trade agreements are the way forward, as suggested by Butani and Joshi.

On agriculture, we have to clarify if we should give price cost reduction support or price support. We have to move slowly but work more towards cost reduction instead of price support. Butani said we are planning a logistic policy. Foreign trade and industrial policies are also on the cards. The last point is that the government has to be pro-business.

Encourage private investment in infrastructure by providing sovereign guarantee to lenders

Direct transfer to economically weaker sections

Akhil Gupta, Vice-Chairman, Bharti Enterprises

BT: We know the state of government finances. But public expenditure engine has to start working. Realistically, what can one expect from the Budget?

Akhil Gupta: The pandemic has affected government finances just like it has affected private sector finances. This is more so because of the stimulus packages. However, for rejuvenating the economy, it is imperative that public expenditure on infrastructure projects starts. Realistically, one can expect a fair allocation towards such projects, though it will be unrealistic to expect a very large allocation in the Budget towards it due to resource constraints.

Joshi: The pandemic has blurred the distinction between Budget and spending outside the Budget. You need an unprecedented stimulus. The Budget is no more viewed as only a statement of accounts but also a policy stance. There are three things it needs to do. It has to act as a bridge between crisis and recovery. You have to protect vulnerable businesses and individuals. The second is to support the economy when things start improving by providing demand support. The third is to improve the growth potential, which means reforms. If you look at data for the current fiscal, government consumption expenditure came down in Q2. Government consumption spending in H1 was 4 per cent less than in same period last year. Capital spending fell. This was expected. The government had to take measures to do more with less.

Coming to the Budget, it was said that manufacturing is the focus. But in the short term, the services sector has been hit much more than manufacturing. Support for services should be part of the Budget. For manufacturing, you need a broad stimulus to push demand for consumer goods, etc.

The rural economy has been well supported. But urban will need support. We need ways to increase jobs. Finally, the focus of the Budget should be on public investment revival.

Vallabh: The Budget will focus on spending for infrastructure and industrial capex. Government spending is not picking up. In the first six months, 40 per cent of capex was spent. They did not spend despite the pandemic, which is a big question mark.

We need an urban MGNREGA. During the pandemic, there have been many middle income job losses and salary cuts. According to IMF, US stimulus accounted for 11 per cent of its GDP, while ours was just 1.5 per cent. Last, the government needs a resource mobilisation plan. I am more concerned over how much government is spending from January-March rather than post-March. We require money in hands of people. Many western countries are raising money by Covid bonds. Why not us? When there is contraction in eight core sectors in the second quarter, is the supply side geared? The answer is no. We are having problems on the supply side, but we have to address the demand problem too. We have to generate demand, we have to use our spare capacity, generate employment.

PHOTOGRAPH BY YASIR IQBAL

Open defence to MSME manufacturing

Decide between cost reduction and price support in agriculture

Gopal Krishna Agarwal, National Spokesperson of BJP on Economic Affairs

Butani: I want to focus on two aspects – manufacturing and healthcare. In manufacturing, the biggest question is addressing the perception that the government is adopting protectionism and import substitution to promote local manufacturing. The government is targeting exports of $1 trillion by 2025 on $5 trillion GDP. What role will manufacturing play in that? Manufacturing gross value-added declined from 18.4 per cent in 2010/11 to 15 per cent in 2020. Nilesh pointed out India's high import dependence on China in APIs. Some sectors need a closer look. But what is the plan for import substitution? Identifying sectors where there is large import dependence is important. The government rightly looked at electronics, defence, chemicals and allied products, including pharmaceutical and agricultural products. The profit-linked incentive started for electronics and medical devices. I am glad Covid made us expand the PLI Scheme to drugs & pharmaceuticals, automobiles, solar modules, white goods and air-conditioners. The next step would be quality consciousness to become more export competitive.

Let me come to sectors where we can expect massive expenditure. The focus is on vaccination, but it will go beyond that. Our health outlay will quadruple over a two-year period. Will that cover universal insurance, doctors' upskilling and research activities?

Many aspects of the present incentive scheme deserve a re-look. How many new hospitals are given tax holidays? How many new hospitals are given the option of faster amortisation? Healthcare can be ensured by preventive health check-ups; increasing tax exemption for medical expenses; looking at remote telemedicine as an opportunity.

Nilesh: I want the government (in the Budget) to act as referee rather than a player. India became an IT superpower as entrepreneurs were encouraged and government acted as a regulator. The same spirit is needed in the Budget. We have inflation but low capacity use; low private investment but high FDI; economic data is showing contraction but equity market is full of hope for the future. In such a situation, we need to unleash Indian entrepreneurship.

Agarwal: The government has elbow room to act on those suggestions. So, there is neither big hope nor big despair. Our understanding is that the current situation is bad and we are moving in the right direction. There is scope for the government to do a lot of things.

In India, everybody expects the government to do this and that but we should talk more about what industry should do. If the government has to implement things, it needs a good narrative, which is what we are lacking. If it is embarking on reforms, there is no supportive narrative and (people with) vested interests jump (into opposition).

The government is working on new reforms. After 1991, reforms in agriculture and labour were missing. The government has embarked on those. But support from public, economists and opposition is missing.

When the government embarks on labour reforms, there will be more agitations. When there is consensus on an issue, why is there no support from public, industrialists, opposition and economists? Why is there a socialistic mindset? What is the harm in the government being pro-business? Business creates resources. Without resources, you can only talk about distribution. How will you distribute unless you generate resources through businesses?

Our expectations are from public and industry too. They ask for fiscal stimulus, policy measures. Why are they (industries) not focusing on improving factors of production? Why do they seek protection and import substitution?

Smaller businesses are complaining that raw materials have become uncompetitive. The government needs to do some balancing. Disinvestment is another area where the government is focusing. On borrowing, the finance secretary has clarified plans to list sovereign bonds on global indices. The government has done a lot for the poor and for industry by providing liquidity. But middle class is feeling the pinch. It needs support. We will go all out on reforms. We will also sign trade agreements.

Joshi: The government came out with a scrappage policy a few years ago, but not much has happened since. This is the time to implement it. It will lead to scrapping of 6,00,000 commercial vehicles over the next two-three years and generate demand. It will give a push to the auto sector and the economy. The housing sector is beginning to pick up because of reduced stamp duty. It is time to enhance income tax deduction limits on home loans.

BT: And where will the resources come from?
Akhil Gupta: While the FM has said that she will place growth before fiscal deficit, I expect that some balancing will be kept in mind. Accordingly, some moderation in outlay for infrastructure projects should be expected. Even with muted public expenditure, fiscal deficit will be large. Since it will be impractical to increase taxes in view of the state of the economy and requirement to push growth, the government will have to resort to more borrowings.

The two obvious areas for the government to spur growth would be investment in infrastructure and stimulus by way of subsidies and direct transfers to economically weaker sections. I feel one area where the government can take active steps to spur growth while containing fiscal deficit is encouraging private sector investment in infrastructure projects by providing sovereign guarantees to lenders till the critical stage of the project is achieved.

> **'Some moderation in outlay for infrastructure can be expected'**
> Akhil Gupta

Nilesh: There are enough opportunities to raise resources. We can think about a gold amnesty scheme. There is more than $2 trillion worth of gold in India, but most of it is in *tijori* as black economy. If we structure the scheme appropriately and execute it with military precision, just 10 per cent of gold stock in India will mean about $200 billion in resources. A 25 per cent tax rate means $50 billion in taxes and $150 billion equity capital.

Second, we need to realise better value for our PSUs. In January 2008, the BSE PSU Index was at 11,205 and the Sensex was at 21,000. Today, after 12 years, the Sensex is up 2.25 times to 47,000, but the PSU Index is down 48 per cent to 5,900. All PSUs trade at below book value. PSUs can be re-rated if we adopt strategic disinvestment. If we assume that all PSUs start trading at the higher end of the value they have traded in the past, there's an appreciation of ₹7 lakh crore. In 2002/03, 45 per cent of Hindustan Zinc was divested for ₹769 crore. Today, the government's 30 per cent holding is valued at ₹30,000 crore.

The third way to raise money is to bring underground black economy into formal economy. Indians spend a staggering amount in casinos of Macau, Singapore, Las Vegas and Nepal. We hear about large-scale betting in IPL, during elections. Can we legalise such activities? In 2018, Kerala lottery collected revenues of ₹12,000 crore and profits of ₹2,500 crore.

In 1968, India and Pakistan created the Custodian of Enemy Property Act. Pakistan liquidated enemy properties in 1971. India is sitting on real estate that was valued at more than ₹1 lakh crore in 2016.

In the US, estate duty is 40 per cent. It starts with large exemptions. So, it does not affect average Americans. There are many Indians who pay estate duty on properties that they inherit in India. Can we levy estate duty on unproductive assets like gold, diamonds, pearls and artifacts?

There are many loopholes in our tax system. There is a cottage industry which converts interest income at 43 per cent to long-term capital gains, which are taxed at 10 per cent. This is happening through zero coupon listed debentures of 13 months. Can we not plug these loopholes? Finally, from my own selfish interest, more than ₹1 lakh crore is stuck in collective investment schemes. These are corner jewellers who run away with your money, NBFCs, chit funds and agro-tech and forest companies which have defaulted. This is happening because buying a financial product is not as simple as buying these products. With bank accounts linked to Aadhaar and PAN, why can't buying financial products be a simple experience?

Butani: Let's look at the Vivad Se Vishwas Scheme. It's an excellent scheme but we went into lockdown a few weeks after it was announced. Why not extend it till March 31?

On divestment, let's leave out the large PSU lenders where government is not very keen – SBI, Bank of Baroda, Union Bank. Why doesn't the government reduce its stake in other PSBs by 50 per cent?

We should have a more liberal ESOP regime for startups. Also, we must look at extending startup benefits from 7-10 years, apart from faster amortisation of R&D expenditure. I understand political compulsions, but we wrongly see agriculture as one sector. It is divided into production, marketing and allied activities. There is nothing that stops the government from taxing marketing and allied activities. As the farm bill is rolled out, marketing will become institutionalised. There is also an opportunity for the government to demonetise land. Finally, on strategic investment, let's look at state PSUs too.

PHOTOGRAPH BY RACHIT GOSWAMI

Review existing FTAs; boost bilateral, trilateral trade

Resume stalled mining projects

Mukesh Butani, Managing Partner, BMR Legal Advocates

BT: It's a sensitive issue, but states do levy tax on agriculture...

Butani: It's a perception. Today, hardly any land revenue is collected. It is politically convenient for state-level politicians not to upset the applecart but there are many activities within agriculture which you can tax even within our current constitutional framework.

Joshi: The immediate focus could be on divestment and asset monetisation for raising non-tax revenues. In the short-term there are constraints to raising revenues via taxation, so higher borrowings may be the fall back for filling the gap in resources.

Also ease of business and regulation on ground should be improved to de-risk infrastructure to attract foreign capital to address the resource crunch there.

Vallabh: We need immediate, medium and long-term resource generation. What is the objective of divestment? Such decisions should be more open-minded, and rather than selling loss-making PSUs, one has to find out a better rationale to sell based on a transparent policy. I think the government is not clear about which enterprises it wants to divest. Sometimes, they say we are going to divest in banking, then they say they have selected 23 companies. We need a proper strategy.

Second is rate rationalisation. Do all of us feel motorbikes should be at 28 per cent GST? Are motorbikes luxury? There is historical evidence that countries that have done rate rationalisation effectively have increased revenues.

Third is, whenever we talk about resource generation, we have seen a contradiction in the last six years. The Make in India is a good scheme. But who all started their business under Make in India? The majority were Chinese companies. On the one hand, through Make in India, we are opening doors for foreign entities, now suddenly, we have Vocal For Local. It gives contradictory signals to the market. If all countries start following this, are we not closing the doors for Indian manufacturers who wish to manufacture abroad?

> **'We should not look at divestment of only loss-making PSUs'**
>
> Gourav Vallabh

Agarwal: There are two-three important points. One is monetisation of assets. Second is issuance of bonds. In the last Budget, the government announced mega schemes on global listing of domestic bonds. The scheme did not take off because of the pandemic. This is the second area that will be in focus. On disinvestment, look at state PSUs too. We should not look at disinvestment of only loss-making PSUs because ultimately it is the demand from capital markets which will decide which scrips you can sell. You can get good valuation for companies which are performing well. Everybody agrees that PSUs are a drain on government resources.

BT: What is the major change from the last Budget? Do you see a hike in import duties? What could government do to ensure raw material prices do not rise obscenely?

Agarwal: A lot of industries have approached us on raw materials. So, there will be some thinking on how to balance this strategy.

BT: Vallabh talked about household investment and savings. While it is not directly related to the Budget, in the last few months, inflation has risen and real rate of returns are negative. What will be policy going forward?

Vallabh: It's more a fiscal measure than a matter for RBI. The reason household investment has been consistently falling is that the government is not transferring money in hands of people, directly or indirectly. The reason it tries to give is that some sovereign rating agency may rate them with lower marks. When a patient is on ventilator, and his oxygen saturation level is 70 or less, are you going to treat the allergy on his face or improve the saturation level? I am interested in seeing government intervention pre-Budget rather than post-March 2021. Supporting manufacturers, especially MSMEs, is the need of the hour. Post Covid, thousands of manufacturers have shut down and thousands have taken a hit, which has impacted the supply side permanently. Long-term strategy for such issues is the key.

BT: What can we realistically expect on taxation? We know we will fall short on collections this year.

Agarwal: Import substitution tariff policy has lived its useful life. That cannot be an objective now. Protectionism is more of industry demand. On direct tax, I would like the government focus on compliance, technology and online mechanism. At present, there is no justification for increasing taxes.

BT: The government has been coming out with stimulus measures. What has been the most visible impact?

Joshi: Covid-19 started off as a health crisis. Because we don't have medicine, the only prophylactic available was containment, which is social distancing and shutdown. That created a supply side crisis with manufacturing contracting by almost 40 per cent in the first quarter and then moving up by 0.6 per cent once containment was removed. As you move along, it is becoming a demand-side shock,


TRUTH HAS
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AND
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This image is from the COVID-19 hospital coverage by the India Today Group.

because incomes have been impaired. The fiscal response evolved. In the first part, Atma Nirbhar Bharat 1, the focus was on providing foodgrain to migrants, ₹50,000 crore more was pumped into MGNREGA, and PM KISAN was pushed. This rural tilt of policy support helped the rural economy. Initially, it was helping people not able to participate in economic activity. Gradually, fiscal support started going towards areas which needed to be slowly boosted. Now, the stage has come where you have to focus more on demand. What you do in January-March quarter is critical as pent-up demand is going to vanish by then. And vulnerable people and sectors will continue require support. The direction of support so far has been right but the quantum is clearly insufficient given the massive hit to the economy.

The nature of support will gradually need to shift in quantum and in direction from supply side to demand side.

Vallabh: Atma Nirbhar Bharat is about 2 per cent of GDP. That's what IMF is saying. ₹4 lakh crore is the real value of the package whereas countries with similar or less health issues than us are spending 10-12 per cent of GDP. I was expecting 5-6 per cent of GDP, ₹10-12 lakh crore. The first fiscal stimulus package was totally dedicated towards supply side issues. Someone told me you were asking 5-6 per cent of GDP, and we have given 10 per cent. The real impact is only ₹4 lakh crore. Had it been ₹10 lakh crore, things would have been better.

Agarwal: The first fiscal stimulus brought wonderful results. Pushing funds into rural economy revived agriculture. Second, the government has used this as an opportunity for long-pending big-ticket reforms — logistics, industrial, agriculture and labour. Atma Nirbhar Bharat is not an end. It will continue.

BT: An RBI group recently suggested allowing corporates into banking. Will your party support this?
Vallabh: Whenever there is a financial issue, the government suggests merger of public sector banks. The merger of two anaemic patients will lead to a new anaemic patient. Without capital support, what is the merger going to solve? Now, they are talking about entry of business houses in banking. What is government policy on banking? You promised to provide capital in the Indradhanush Scheme, some ₹2.5 lakh crore, to public sector banks. Have you done that?

What is evident is that ₹6.6 lakh crore corporate exposure of public sector banks has been written off from their books. Nobody is against genuine corporates having interest in banking. When you say large corporates, every Indian is aware which those two large corporates are. We are against that. The investor should have exposure and experience in that sector. Bank after bank is collapsing. Problem is something else and you are entering into a new debate. The answer in one word: No.

BT: What top three reforms would you like to see in this Budget which will have long-term impact on the economy?
Shah: We have covered a long distance but need to empower our entrepreneurs. Logistics and power costs need to be sorted out. Most of our regulations happen with the lowest common denominator in mind because crooks somehow get away with our over-burdened judicial system. That is why the honest guy has to carry the compliance burden.

We have to continue the good work of empowering entrepreneurs through ease of doing business. We have to improve ease of doing investment too. Like Jan Dhan bank account, why not create a Jan Nivesh campaign. How do we bring unproductive capital into the formal economy?

Joshi: I broadly agree with Nilesh. Right now, the trend is towards de-globalisation. This reduces opportunities for India to push exports. But there is also a movement away from China. If India wants to take advantage of this realignment, it has to focus on what Nilesh was talking about — reforms aimed at domestic capability enhancement which will allow you to compete with other emerging markets. Tweaking tariffs and trade agreements is fine but improving domestic capability is more important. We are a labour surplus country but capital-intensive products are dominant even in exports. Here, labour laws become critical, so that is the next

Identify sectors with large job potential

Provide direct monetary support

Gourav Vallabh, National Spokesperson of Indian National Congress

4%
Fall in government consumption expenditure in H1

leg of reforms. To reap the opportunity, we need to move beyond headline improvement of Ease of Doing Business to ground-level improvement.

Butani: In most reforms, the focus is on what the central government is doing and less on what states are doing. Land and labour, the two stumbling blocks for an entrepreneur, are state subjects. What Uttar Pradesh government has been doing in the Covid period to promote manufacturing and the kind of investment it attracted is impressive.

To attract investment, we need to make a statement. As a lawyer, on arbitration law, the message that we are sending is farcical. Every 15 days, the Supreme Court talks about arbitration being an avenue. We should we be asking, why is that not happening? The moment we give a message that there is an important ecosystem where disputes can be settled outside courts, you will see a different messaging. Our overall index of doing business may have improved, but if you look at IMF reports on execution of contracts, arbitration, some of the tax compliances, we still do not perform very well.

PHOTOGRAPH BY RAJWANT SINGH RAWAT

Vallabh: We need to continue the reform process and ensure policies do not contradict each other. We require investment from all sectors, and those that create jobs should be our focus. In agriculture, farmers should get the right price for their produce. Post-Covid strategic planning needs to be different. The charter for the next 5-10 years should start from instilling confidence and providing a conducive environment for investment, consumption and streamlining political and economic policies.

Agarwal: Subsidy rationalisation is the need of the hour. Budget is the place for doing this. Agriculture and power are two areas where the government can work. The government should go all out for reforms. Agriculture, labour and land are the three areas where reforms should happen. Municipal bonds is one area where resource generation can happen.

BT: What is the fiscal deficit target we should be comfortable with?

Joshi: There are so many moving parts that it is difficult to pin point at a certain number. It actually depends on the economic context and you do with the money. Its crisis time so government needs to work with higher deficits as is happening across the world. If you are borrowing for productive purposes, it will always pay off. So deficit is contextual and FRBM target needs to be pushed ahead for some more time. BT

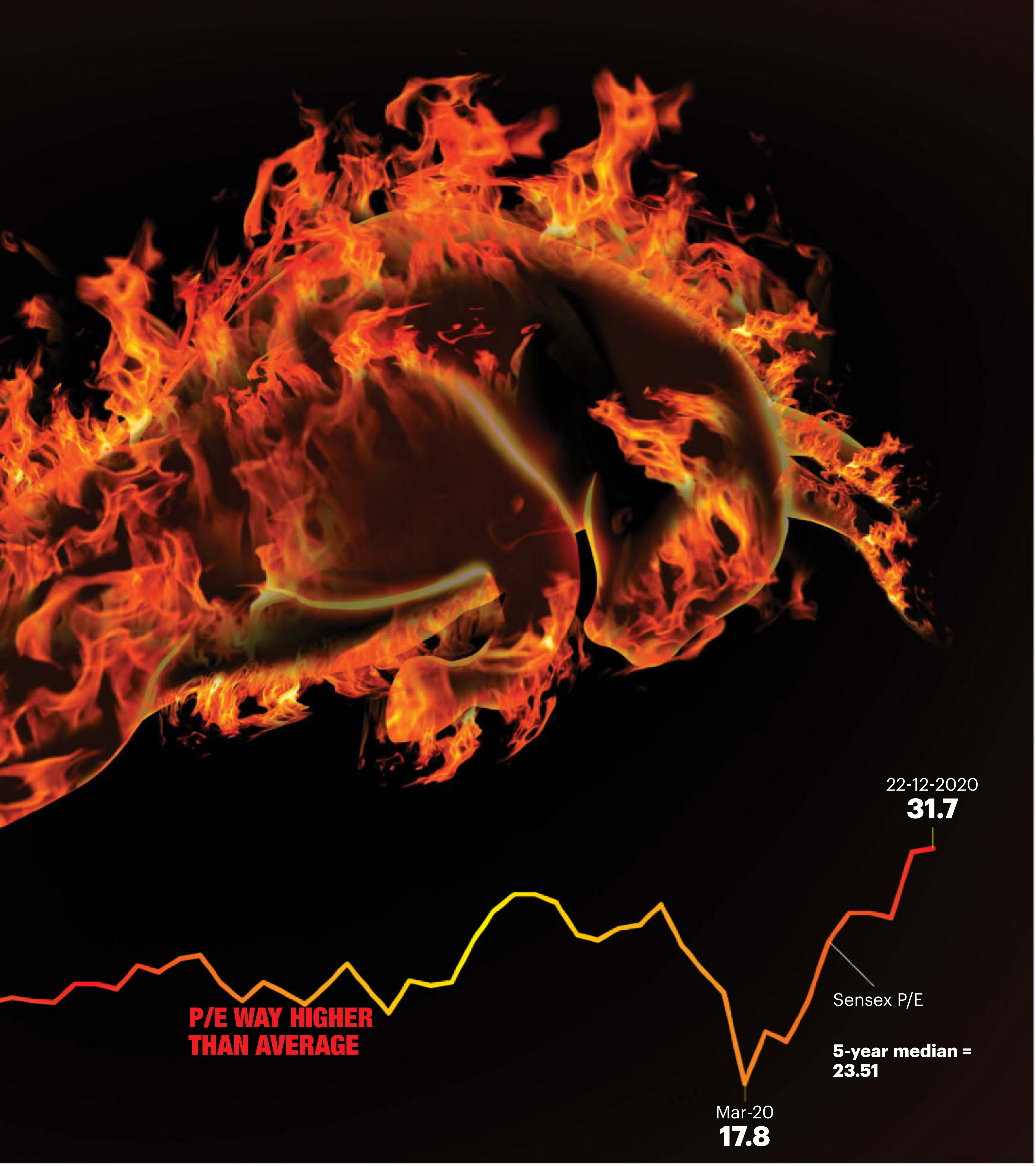
WARNING SIGNALS

MOST ECONOMIC DATA POINTS AND INDICATORS SHOW THAT INDIAN STOCK MARKETS ARE OVERHEATED

BY NITI KIRAN
ILLUSTRATION BY SIDDHANT JUMDE

Very often, headline numbers do not divulge too many details. To let the numbers do the talking, it is important to dive deeper. Also, it is difficult to accurately estimate any measure without studying its long-term trend and comparing it with other relevant indicators. *Business Today* looks at some such indicators such as price-to-earnings (P/E) ratio, market cap-to-GDP ratio and corporate fundraising to gauge market sentiment and portray the state of the economy.

Fundamental statistics such as P/E ratio are popularly studied in two forms, trailing and forward, to determine the valuation of a stock or an index. Trailing P/E is calculated by dividing the current market value by earnings per share over the previous 12 months. Forward P/E looks at a company's likely earnings per share for the next 12 months. Asset allocation trends in terms of cash and stocks attempt at measuring the risk appetite of investors. Further, the growing disconnect between the market and the economy is captured in the market capitalisation-to-GDP ratio. The miserable state of the economy due to lacklustre investment and consumption, and some visible green shoots due to the growing contribution of corporate earnings in quarterly GDP, have also been looked at. Last, but



not the least, the pandemic year was defied by record high corporate fundraising, on softer interest rates.

Sensex P/E: Trading At A Premium

This index valuation metric is trading at a multiple of 32.9, significantly higher than its five-year trailing average of 23.5. Among its constituents, almost three-fourth are trading above their long-term average.

The measure: This is nothing but a reflection of the individual P/Es of Sensex constituents. Typically, a range between 25-30x is considered expensive, but that should always be used within context. A trailing P/E is expressed as the ratio of stock price to its earnings per share, or EPS. In this case, price per share is derived by dividing the combined free-float market cap of all the 30 index constituents by their total outstanding shares. Similarly, EPS is calculated by dividing the aggregate earnings of all these stocks by their total outstanding shares.

And its implications: Most valuation multiples are trading at a premium suggesting that valuations are expensive. “It is mainly due to overwhelming liquidity from central banks and better-than-expected pick-up in the economy, which has led to increased investor interest. Low interest rates have also aided flow into equity markets,” says Ajit Mishra, Vice President, Research, Religare Broking. He believes markets could consolidate after a sharp run-up, and that would be healthy. Maintain a “bottom-up” approach (focussing on individual stocks) and invest only in fundamentally sound companies. Also, invest in a staggered manner, he adds.

Emerging Market P/E: Priciest Among Peers

On a 12-month forward basis, this comparative valuation metric is trading around a P/E of 24.2 (Nifty), compared to 13 for Brazil and 14.3 for China, making India one of the most expensive markets vis-a-vis other emerging ones. The country received huge inflows, close to $16 billion, between December ’19 and November ’20 from foreign portfolio investors, unlike many other emerging economies, where they turned net sellers.

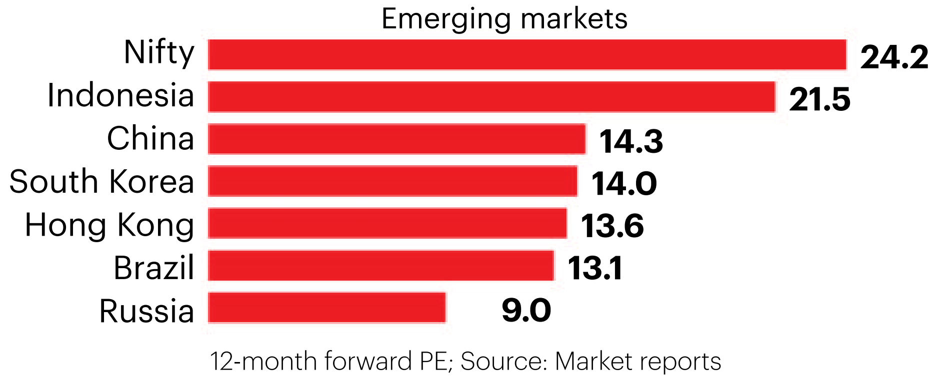
The measure: Forward P/E multiples are considered for some emerging economies to identify how expensive or cheap India was compared to them.

And its implications: Expensive valuations don’t seem to bother overseas investors much; India’s medium-to-long-term growth prospects are attracting inflows. “Timely measures taken by the government and the Reserve Bank of India (RBI) to maintain liquidity and resume economic activities have appealed to foreign investors. Better-than-expected quarterly results, improving macro-economic data, abundant liquidity and progress on Covid-19 vaccine front have further fuelled optimism. An increase in India’s weightage by the MSCI in its Emerging Markets Index to 8.7 per cent from 8.1 per cent is one of the major reasons that boosted investor sentiment and led to fund flows in recent times,” says Gaurav Garg, Head of Research at CapitalVia Global Research Limited- Investment Advisor.

Market Cap-To-Bank Deposit Ratio: Excessive Optimism

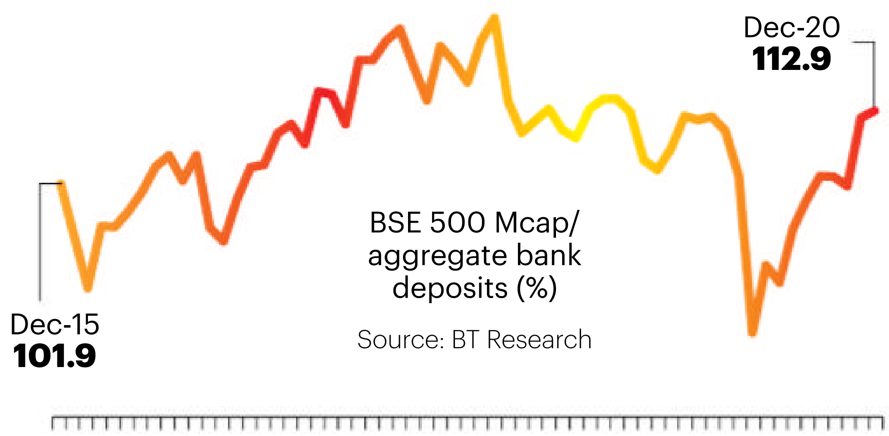
This risk appetite measure, which drives capital market’s participation, is currently

NIFTY PRICIEST AMONG EMs



12-month forward PE; Source: Market reports

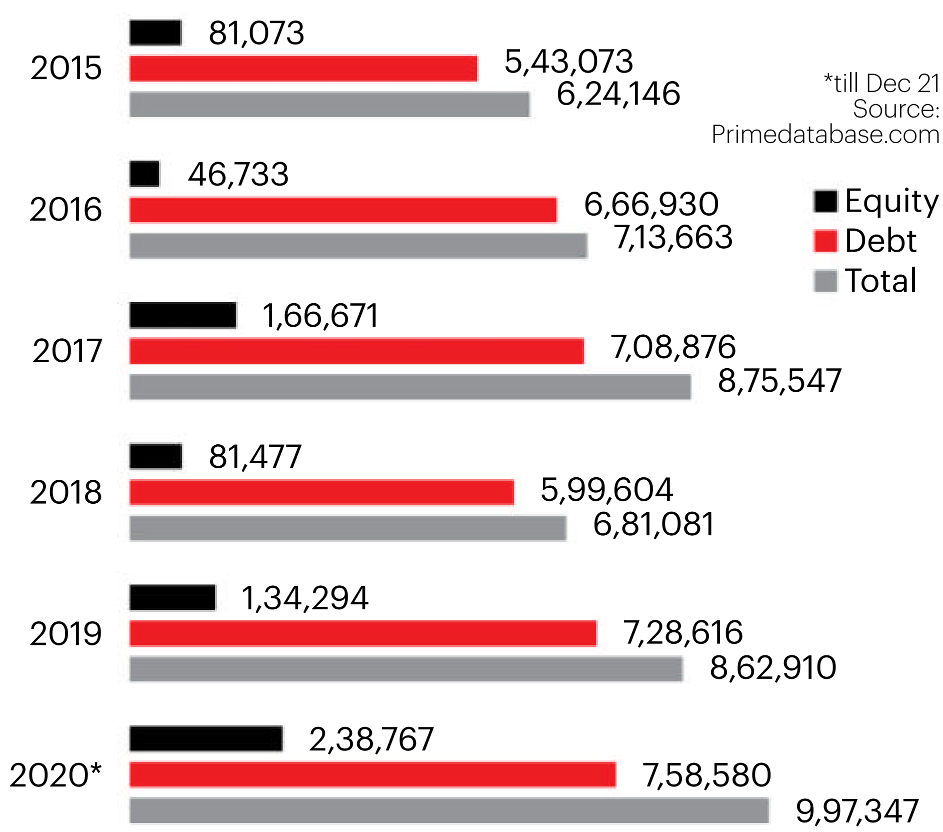
MCAP-TO-BANK DEPOSIT RATIO PICKING UP



Source: BT Research

CORPORATE FUNDRAISING AT A HIGH

Resources raised by the corporate sector (₹ cr)



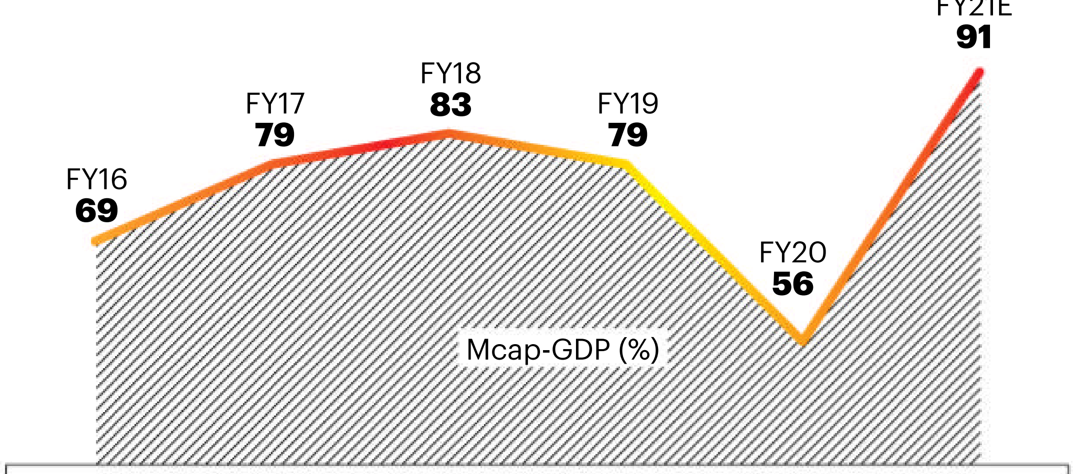
*till Dec 21 Source: Primedatabase.com

hovering over 100 per cent. When the lockdown measures were imposed in March, uncertainties about the pandemic led to a massive sell-off — the ratio fell below 100 per cent to around 70-80 per cent as investors gravitated toward conservative investments. However, steps taken by the RBI to infuse liquidity into the system gradually shifted stakeholders towards equity again.

The measure: This relative measure, of the BSE 500 stocks as a percentage of aggregate bank deposits, mirrors the risk appetite of investors. The asset allocation trends are guided by the level of distress or greed — investors resort to conservative assets or bank deposits when fear grips them, while market levels rise when optimism rules.

And its implications: Low interest rate is one of the reasons why markets are so bullish. "But the primary reason for this sharp rally is huge capital flows, which, in turn, have been triggered by the humongous liquidity created by the leading central banks of the world, particularly the Federal Reserve. Markets are not led by retail investors; they are the followers, not the leaders. Markets are led by institutional investors," says V.K. Vijayakumar, Chief Investment Strategist at Geojit Financial Services. Since the Nifty has bounced back around 80 per cent from its March lows and investors are sitting on huge profits, it makes sense to partially book profits and move some money into fixed income, he adds.

MCAP-TO-GDP RATIO AT A MULTI-YEAR HIGH



E: Estimated; Source: Motilal Oswal

Market Cap-To-GDP Ratio: Brilliant Recovery

It increased from 79 per cent in FY19 to 56 per cent in FY20 and 91 per cent currently (FY21 estimated GDP) — above the long-term average of 77 per cent. The rally since June '20 has led to the highest market cap-to-GDP ratio since FY10.

The measure: Popularly known as the Buffett Indicator, this method compares the market cap of listed companies to a country's GDP to weigh if the stock market is underpriced or overpriced. It is a very broad-based top-down ratio and gives insights into the broader market level. It gives a sense of where the market is standing vis-à-vis the economy, explains Gautam Duggad, Head of Research, Motilal Oswal Institutional Equities.

And its implications: It shows that the market has recovered well from the lows of March '20, led by opening up of the economy, improved corporate earnings and supportive liquidity and interest rates, adds Duggad.

Fundraising By Corporates: Setting A New Record

Indian companies raised a record ₹9.97 lakh crore through equity and debt in 2020 (as on December 21). Of the total, ₹7.58 lakh crore was collected from the debt market and ₹2.38 lakh crore came from the equity market; ₹7,092 crore was mopped through the overseas route.

The measure: Corporates tap financial resources to usually expand or pare their debt and explore various options such as debt and equity, depending on their feasibility.

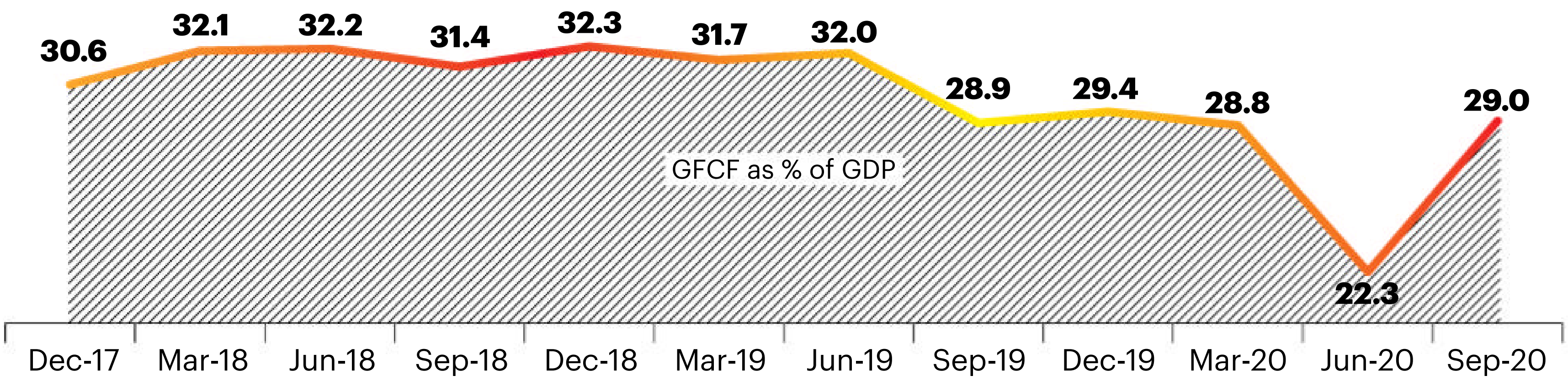
And its implications: "Looking at both equity and debt fundraising, one of the key drivers has been lower interest rate and the resultant liquidity. Corporates are raising record amount of money, the so-called 'Covid capital,' to create a buffer in case of any future crisis," says Pranav Haldea, Managing Director, PRIME Database Group. The equity break-up shows around ₹26,611 crore was raised from IPOs, while another ₹1.45 lakh crore was mopped up through QIPs and rights issue, in the year so far.

"Indices are trading at all-time highs, but there is a lot of pain in the economy, which is not getting reflected. Any unforeseen event or negative news flow can cause a correction in the secondary market, following which primary market activity will also slow down. At some point, interest rates will also start moving upwards, which will suck up the excess liquidity in the system," adds Haldea.

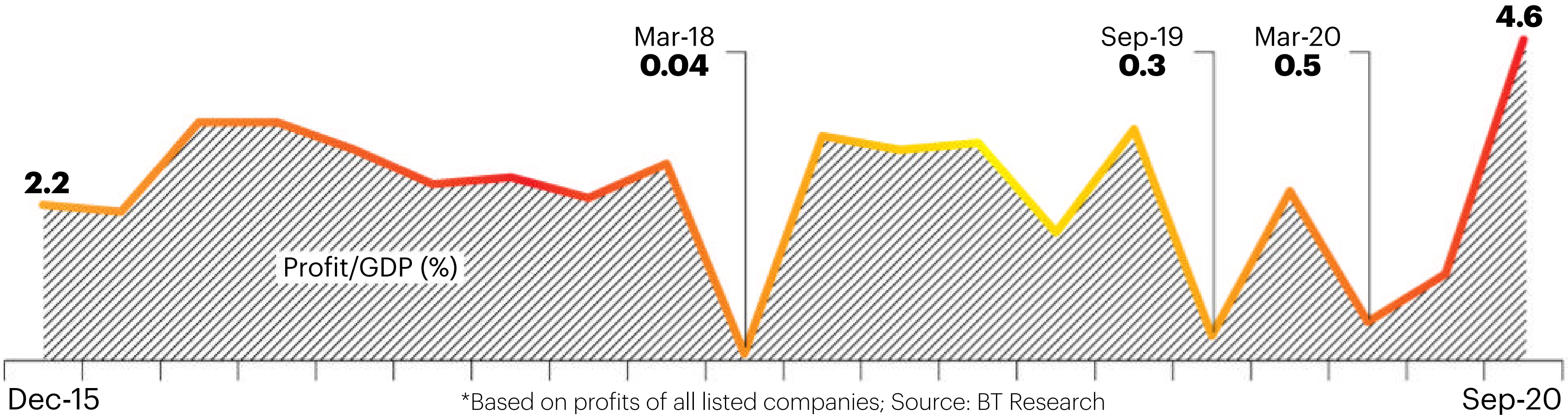
Gross Capital Formation-To-GDP Ratio: Anaemic Demand

After contracting by a record 47.1 per cent, year-on-year, in the first quarter, the gross fixed capital formation (GFCF) fell 7.3 per cent in Q2 FY21, its fifth-consecutive contraction, primarily led by an expected

CAPITAL FORMATION YET TO GATHER PACE



CONTRIBUTION OF PROFITS TO GDP IMPROVES



*Based on profits of all listed companies; Source: BT Research

pick-up in consumption demand ahead of the festive season. Eventually, its share in GDP improved sequentially from 22.3 per cent to 29 per cent during the period.

The measure: The share of GFCF in the country's output is a reflection of investment demand in the economy. A higher share depicts enhanced activity.

And its implications: Rebound in investments delivered a pleasant surprise for the economy as India's second-quarter GDP fell 7.5 per cent, after shrinking a record 23.9 per cent, year-on-year, in the previous quarter. Though resumption of economic activity has been gathering pace, experts believe both consumption and investment demand are expected to remain tepid for a while.

Profits-To-GDP Ratio: Contribution of Growing Earnings

Aggressive cost-cutting initiatives led to a five-fold increase in bottom-line numbers of companies, on a sequential basis. This pushed the profits-to-GDP ratio to a 32-quarter high of 4.6 per cent, compared to a low of 1.2 per cent and 0.5 per cent in the previous two quarters. A gradual recovery was visible in the GDP numbers too, which grew at 23.2 per cent, quarter-on-quarter.

The measure: The ratio evaluates the contribution of corporate profits in economic output, since the performance of the corporate sector is also taken into account while compiling GDP estimates. For this, profits of all listed companies were linked to the overall GDP.

And its implications: A long-term trend suggests corporate earnings have lacked resilience as the ratio has seen some deterioration in the past. Meanwhile, there are some visible greenshoots, but the Indian economy continues to face downward pressures from the sustained spread of coronavirus, and will take some time to recover. BT

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This image is from the Hathras Rape coverage by the India Today Group.

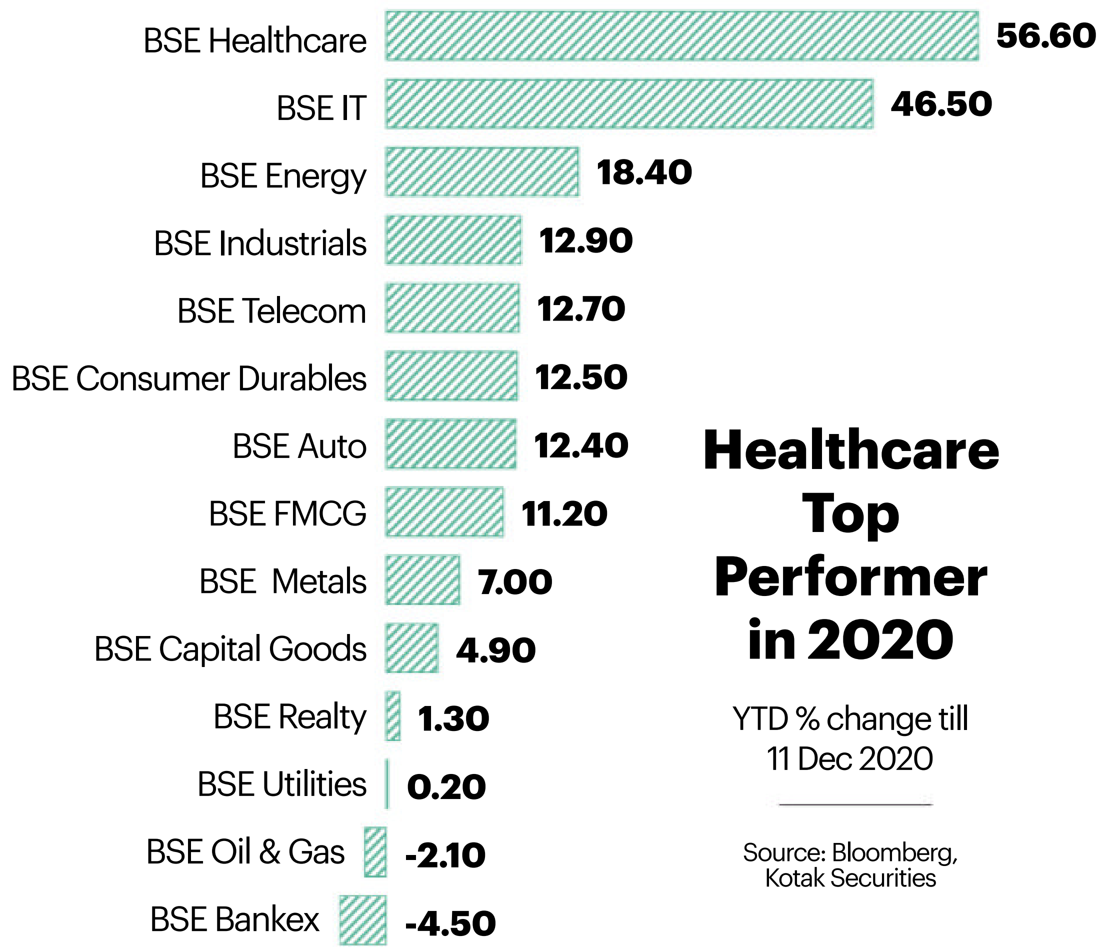
Bulls to Rule For Now

EQUITY MARKETS ARE ENTERING THE NEW YEAR WITH HOPE. HERE'S WHAT LIES AHEAD

BY TRIPTI KEDIA

A YEAR THAT STARTED with dashed hopes is ending with building expectations. The year 2020 was spoiled by the worst pandemic in a century and huge economic losses. Revival of equity markets in the second half was a pleasant surprise.

The year 2021 looks promising. The bulls are raring to go, reflecting expectations about Covid-19 vaccine launch, promising corporate earnings, accommodative monetary policy, flush of liquidity and 15 per cent Nifty returns seen in CY20. Investors are all strapped and set to ride the bulls, although with some caution. "2021 will be a year of recovery. We have already ridden the roller coaster. With government increasing spending and



Healthcare Top Performer in 2020

YTD % change till 11 Dec 2020

Source: Bloomberg, Kotak Securities

Sectors That May Do Well

IT

Digital opportunities, rise in work from home, companies to look for increasing efficiencies, consolidation

FMCG

Rural demand to remain robust, underperformance of 2020 may be reversed

earnings of companies improving, we have added new clients. It's time to get returns in the first half of this year than the second half," says Rusmik Oza, Executive Vice President, Kotak Securities. During April-September, India added 63 lakh demat accounts as compared to 27.4 lakh in corresponding period last year, an increase of 130 per cent.

The FII Angle

Foreign investors have also pumped in huge liquidity into markets. Data shows that foreign institutional investors (FIIs) pumped in close to $23 billion in India in 2020. Analysts expect that $15-20 billion more will flow in 2021, making India a relative outperformer in comparison to other key emerging markets. South Korea and Taiwan, which posted stellar returns of 26 per cent and 18 per cent, respectively, saw equity outflows of $15-17 billion in March-November 2020. A more predictable and stable policy making under the Biden presidency in the US and weaker dollar due to higher fiscal spending and lower interest rates also augur well for FII inflows to emerging markets.

"Despite our GDP being severely hit in the first half of this fiscal year, we are expecting the low base to take GDP growth to 9 per cent, which will be the main driver for money coming to India," says Oza.

The Valuation Game

Present valuations are at their historical peak due to the liquidity rush. For example, Nifty's 10-year average P/E is 22.73 but it traded at an average of 37.08 in December. This shows the market is pricing in a strong earnings recovery in the coming quarters. This is also risky as a disappointment on this front may mean a sharp correction. Though, for now, nobody is complaining. "Liquidity is likely to be supportive in the near term, driven by expansion in global central bank balance sheets, but it is likely to peak by March'21," says a recent Nomura report.

Naveen Kulkarni, Chief Investment Officer, Axis Securities, says, "With a one-year view, in a market structure that looks bullish, our Nifty December target is 15,300. For FY22, a 30 per cent rise in Nifty EPS (earnings per share) is expected." He thinks mid-caps and small-caps have underperformed for a good part of the year, barring the last quarter. "They should give a return of 10-15 per cent in a year's time." A recent HDFC Securities' report concurs with this as growth-hungry mid-caps flourish in low interest rate regimes. The repo rate has been 4 per cent since May 2020.

There is another reason for the bullish view. The pandemic has forced companies to think differently and quickly by reducing costs/debt, cleaning up balance sheets and redrawing business models from scratch.

However, analysts sounds a note of caution saying multiples of mid-cap stocks are way higher than that of large-caps. “Valuations here make us uncomfortable. We are optimistic about FII flows as they prefer large-caps. We will allocate no more than 10 per cent of our investors’ portfolio into this segment.” The small-caps, he explains, is a large basket and should give a return of 20-30 per cent next year. “Investors could look at allocating about 20 per cent of their portfolio into this segment. Large-caps would be more resilient to a future correction and, hence, a safer bet,” says Oza.

$23 BILLION
FII inflows in Indian equities in 2020

Sectoral Outlook

Covid-19 pushed the narrative in favour of defensive plays such as information technology (IT) and pharma. IT gained as companies transformed their operations to enable remote working for employees. Pharma, on the other hand, benefited from higher demand due to the pandemic. However, year to date, NBFCs are down 5 per cent, banks 1 per cent and industrials and metals 3 per cent.

A recent Kotak Securities report explains why the recovery theme may work in the new calendar year. “In cyclicals, the focus is on select large banks, capital goods, oil and gas, cement and metals. This should be done with an accumulation strategy as most of these economy-driven sectors are prone to market corrections. Within defensives, FMCG companies could also deliver better returns due to the sector’s underperformance in 2020.” Besides, consumption has made a strong comeback due to healthy demand in rural areas where above normal monsoon and higher crop sowing have helped farmers retain their income levels.

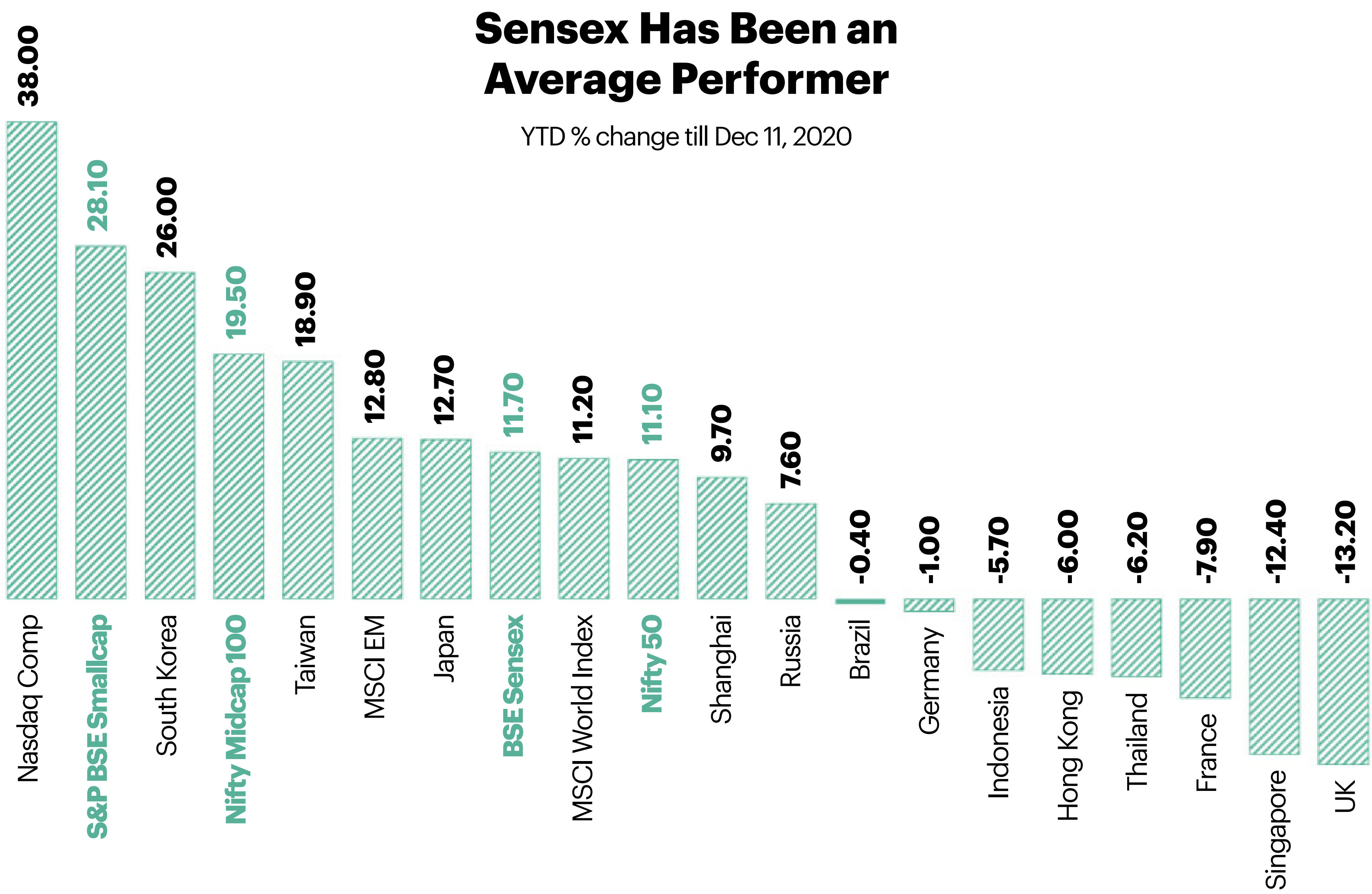
BFSI
Attractive valuations despite late year rally, low interest rates, surplus liquidity

Real estate
Reduced home loan interest rates (sub-7 per cent), slashed stamp duty, extension of credit guarantee schemes

But a Nomura report says investors should watch out for consumption slowdown and weak demand in urban areas due to the government’s limited focus and shut offices, schools and colleges. “Consumption growth had been slowing down even before the pandemic struck in late March 2020. The propensity to spend has been declining as witnessed in higher household savings in FY20. The consumption expenditure may be further impacted due to loss of household incomes. The formal sector with salaried class is relatively less impacted. However, wage growth in the formal sector has been low.”

All hopes are pinned on the vaccine. Most stock markets around the world have priced it in on the assumption that it will take away the fear of the virus and trigger economic recovery. But a JP Morgan December report points out that a vaccine may not be a ‘silver bullet’ in 2021. “We are focusing on investments that can work with or without an effective vaccine. These include companies linked to digital transformation, healthcare innovation and household consumption,” it says.

One sector that remained tepid in 2020 but looks like it’s ready to soar is real estate. If high debt, inventory pile-up and economic slowdown weighed on realty stocks in 2020, reduced home loan interest rates (sub-7 per cent), lower stamp duty in several states, extension of credit guarantee schemes, among others, are promising to give it new wings. Housing sales in October-December rose to 50,900 units across seven big cities from 29,520 units in the previous quarter. “If real estate were to grow, it would give a boost to the entire economy. We can get into a two-three year cycle where it can give 15-20 per cent returns from the current low base. With interest rates being low, people have more reason to buy a home than not to buy



one. Registrations too are looking strong at present," says Kulkarni of Axis Securities.

Covid-19 has also compelled home buyers to recalibrate their priorities in line with the new work from home normal and opt for integrated living in spacious homes. The trend of reverse migration and working from home is being reflected in real estate demand in Tier-II and Tier-III cities as compared to metros.

Banks and NBFCs are also likely to get an impetus with the government injecting huge liquidity into the system. The only issue will be the NPA cycle. Kulkarni says BFSI is set to become the sector of choice for investors due to improvement on the liabilities side. "The plus points are surging treasury income and robust collections. The sector found the going difficult till October but has outperformed the broader market since then."

One sector that remained tepid in 2020 but looks like it's ready to soar is real estate

The point is elaborated in Axis Securities' multi-asset strategy December report. "The market cap of the BFSI space is still 4-5 per cent below pre-Covid levels. With improved outlook and focus on growth, the risk-reward ratio is in favour of this sector. BFSI outperformance will continue in coming quarters also."

Kotak's Oza is confident about select private banks giving handsome returns of 15-20 per cent in 2021.

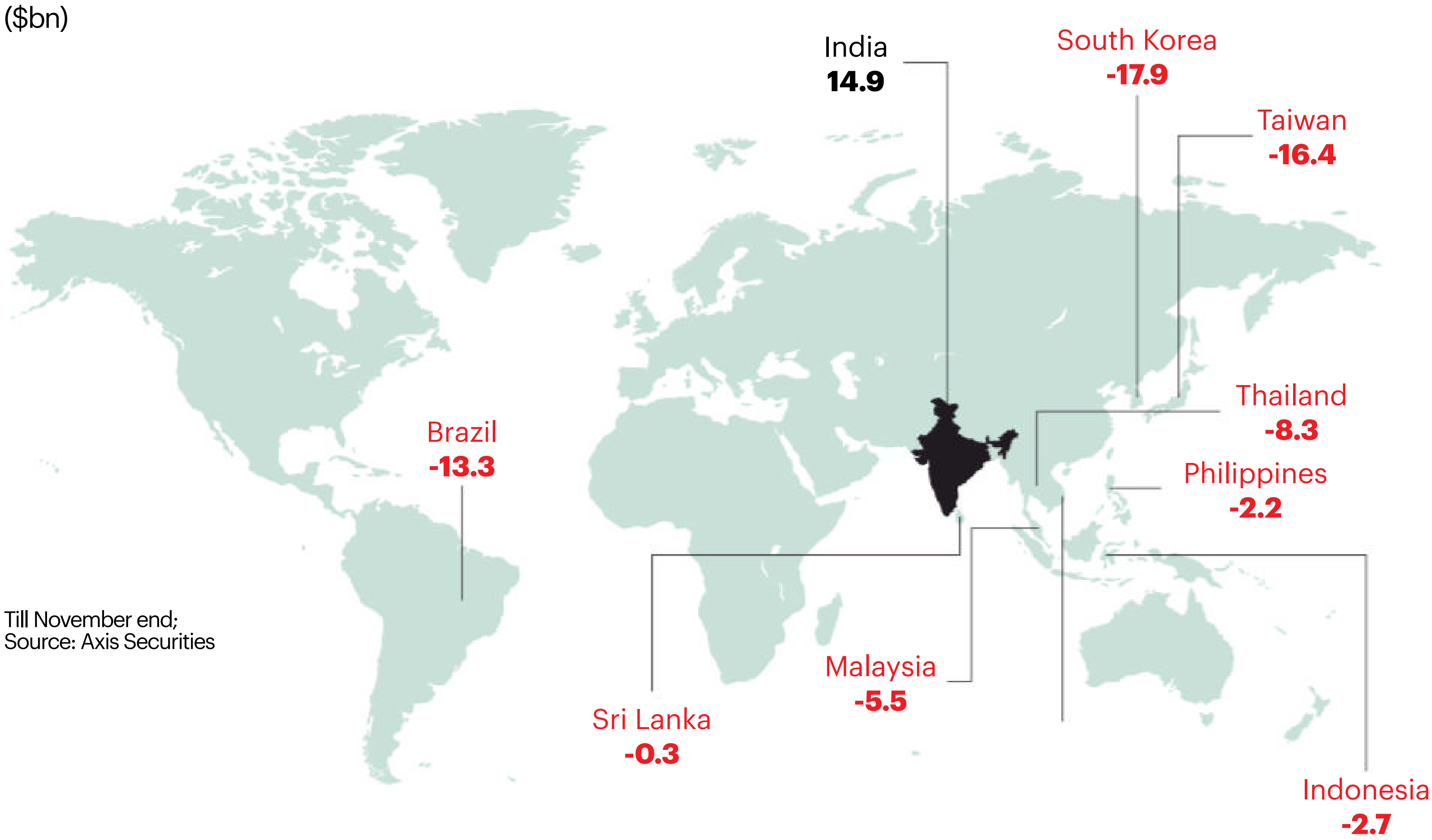
IT – Big to Become Bigger

Just as the BFSI sector is expected to have a good run as a result of smart money management, the IT sector will gain from structural changes it has had to make in order to become ready for a new world order. For instance, it will be a big beneficiary of companies' shift to digital. The market will also keep an eye on increased outsourcing and big deals — for example the recent multi-billion dollar deal between Infosys and Daimler.

The BSE IT index has risen a whopping 45.6 per cent in 2020, making it the second best performer after the healthcare index. "With transformational complex deals, the pipeline looks good with strong earnings visibility for the next decade. While the dollar aspect will play out from time to time, IT, on its own, will continue to be a winner," says Kulkarni.

India Only EM to Receive FII Equity Inflows

($bn)



Till November end;
Source: Axis Securities

Another trend could be big players becoming even bigger as digital revolution forces companies across verticals to migrate to cloud. Kotak's Oza is quick to add here that valuations in IT are still reasonable with 22-30 per cent return on equity. However, he is a little guarded when it comes to pharma and places return on equity at 13-15 per cent. "Price control could upset returns," he says.

Note Of Caution

While the bulls have taken over stock markets, investors must not throw caution to the wind. "Growth revival has not been robust enough. With real GDP CAGR of 2.3 per cent over CY19-22F, the gap with global growth will be at a multi-year low. The Street seems to be ignoring the potential impact of GDP contraction in 1HFY21 on future demand. We think the government bore just 30 per cent of the impact, and most of the rest has been borne by households and small businesses," says a Nomura report.

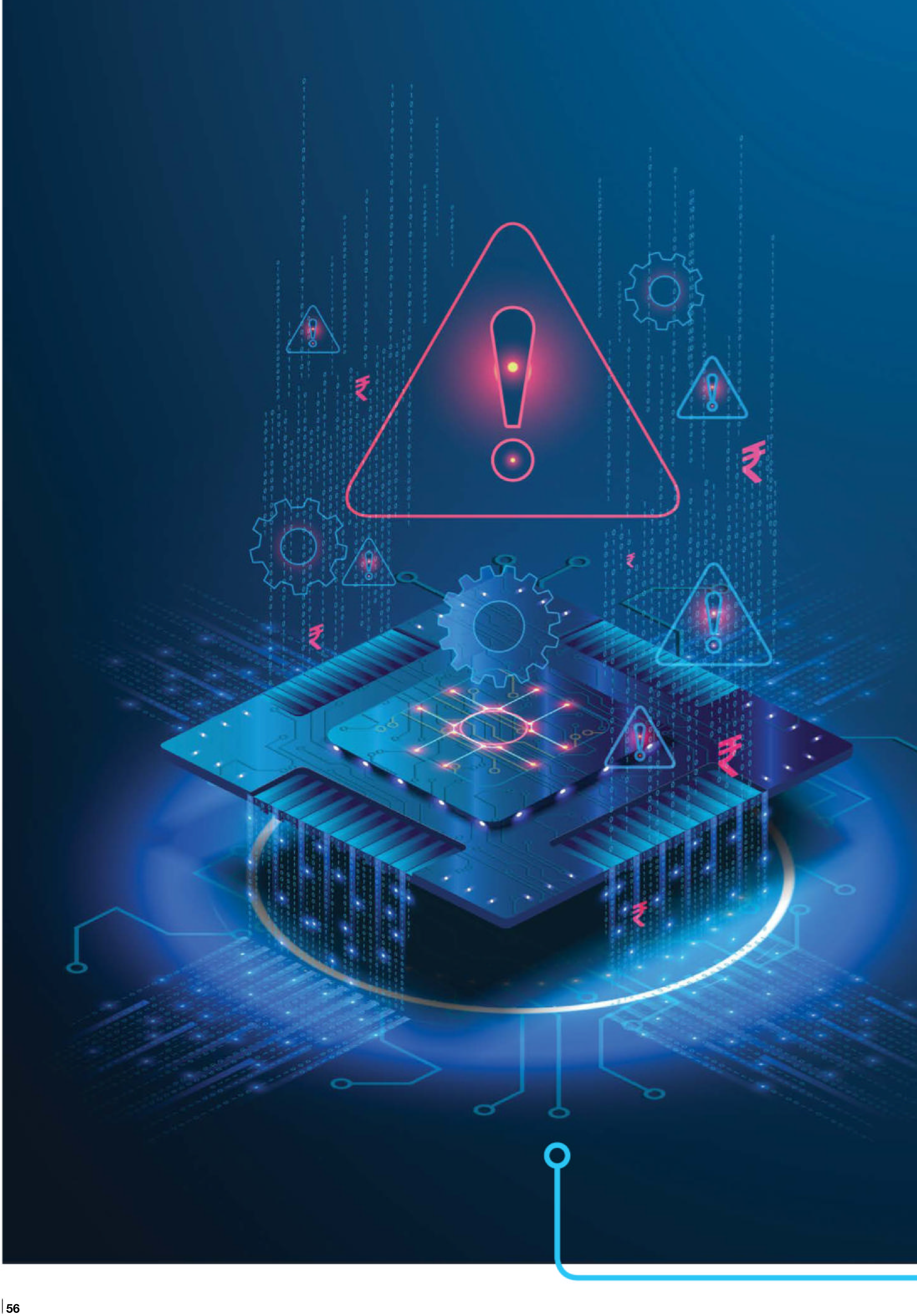
Retail or corporate credit growth has also not been very robust until now. Even lenders are cautious. Whatever revival high-frequency data indicates is driven by pent-up demand and inventory stocks that are likely to taper off over the next couple of quarters. Sentiments are improving, but one must tread carefully. Experts say the bigger worry is going to be withdrawal of excess liquidity from the banking system.

Besides, with vaccine in sight and economies returning to normalcy in the second half of the calendar year, central banks the world over are likely to revise their stance. "If inflation and interest rates shoot up, bond yields will rise. The equities party will be over," says a concerned Oza. This reverse global liquidity issue should not be ignored, he adds.

Also, cost rationalisation by corporates has cushioned the hit on earnings growth. But one needs to gear up for higher raw material costs due to rise in prices of commodities such as crude oil and steel. Price escalations could, therefore, impact earnings and lead to derating of valuations. Government spending has also been hit due to high fiscal deficit while private sector capacities are under-utilised.

Taking note of the macro numbers and opting for well governed companies can help investors embrace change and ride the momentum. BT

(*Tripti Kedia is a Mumbai-based writer*)



The FAB Challenge

LACK OF SEMICONDUCTOR MANUFACTURING IS TURNING OUT TO BE THE BIGGEST HURDLE IN INDIA'S TRYST WITH SELF-RELIANCE IN ELECTRONICS. IT REQUIRES 'OUT OF THE BOX' THINKING BY GOVERNMENT AND INDUSTRY

BY SUMANT BANERJI & NIDHI SINGAL
ILLUSTRATION BY RAJ VERMA

INDIA'S LARGEST AUTOMOTIVE component maker Bosch faced an unforeseen situation in early December — shortage of semiconductor components. The reason was surge in demand for consumer electronics globally due to work from home and rise in adoption of 5G in household appliances.

This could not have come at a more inappropriate time. Demand for automobiles was just beginning to rebound after a torrid first half of the year when production was disrupted due to lockdown in April-May. Another disruption can impair the recovery, which is what Bosch warned in a letter to market regulator Sebi. "Imports of Bosch Ltd have been impacted with severe shortage of imported microprocessors (semiconductors), leading to reduced ability to deliver to the automotive market demand in India," it said.

Disruption in supply of even a single part in the $120 billion automotive industry can bring the entire sector to a standstill. Two days later, utility vehicle major Mahindra & Mahindra said it was bracing itself for after-effects of the disruption at Bosch. "Operations of the company in the automotive sector will be affected by global supply shortage of micro-processors (semiconductors) used in electronic control units (ECUs) which are supplied by Bosch," it said. "It is not clear as to what extent and for how long the shortage of semiconductors will impact vehicle production in India. Any stoppage of vehicle lines has a resonating effect on the entire auto component manufacturing ecosystem," says D.K. Jain, President of the Automotive Component Manufacturers Association (ACMA).

Microprocessor chips, the brain behind computing in modern electronic appliances, are produced in high technology facilities called semiconductor fabrication units or simply FAB units. A shortage affects the entire consumer electronics segment and not just the automobile industry. Operations at Lava and Micromax that are trying to make a comeback in the domestic smartphone market have almost stuttered to a halt due to shortage of chipset supplies from Taiwanese firm MediaTek.

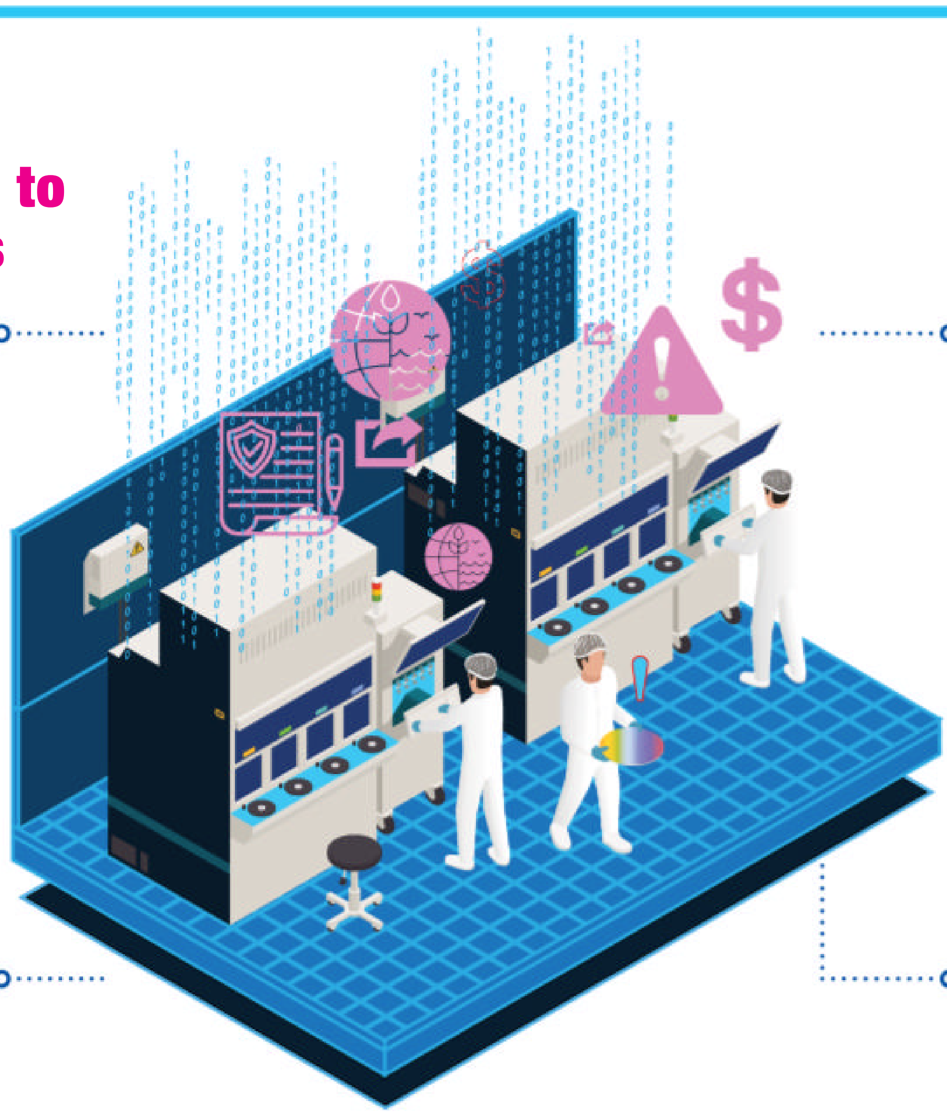
$7 BILLION
Worth of chips India imports from China

The examples brutally expose the soft underbelly of India's electronics industry – its heavy reliance on imported components. The industry imported components worth $50 billion in 2019. Aware of the dangers of such high import dependence, the government has rolled out ambitious production-linked incentive schemes to encourage production of a host of these components in the country. The most important here is chips, the central component of any electronics item. India has negligible semiconductor manufacturing. As the industry expands — the market is poised to double to over $500 billion by 2025 as smart devices become intrinsic to a host of other sectors (autonomous or electric cars for example) — the demand for chips will rise manifold. "The electronic content in vehicles has been progressively rising and incidents such as these only make obvious the need for localisation and self-reliance in auto electronics," says Jain.

Why It is Tough to Build FAB Units

Capital intensive. It takes over $ 3 billion to set up a FAB unit. Then there is a high recurring cost for upgrades. Few companies in India have the required balance sheet strength or risk appetite

Policy uncertainty. The industry needs capital as well as interest subsidy on investment, tax holiday and sovereign guarantee on demand aggregation



Ecosystem. Chip manufacturing cannot take off unless the supplier industry is in place. That requires top-notch infrastructure, including uninterrupted power and abundant pure water

Exports. India has to be part of multi lateral trade agreements to ensure it becomes competitive for export of chips. For investors, domestic demand is not enough

Semiconductor manufacturing is a long-term R&D intensive investment which will not blossom in three-five years. Government has to stay the course and not leave the industry midway

Srinivas Satya,
President, Applied Materials India

As the current disruptions show, it is an area where India can ill-afford to depend on others. It was not a coincidence then that on December 15, the government invited fresh proposals from the industry for setting up FAB units in the country. It is the start of a long journey. India's past failures in the area show the going will not be easy.

Attempts Galore

This is not the first time India is trying to build FAB units. The first attempt was made back in 2006 when Bangalore-based SemIndia signed an MoU with the Andhra Pradesh government to set up a wafer manufacturing SEZ for which it was allocated 1,200 acres. The $3 billion project could not take off. The state government suffered a loss of ₹300 crore.

Around the same time, the government tried to woo global tech giant Intel to set up a semiconductor facility in India. Instead, Intel went to China. In 2011, the government came up with its maiden National Electronics Policy and invited proposals for setting up FAB units. It received more than two dozen expressions of interest. Two were given the nod in 2014. Both could not take off due to a number of reasons, including inability to tie up funding and unviable business case. The two biggest roadblocks were the high investment required and demand uncertainty. "Semiconductor manufacturing requires huge investments, natural resources and highly skilled manpower. In India, we are deficient in all these due to which no significant semiconductor manufacturing is happening," says Sanjeev Agarwal, Chief Manufacturing Officer at Lava Mobiles. "The government will have to come up with policies which can overcome these deficiencies. This may require co-investment in the beginning. Local manufacturing of semiconductors like processor, memory, etc., which are major constituents of mobile phones and other electronic products, will play a major role in making us *atmanirbhar*."

Making semiconductors involves front-end fab manufacturing and back-end assembly. While India has developed considerable expertise in the back end — packaging and testing — there are only a handful of companies globally that produce chips on a large scale. None of them are in India. As a result, almost all chips, units and displays have to be imported. Estimates suggest that value of chip imports alone could be more than $12 billion in FY21.

"Setting up a FAB unit is not easy. Investments required for an advanced FAB factory might cross billions of dollars," says Sanjay Gupta, Vice President and India Country Manager, NXP Semiconductors. "Any company would like to know likely returns, how long it will take to build the plant and then how soon it will start getting returns. Even if you give 100 per cent subsidy, if there is no buyer, you will not be able to earn any returns. A single day operation costs millions of dollars," he adds.

That is why, in countries where chip manufacturing has taken off, be it China, Taiwan or South Korea, governments have been generous in putting the initial capital. This is apart from incentives like low interest rates and tax holidays. India will have to do more of the same as only a few companies in India have the required balance sheet strength. "The government has to offer significant incentives. For example, if it takes $100 to put up a FAB unit and the government puts in $40, the investor still has to get $60. The investment community has to feel confident that they are going to get returns. We have not been able to crack that part of the story," says Satya Gupta, Chairman, India Electronics and Semiconductor Association (IESA). "The government can work with one of the large business houses in India, let's say Reliance or Tata. They don't have to necessarily put up the entire 60 per cent money but can lead with 10-15 per cent to create a consortium with inter-

If the government can work with one of the large business houses, let's say Reliance or Tata, they can lead it with 10-15% investment and create a consortium with international partners

Satya Gupta,
India Electronics and Semiconductors Association

national partners. We have not tried this in the past. It's worth a shot." To be fair to the government, it did offer capital subsidy of 20-25 per cent of the project cost in previous instances too, but with rigid minimum investment thresholds.

The problem of demand aggregation is also unsolved. The investments are not one-off. As technologies evolve, the factories have be updated, which means big investments every four-five years, if not less. The short time span for earning returns makes it a tricky business. "Every company will have to take a look at its own supply and demand. Incentives by governments make decision-making a bit easier but it's not just about that," says Anand Ramamoorthy, Managing Director, Micron Technology India. Micron is the world's fourth-largest semiconductor company. "A lot of other things have to fall in line for front-end manufacturing to take place. To be honest, not more than eight or nine countries have successfully established wafer-level manufacturing."

An estimated 75 per cent of global semiconductor capacity is concentrated in East Asia. According to a US Semiconductor Industry Association and BCG report, Taiwan is the leader in FAB capacity with 22 per cent share in 2020, followed by South Korea (21 per cent), Japan (15 per cent), China (15 per cent), the US (12 per cent) and Europe (9 per cent). It also said that majority of new capacity in the world, 40 per cent, is being added by China, which will make it the leader in the space by the end of this decade. The largest dedicated semiconductor foundry company in the world is Taiwan Semiconductor Manufacturing Company, followed by Intel Corp, Samsung, Qualcomm, Broadcomm Inc and Micron Technology Inc.

$87 BILLION
Likely size of PCBA market by 2025/26

Policy Framework, Supplier Ecosystem

Capital may be the first obvious stumbling block but is not the only one. Like any big factory, a chip unit needs a battery of ancillary units nearby for supplying parts or for maintenance and upkeep. These are as high-tech and capital intensive as the main unit. Take specialised cryo technology-based pumps, which are not produced in India at all. "These are very high-technology pumps and we don't make them here," says Srinivas Satya, Managing Director, Applied Materials India, which supplies equipment, software and services to chip-making firms. adding that "there is a huge secondary industry around FAB units, companies that service, clean, refurbish or provide other critical services to these factories. Unless they are here, no big player will invest in the main manufacturing unit."

The other worry is whether India has the appetite for something as long term as this. There may not be an overnight fix for other requirements such as top-class connectivity, low logistics costs, skilled manpower, superior power infrastructure and abundance of pure water. However, the government can guarantee a stable policy regime.

"One of the inputs we have got from global players is that it has to be a long-term engagement. Announcing a policy for three-five years does not work," says

Gupta of IESA. "You need to give a kind of assurance to the investor that for at least 15 years, policies, incentives and all of those things will remain even if governments change."

Unlike other manufacturing industries where localisation starts from smaller uncomplicated nuts and bolts, in electronics, the chip is itself a seemingly small yet highly sophisticated part. Mastering this is often the big last in a series of smaller steps. The government has taken one of these smaller steps with production-linked incentive scheme for mobile phones, which has got off to a good start. Thanks to the scheme, which gives manufacturers an incentive of 4-6 per cent on incremental sales, and the broader phased manufacturing programme, the number of mobile phone factories in India has gone up from just two in 2014 to over 250. The government has announced plans to roll out similar schemes for other electronic components too. "We have initiated talks with the industry to prepare a blueprint on getting FAB units in the country. We are attaching top priority to this," says a senior official in the Ministry of Electronics and Information and Technology. "It may not be easy and there are many challenges but we are determined. We are also studying why it did not work in previous instances. We hope to soon put in place an effective and attractive policy."

The China Angle

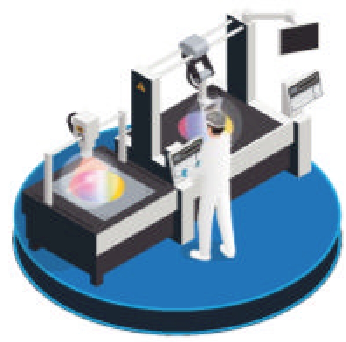
There is a profound China angle to this. More than half of India's electronic imports, $50.7 billion in 2019, are from China and Hong Kong (29.1 billion). Silicon chips are a significant contributor. In fact, around 20 per cent of India's electronics imports are microprocessor chips, with China having a disproportionately large share of 70 per cent (accounting for $7 billion of India's $10 billion chip import bill). India needs to manufacture its own semiconductors to reduce the leverage China has, something that has been clearly highlighted in a report by the India Cellular and Electronics Association (ICEA).

To begin with, ICEA has pitched for incentives similar to the PLI Scheme for printed circuit board assembly, the green colour board inside electronic gadgets that mechanically supports and electrically connects the components. The current market size for PCBAs in India is $16 billion (FY20), expected to grow to $87 billion by 2025-26, representing a $71 billion opportunity in the domestic market alone. Thanks to the PLI Scheme for mobiles and smartphones, ICEA expects 90-99 per cent of PCBAs to be locally assembled in future. Smartphones comprise

FAB CITY PROJECT The $3 billion project in 2006 was the first attempt at manufacturing semiconductors at scale with an SEZ spread over 1,000 acres near Hyderabad. SEMIndia was the anchor investor but the project failed to take off

INTEL Talks between government and Intel to set up a FAB unit failed. Intel instead decided to open a factory in China

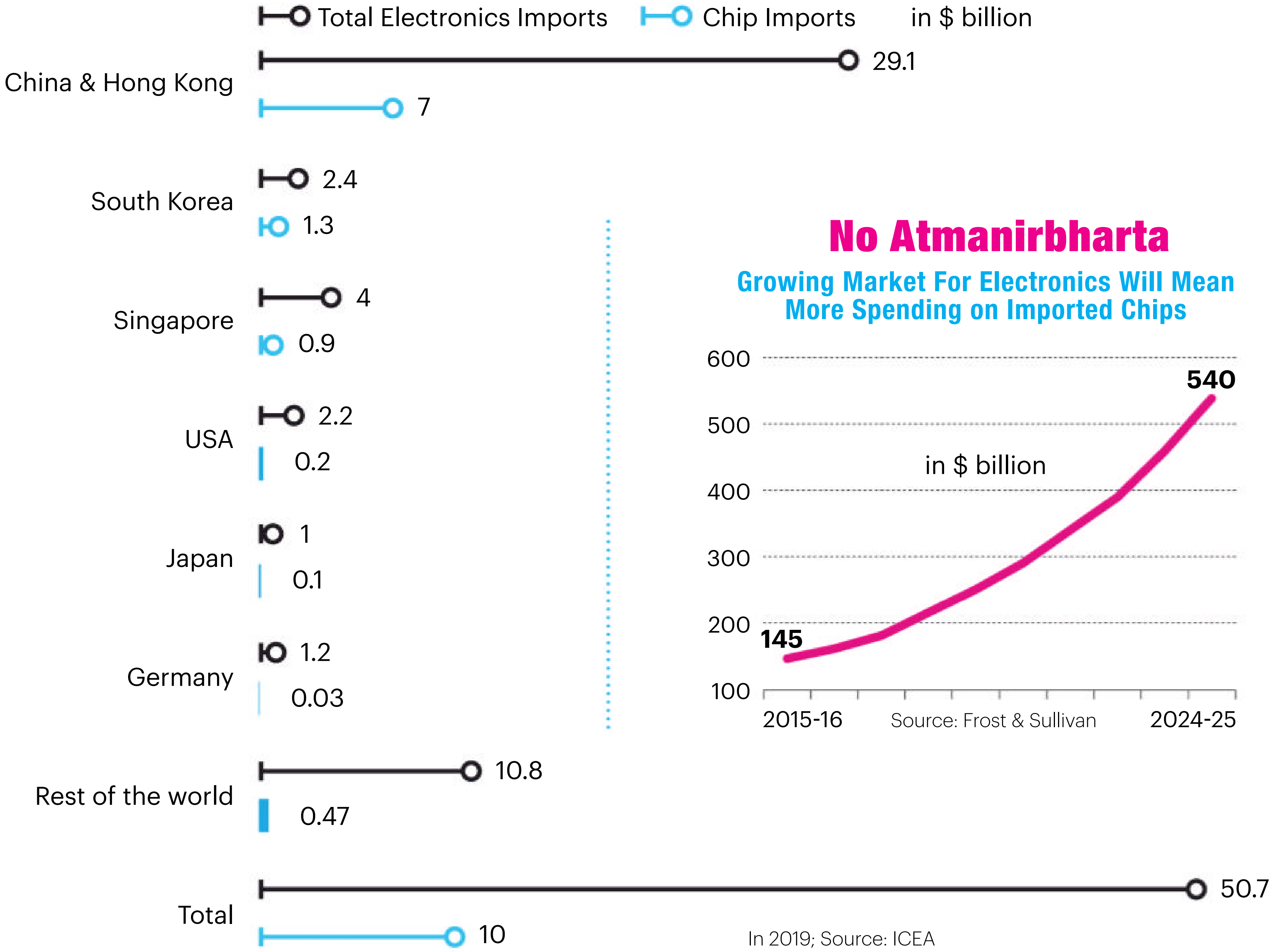
The new semiconductor policy did not receive any interest from the industry



IN FEBRUARY 2014, Jaiprakash Associates along with IBM and Tower Jazz of Israel got the nod to set up a FAB unit in Greater Noida with an investment of $3.8 billion. Jaypee Group's debt troubles (in real estate) ensured the project fizzled out

HINDUSTAN SEMICONDUCTOR MANUFACTURING CORPORATION, along with Franco-Italian ST Microelectronics and Silterra of Malaysia, got the nod to set up a FAB unit. The $3.6 billion project was proposed to come up in Gujarat. The consortium could not tie up funds

Chips Account For 20% of Electronics Imports



In 2019; Source: ICEA

No Atmanirbharta

Growing Market For Electronics Will Mean More Spending on Imported Chips

Source: Frost & Sullivan

over 80 per cent of the PCBA market.

"As more electronics capacity is set up in India, that may, in turn, bring in more vendors and players. Over a period of about five years, India might be able to boast of a credible electronics manufacturing ecosystem," says the ICEA report. "If the scale becomes sufficiently large, it could trigger designing and manufacturing of multilayer PCBs in India. Production of semiconductor chips Assembly, Testing, Marking and Packaging ('ATMP') could also become a reality. This is how it had panned out in China."

"Should PCBA operations start on a global scale in India, semiconductor chips can be imported by India directly from Korea, Singapore, USA, Japan and Germany, and there may be no need to import from China," the report adds. "It will help us achieve the strategic objective of reducing dependence on China." Achieving some scale in PCBA production will help in manufacturing of more capital intensive and complex parts. It is a model that has successfully worked in China. "We have just about started the journey of becoming self-sufficient in electronics. There is quite some distance we have to cover," says Pankaj Mohindroo, Chairman, ICEA. "We have to take many intermediary steps. Production of PCBAs is one such step. Once we start to do that, the ecosystem for chip manufacturing will be created."

The odds for now are stacked against FAB units in India. However, India cannot afford to not be in the game.

"In case there is a global crisis or political isolation, India has to be self-reliant. If tomorrow countries manufacturing chips decline to supply to India, our whole ESDM (electronic system design and manufacturing) can come to a standstill," says Gupta of NXP Semiconductors. "If our own chip factories are there, let's say even a decade from now, that will be a big strategic advantage. Otherwise we will always be dependent on countries like Taiwan or China."

The invisible yet omnipresent chip will thoroughly test India's resolve of becoming truly atmanirbhar. **BT**

@sumantbanerji


AT SIXTY DECIBELS OR SIX, TRUTH SOUNDS THE SAME.
TRUTH IS LOUDER.
INDIA TODAY GROUP
45TH ANNIVERSARY
This image is from the Rafale Jet coverage by the India Today Group.

Hyperlocals At Crossroads

The local delivery boom as a result of the lockdown seems to be tapering off

BY AJITA SHASHIDHAR
ILLUSTRATION BY SIDDHANT JUMDE

O**N MARCH 22,** when the country went into a lockdown, life came to a standstill. The fear of contracting the virus forced people to stay indoors and as they wondered how to replenish their grocery or other emergency needs such as medicines, delivery boys of Dunzo, Swiggy and Zomato came as godsend. They took orders and delivered in less than an hour. "I never felt so happy seeing the Dunzo delivery boy knocking on my door as I did on the very next day of the lockdown when I urgently needed some medicines," says Mumbai-based graphic designer Arati Mehta. This was the time when the most-dependent kirana stores found it difficult to deliver as their staff had stopped coming to work. Neither could e-commerce giants such as Amazon, Flipkart and BigBasket find their way into people's homes

In Numbers

$1,324.2 Billion
Market size of hyperlocal retail globally in 2019. It is estimated to reach $3,634.3 billion by 2027

₹2,300 Crore
Size of hyperlocal retail in India

90 Per cent
Share of food and grocery retail

$3-4 Billion
Investments in the sector to date

as supply chain mechanisms had come to a grinding halt.

A few days into the lockdown, the likes of ITC, Unilever, Nestle and Britannia hurriedly signed deals with delivery service providers Dunzo, Shadowfax and others to get their products delivered directly to consumers' homes. From a service which picked up a parcel from one point and delivered to another for a cost, Dunzo found itself strengthening its consumer-facing presence, getting its inventory and price points live. "Though we had been working on two parts of the platform for almost 18 months — creating delivery infrastructure in your neighbourhood which delivers in 30 minutes times and working with local merchants to make sure they are able to take orders from consumers — something that would have taken 36 months to achieve has gotten done in nine months," says Kabeer Biswas, Co-Founder and CEO, Dunzo.

Restaurant food delivery platforms Swiggy and Zomato, which were test-marketing their foray into grocery delivery, quickly launched their grocery services. That's not all, 'hyperlocal' suddenly became fashionable and a host of new entrants emerged. From restaurant chains such as Wow! Momos to facility management companies, including MyBrokerHood and MyGate, there was a surge in hyperlocal service providers who either created their respective consumer facing apps or got themselves listed on Swiggy or Dunzo. Logistic providers and aggre-

PHOTOGRAPH BY SUDHIR DAMERLA

"IF YOU PICK UP FROM A RETAILER YOUR COST OF DELIVERY WOULD BE CLOSE TO 10-15 PER CENT. UNLESS THE CONSUMER PAYS FOR IT NOBODY HAS THAT KIND OF MARGIN BUILT INTO THEIR SYSTEM TO PAY FOR THE COST OF LOGISTICS"

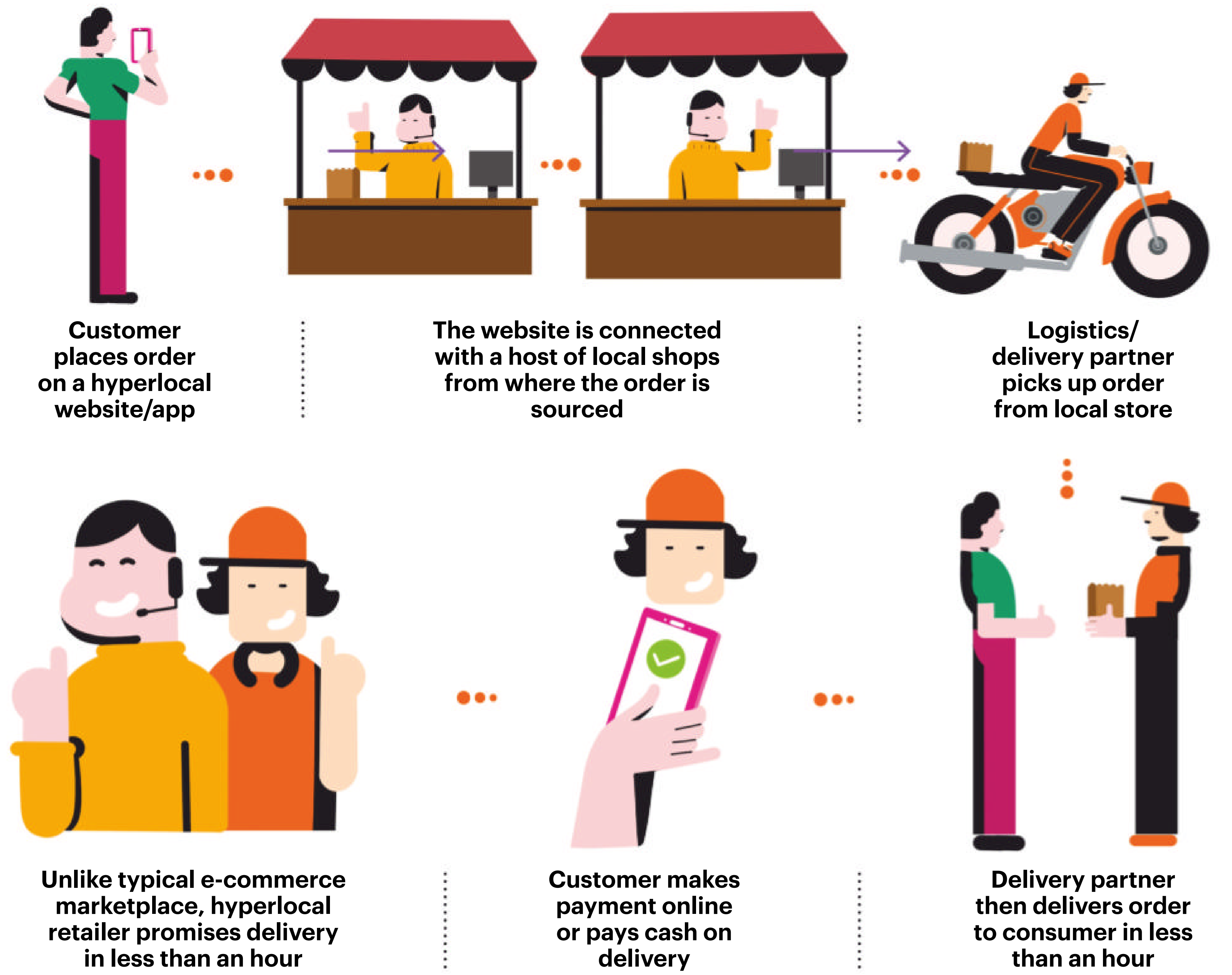
Abhishek Bansal, Co-Founder and CEO, Shadowfax gators such as Delhivery, WeFast and Ship Rocket also launched their respective hyperlocal services.

It's close to 10 months since the pandemic broke out and with things slowly getting back to normal, the frenzy for ordering online for one's daily needs has halved. Firms such as Wow! Momos and MyBrokerhood have withdrawn from hyperlocal retail, and have gone back to doing what they are best at. Swiggy, too, has withdrawn from grocery delivery as wafer-thin margins didn't make for a sustainable business proposition. Over 70 per cent of grocery bills in India are around ₹200-250, and for a bill amount of that size Swiggy charged a premium of around 15 per cent, which the customer paid during the peak of the lockdown since he/she didn't have an option back then. But then markets opened up and consumers were not ready to pay the premium anymore. On the other hand, kirana stores, which were working on wafer-thin margins of 9-10 per cent, were also not happy to give Swiggy a margin of 7-8 per cent in the long run. There were also problems with inventory management. With fill rates being as low as 50-60 per cent and hardly 35-40 stock-keeping units (SKUs) to choose from, customers were put off.

In fact, the oft-used model of hyperlocal companies picking up from local stores and delivering to consumers has come under considerable criticism in the new normal. But the interest in hyperlocal retail has hardly died out. While existing companies are re-looking at their business models in order to be more profitable, newer entrants are exploring ways to build sustainable businesses. Post lockdown, fast-moving consumer goods (FMCG) majors have become increasingly serious about e-commerce, and have not just

What is Hyperlocal?

Services provided within a limited geographic area where sellers can deliver products or service in minimum time. The entire supply chain is close to the buyer and seller.



strengthened their presence on marketplaces such as Amazon and BigBasket, but are also looking at hyperlocal retail pretty seriously. Hindustan Unilever, for instance, has strengthened its project MyKirana.com (a platform which does hyperlocal delivery through kirana stores), while ITC has launched ITC eStore. The latter has been aggressively investing in dark stores across metros to make sure consumers get their orders within a day. Similarly, e-commerce giants such as Amazon and Flipkart have also launched their hyperlocal services and are promising delivery in flat two hours.

Getting Realistic

Is owning inventory in a dark store and then delivering to customers within an hour a better model than picking up stocks from the local retailer and then delivering that to the consumer? Hyperlocal entrepreneurs are asking tough questions, as the obsession of buying online is gradually fading out. "Despite the lockdown getting over, the demand has been higher than what we had pre-pandemic. It's now for us to keep building consistently better experiences for them (customers) to come back to the platform," says Dunzo's Biswas.

Though Dunzo has grown by over 80 per cent in 2020, Biswas admits that his delivery platform had to make do with 3-4 per cent lower margins in the past few months. "That is because we are trying to drive growth. During the pandemic we really didn't have to drive growth as there was lot of incoming traffic," he adds. While an average customer is no longer interested to fulfil her day-to-day grocery needs from a hyperlocal delivery company, he/she does want to use its services for other things — from picking up clothes from the dry-cleaner to getting a cake from a reputed home-baker for the child's birthday. Despite demand being higher than earlier, unit economics has come under pressure as volumes have dipped. "In a typical hyperlocal model, the rider is dedicated to a particular customer's delivery. However, most hyperlocals are not following that model, they are instead trying to match demand. If there are two-three orders from the same area, the rider will pick them up and deliver. This model does make sense, but the delivery time get extended. Most players are trying to make business profitable," explains Akshay Ghulati, Co-Founder and Chief Business Officer, Shiprocket.

Though Shadowfax, like Dunzo, actively played the role of delivery partner to several FMCG companies during the lockdown, Abhishek Bansal, Co-Founder and CEO, agrees that picking up inventory from the kirana store and delivering to consumers is indeed cash-guzzling. "If you pick up from a retailer your cost of delivery would be somewhere close to 10-15 per cent. Unless the consumer pays for it nobody has that kind of margin built into their system to pay for the cost of logistics." Bansal sees more merit in setting up dark stores. "The retailer has 7-8 per cent margin, the

"IF YOU WANT TO BE A CONCIERGE SERVICE TO A HOUSEHOLD, YOU HAVE TO COVER THE MAXIMUM NUMBER OF ITEMS THAT YOU CAN COVER AND GROCERY IS ON THE TOP OF THE LIST"

Prem Kumar, CEO, Snapbizz

PHOTOGRAPH BY SANDESH RAVIKUMAR

distributor has another 6 per cent, which translate into 15 per cent. If you set up your own dark store and buy directly from the company, the entire 15 per cent flows to you," he explains.

However, Shadowfax isn't looking at owning inventory in its dark store, it has instead started running hyperlocal dark stores for FMCG and pharmaceutical companies. Swiggy, on the other hand, is also considering a re-entry into the hyperlocal grocery space through the dark store model. Dunzo is also testing the dark store concept in Bangalore.

Kirana Is King

Why is the kirana store inventory pick-up model unviable? "Hyperlocal companies started charging 7 per cent margin from the kirana store, when the store's gross margin is just about 10 per cent. So, on an order size of ₹1,000, the delivery company would make ₹70 and from that their marketing and delivery cost would get deducted. Bulk of their margin goes in delivery cost, which means they would make just about ₹10 per order. If you hold the inventory, your gross margin will be around 15 per cent. On a ₹1,000 order your gross margin will be ₹150, and after paying for delivery, warehouse and marketing costs, you can still make ₹50," explains Ashish Kumar, Co-Founder and CEO, Near Store. He says most kirana retailers list unbranded items such as pulses, which give them higher margins so that they can afford the 7 per cent margin which the hyperlocal delivery companies charge them.

15 million

No. of kirana stores in India. Many models emerged around the kirana ecosystem during the lockdown

Though owning inventory in dark stores surely seems more profitable, hyperlocal delivery companies can't ignore the 15-million strong kirana store network in India. This had led to the emergence of multiple models around the kirana ecosystem. Technology service providers such as Jumbotail, Snapbizz and Near Store are focusing on empowering kirana stores to becoming robust omnichannel retailers. The belief is that if 60-70 per cent of the grocery bills are below ₹200, it is only the neighbourhood kirana store that can fulfil those needs. "It won't make business sense for a large marketplace to service an order as low as ₹200. They need an average order size of at least ₹1,500 to break-even," points out Prem Kumar, CEO and Founder, Snapbizz.

According to Ashish Jhina, Co-Founder and COO, Jumbotail, empowering kirana stores technologically doesn't end with providing shopkeepers point of sale machines or creating consumer-facing apps. "You have to look at the retailer as a customer and not as a channel. We need to make sure they have enough selection to offer customers. If a customer orders 10 items and only six turn up, it's a bad experience. We need to help them evolve their stores in a way that they solve their customer's needs."

Jumbotail, through its J24 offering, has converted traditional kirana stores into modern omnichannel stores.

"We give them data on what's selling so that they can continuously improve the choices they are providing to customers. The J24 stores include all the benefits of walking into a modern retail store, but you still have the personal connection that you have with your neighbourhood kirana," explains Jhina.

Most of these tech providers earn their revenue by getting 3-4 per of the retailer's margin and have stayed out of delivery since they believe it's not their forte. "On a ₹1,000 order we make ₹40. The entire ₹40 is margin for us because we don't do delivery. The case wherein you work with kiranas and deliver doesn't work," says Kumar of Near Store.

In fact, Prem Kumar of Snapbizz says the new-age kirana store owner not just wants to embrace technology, he is also pivoting from being a supplier of grocery to being the concierge of the house. "If you want to be a concierge service to a household you have to cover the maximum number of items that you can cover and grocery is on the top of the list. A consumer may even need an electrician or plumber once in a way and kirana stores are even trying to offer those services. A grocery store doesn't sell meat and fish, we have created a link at the backend so that the grocery merchant's catalogue has meat and fish from a reliable source and then the delivery happens. The grocery store gets a small cut on the order."

Collaborations

Hyperlocal business models are a lot about collaborations. A single player offering technology, managing inventory and then doing delivery is considered monolithic and not scalable and profitable. Partnership and collaborations are the new rules of the game.

Delivery aggregation platform, Shiprocket, has listed delivery companies such as Dunzo, Shadowfax and Delhivery on its platform, which enables consumers and retailers to choose which service they want to use. "We allow you to check rider availability across multiple providers at a cost. If one company doesn't have a rider available at a given time, a second or third might," explains Ghulati.

Distribution and supply chain company ShopX is also using an unbundled approach for its hyperlocal venture. It makes the inventory of retail partners visible to customers and the order fulfilment is done by delivery partners. "We are partnering with various hyperlocal delivery companies. We are not great at delivery, our ability is to offer in-depth and accurate listing of inventory and that is what we are doing," explains, Amit Sharma, Founder & CEO, ShopX.

Sharma believes an unbundled solution will enable companies adopt different kinds of roles and scale up faster. "Hyperlocal has a strong future. However, there will be many hyperlocal players who will talk to each other using technology. There will be a hyperlocal who will enable product and price discovery and enable consumers to collect from the store, there will be a model where the kirana store will deliver directly, and one needs to digitise that. There may be a partnership-based approach where a company like ShopX can work with local stores and enable a third party to pick up the product and deliver to consumers," he adds.

The Stakeholders

While kiranas are traditional hyperlocal retailers, the sector has seen start-up interest since 2013/14, when Swiggy, Zomato and Food Panda started delivering food from local restaurants

Start-ups such as Urban Company offer services of plumber, carpenter, electricians etc

Tech start-ups such as Jumbotail, Snapbizz, Near.Store and CostpriZe have ventured into hyperlocal retail by onboarding kiranas onto their technology platforms

Last-mile delivery operators such as Dunzo, Shadowfax, Ship Rocket and Delhivery are scaling up hyperlocal operations

The pandemic has also led to cable operators and facility management companies venturing into last-mile hyperlocal delivery

FMCG majors such as HUL and ITC have also gone hyperlocal through initiatives such as MyKirana.com and ITC eStore

Sanjay Hungund, Co-Founder and Chief Strategist, CostpriZe, agrees with Sharma that components of hyperlocal grocery retail are separate and no one company has the best ability in all components. "There is retail, technology and last-mile logistics (LML). Managing Retail (supply chain and operations) by itself is a very big thing. Offline supermarkets are good at this. If technologists try to do retail they will fail. If retailers try to build technology they will not do a good job. Likewise, LML needs a different set of skills and organisation."

Common Standard

The newest kid on the block is Beckn, a non-profit organisation co-founded by Nandan Nilekani, Pramod Varma and Sujith Nair, which has created specifications to offer inter-operability in commerce (on the lines of UPI in the world of payments), especially for local businesses so that they embrace digital better.

"Today, the buyer and seller have to be on the same platform in order to interact, Beckn is trying to make it possible for the buyer and the seller to be on any platform of their choice and interact. For this, you need a common, open specification. We have created free, open specifications, that is published online and anybody can download and integrate into their platform to make it inter-operable for commerce," explains Sujith Nair, CEO and Co-Founder Beckn.

Nair believes that the inter-operability feature will allow kirana stores to find ways to be more discoverable online. "As a local retailer, if we take away the question as to how many customers will download my kirana app, and instead receive orders on a range of apps that customers choose from, including mainstream apps for maps, messengers and payments, then all that I need to worry about is how I update my inventory and make it available for any online order."

Hyperlocal retail is definitely here to stay. It's all about who will be able to crack the right model and build a sustainable business. BT

@ajitashashidhar

Corporate

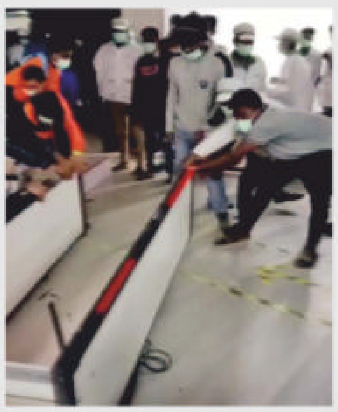
Lessons From Wistron

Labour trouble at the plant calls for introspection on the right balance between reforms and Licence Raj

BY RUKMINI RAO AND SONAL KHETARPAL
ILLUSTRATION BY RAJ VERMA

T**he First Information** Report filed at the Vemagal police station, a few kilometres from Wistron Infocomm Manufacturing's facility at Narasapura Industrial estate in Karnataka, details the violence at the factory premises that took place at the break of dawn on December 12. It said around 6 a.m., a mob consisting of workers and outsiders barged into the human resources block wielding iron rods, and went on a rampage destroying valuables and setting ablaze company vehicles. Several items, including iPhone and laptops, were reportedly stolen as well, and the company initially estimated a loss of around ₹437 crore. According to workers, the reason behind the rampage was an insensitive management, which ran the factory like a sweat-shop,

"Since the unfortunate events at our Narasapura facility we have been investigating and have found that some workers were not paid correctly, or on time. We deeply regret this and apologise to all our workers"
-- Wistron Infocomm Manufacturing



with 12-hour shifts, nearly 80 per cent of the workforce on contract, and an inordinate delay in wage payment and even non-payment in certain cases. The state government swung into action immediately and dispatched teams from the labour department with senior officials, while arresting nearly 300 workers for rioting.

What The Investigation Revealed

Details of the report, as seen by *Business Today* from the inspections held on December 12 and 13, observed that the company employed 1,343 permanent and 8,483 contract workers. Seven firms, including Innov Source Pvt Ltd, Creative Engineers, Needs Manpower Support Services, Ranstad, Quess Corp Ltd, Adecco Group and United (House Keeping), supplying the required workforce. Preliminary findings suggest that though the total workforce was around 10,500, the HR department did not have personnel with sound knowledge of labour laws, and the faulty attendance system had not been addressed for the past two months. Salaries of workers, which had to be disbursed on or before the 10th day from the last day of the wage period, i.e. 1st of every month in the instant case (wage period being 23rd of the previous month to the 22nd of the next month), was wrongly stated by the HR personnel as payable on or before 10th of every month. "The practices in place with regard to payment of wages and overtime are not in line with the provisions of law, the report said.

There was also a difference in payments paid to contract workers, verification with contracting agencies revealed. The housekeeping contract workers were not paid to date; they were required to work for 12 hours a day for six days a week, but paid only for eight hours a day. The company had not taken necessary permissions for increasing staff strength, and exemptions under the Factories Act 1948 were not implemented in case of overtime. The 12-hour shift was in violation of the provisions of Section 51 and 54 of the Factories Act, 1948. Additionally, construction of huge buildings and other facilities were being carried out without obtaining the previous permission of the department for extension of the factory building, and statutory compliance pertaining to the requisite number of safety officers, welfare officers and medical officers as stipulated under the Factories Act, 1948, were not complied with.

According to a senior bureaucrat in the state government who did not wish to be named, the company which started its operations two years ago at a facility in the Peenya industrial estate in Bengaluru, assembling iPhone SE and 6s, had set up the Narasapura facility in early 2020. Since August 2000, post lockdown, the company increased its workforce substantially. "The company, which had sought permission for 5,000 workers, seems to have moved ahead recruiting more, may be due to a surge in demand and also to make up for production loss due to the shutdown," he added.

On December 15, Wistron Corporation did a U-turn on the extent of damages claimed earlier in a statement to Taiwan's stock exchanges. "Unlike what earlier reports stated, the violence did not cause any material damage to major manufacturing equipment and warehouses, with preliminary estimates of damages in the range of NTD 100 to 200 million (₹27-52 crore)," the statement said. However after the labour department's investigation confirmed malpractices, the company issued a statement a week after the incident, admitting to 'mistakes' on its part. "This is a new facility and we recognise that we made mistakes as we expanded. Some of the processes we put in place to manage labour agencies and payments need to be strengthened and upgraded. We are taking immediate action to correct this, including disciplinary action," the statement said.

According to sources, the company also removed Vincent Lee, Vice President, Innovation Business Group of Wistron Infocomm Manufacturing India, and restructured the India team. Managing Director Sudipto Gupta continued in his post. "Our top priority is to ensure all workers are fully compensated immediately and we are working hard to achieve that. We have established an employee assistance programme for workers. We have also set up a 24-hour grievance hotline in Kannada, Telugu, Tamil, Hindi and English to ensure workers can voice any concerns they may have anonymously. We are deeply committed to our business and employees in India," the statement further said.

Wistron India's Journey

2017

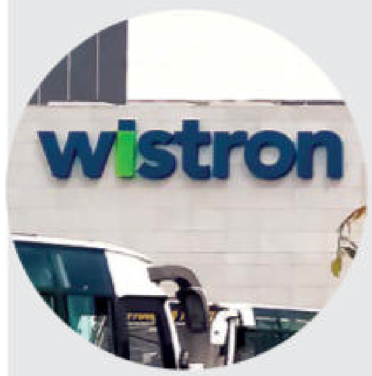
Starts pilot operations at Peenya facility assembling iPhone SE, 6s

2018

Announces decision to bulk up its ₹3,000 CRORE investment to start greenfield operations

Wistron Infocomm Manufacturing (India) Pvt Ltd incorporated

Karnataka government allots 43 acres of land in the Narasapura Industrial Estate in Kolar, 65 km from Bengaluru

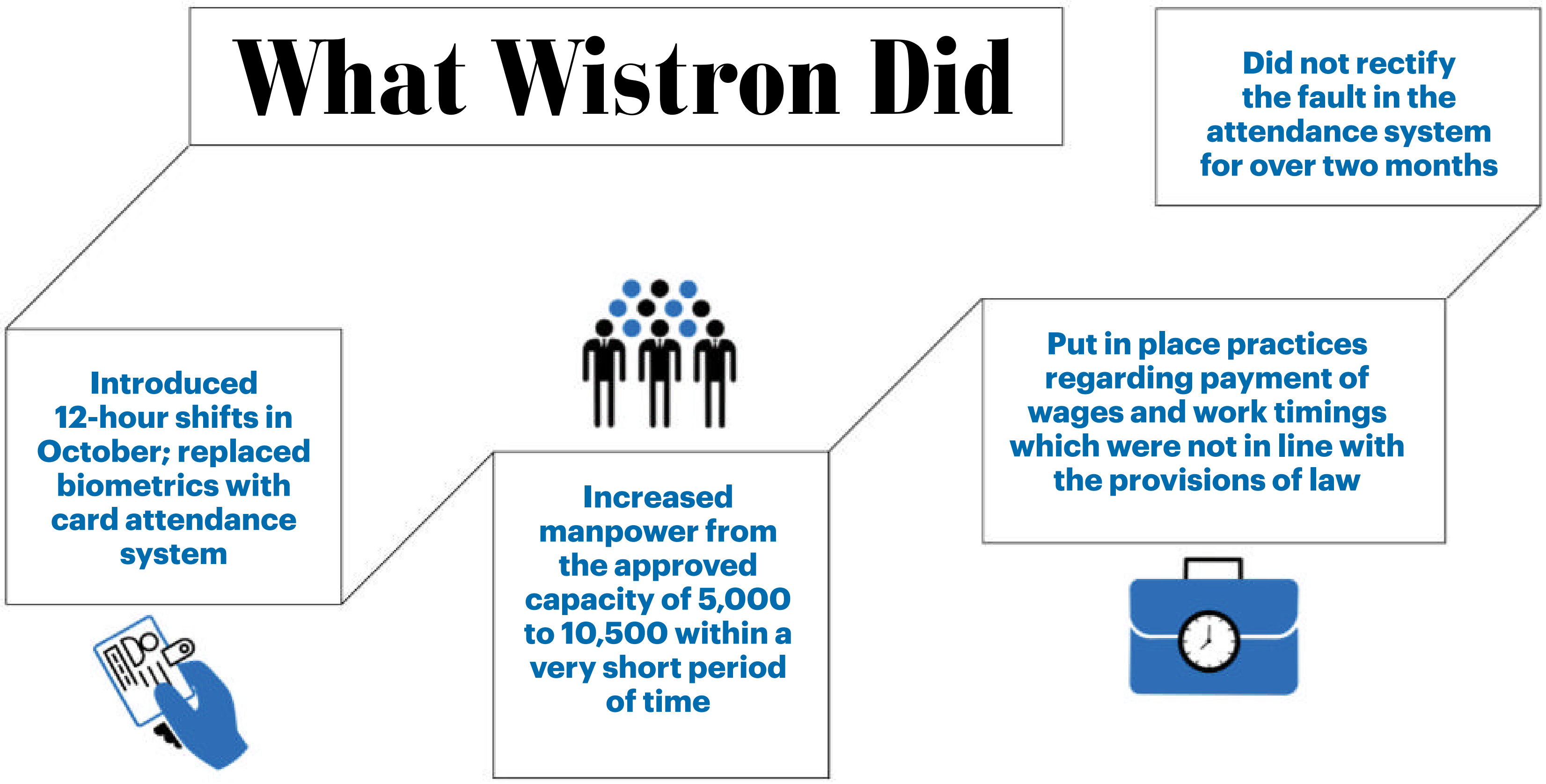


2020

Narasapura facility begins full-fledged operations in August

The Perils Of Contract Labour

The Wistron incident brings into focus the effectiveness of labour laws, especially at a time when industries are increasingly opting for contract labourers to maximise returns with minimum payout. The Contract Labour (Regulation and Abolition) Act was framed to protect contract workers. According to the law, wage payments should be made by the contractor in presence of the principal employer. In case of non-payment by the contractor, the legal obligation falls on



the principal employer (the company), who will then recover the due amount from the contractor. However, in practice, principal employers often don't exercise adequate diligence to ensure payments on a regular basis. "In practice, contractors often pay only when they receive payments from companies. In such a structure, even if one party lags, contract labourers suffer," says Atul Gupta, Employment Lawyer and Partner at law firm Trilegal. Also, since the number of contractual workers in India is usually high, they are known to organise on their own. "They might not be recognised as bargaining unions but they do create their own unions and agitate for their cause," says Gupta. It is very common in the auto sector where contractors create their own unions. In fact, the single-biggest reason why the industry opts for contract labour is not the cost, but the flexibility to terminate. According to the Industrial Disputes Act, government approval is required if a manufacturing unit with 100 or more workers (300 in some states) wants to terminate any worker or to shut down the factory. These kinds of restrictions are not something the industry always wants to adhere to, and engaging contract labour provides more flexibility.

The Fault-lines

While the Contract Labour (Regulation and Abolition) Act was meant to regulate and abolish contract labour, the abolition aspect isn't as straightforward in the law. A committee has to be formed and a notification has to be issued from the government that contract labourers cannot be hired in certain activities. There is also no limit on the number of contract labourers that a factory can hire. "These kinds of notifications are not issued on a regular basis," says Gupta of Trilegal. So, industries rely heavily on contract workers even for core roles, instead of full-time employees. This is where the Contract Labour law has failed, adds Gupta. Andhra Pradesh has changed its Contract Labour (Regulation and Abolition) Act to eliminate hiring of contract labourers for core jobs, but implementation remains weak.

In Wistron's case specifically, it seems a failure of labour market governance on part of the government and the principal employer. This is where inspection becomes the big issue. The Karnataka state government had earlier proposed to eliminate surprise inspections dealing with labour. "While the law has not been passed, but if the ruling party has the neo-liberal stance, the labour department will also informally start following those norms and will not conduct inspections," says K.R. Shyam Sundar, Labour Economist and Professor, XLRI-Xavier School of Management, Jamshedpur. Labour market governance mechanisms such as inspections cannot be compromised, though it can be made employer-friendly. "If inspections were taking place, this incident could have been avoided," adds Sundar.

Recently after a visit to the factory, Karnataka Labour Minister Shivaram Hebbar said the unit will commence full-fledged operation in January, and the government will make sure that workers get their dues. Apple meanwhile has put Wistron on probation, refusing to give the company any new business before corrective actions are implemented. BT

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Interview

IN 2022, THE TELECOM NETWORK WILL START TO SHIFT INTO SPACE”

It’s been a bloodbath in the Indian telecommunications sector but **Sunil Bharti Mittal**, Founder and Chairman, Bharti Enterprises, put up a formidable fight. In a tell-all conversation with India Today Group Editorial Director **Raj Chengappa** and Deputy Editor **Shwweta Punj,** Mittal talks about how the pricing war unleashed by Reliance Jio is badgering the sector; how Bharti Airtel is inching back into the saddle of profitability and why Budget 2021/22 should focus on those at the margins and not on corporate tax cuts.

PHOTOGRAPH BY BANDEEP SINGH

You have stayed focussed on telecom. Are you thinking of getting into providing content and other such services?

There is no service provided by a telecom company in the world which Airtel does not provide. Yes, we don’t produce our own content. We don’t have our own studios but we have tie-ups — Amazon, Netflix, Zee5. We will never be good at doing stuff that others do better than us. A classic case and I can reveal it today is the AT&T-Time Warner acquisition. When that happened, I straight away spoke to the AT&T CEO. He said the world has changed, smartphones have come and you will be able to groom content for mobile phone screens.

He told me he would ensure that Time Warner and AT&T are

hundred miles away, in terms of no-interference. But once you take over a company, the acquirer starts to put his people. That acquisition hasn't gone down well is the only example I can give you of a telecom company going for a big bet in merging together what you call a platform kind of activity. I think the jury is out, and I am yet to see one case which has succeeded globally.

Reliance Jio is a platform. It is into e-commerce, it is also selling mobile phones. What do you think of such a model?

He has different businesses — e-commerce, retail and telecom. They are businesses with different shareholdings. If we confine to the Jio platform and Reliance Jio telecommunications, there is nothing that we are not giving to our customer today that they are giving. Google works with us on multiple fronts. Amazon and we are very tightly stitched together. There is nothing that we don't have.

It seems near impossible to have a conversation without a call drop. Why is that still persisting?

Call qualities have fairly advanced because most calls are not going to regular circuits. They are more or less on data pipes. If you have a smartphone, 99.9 per cent you will be going on data pipes to make your call on circuit switching. We are seeing tremendous improvement. Statistics tell us now there is a rare case of call drop.

What are the big lessons from Covid? What big changes do you expect in 2021 both globally and in India?

Telecom emerged as a hero industry during the pandemic. Airtel and our competitors stepped up to the job. The traffic pattern shifted from offices to homes within days. The way traffic surged, networks would have normally collapsed. But our people were out on the streets with complete disregard for what could happen to their health. In many places, electricity was a problem. I would say this has been a game-changer, it accelerated the digital world and as Nandan Nilekani rightly said what could have happened in years happened in weeks... and it is true.

We put up more radio sites, connected more fibre immediately. So, I would say going forward there will be a fundamental shift towards digital consumption. I feel there is going to be a permanent shift in the world. There are several question marks — work from home or partly work from home or reinstate office? What will be the form and shape of high street retail?

What big change do you see in telecom during 2021?

2021 will be more of 2020 but on a larger scale. All ongoing work in rural areas will be complete; 4G coverage will be complete, more fibre will come through and networks will stabilise. Probably by end-2021 we will start to think of 5G and in 2022 you start laying down the foundation for 5G. It is a completely different ecosystem. For the first time, the industry will have the capability of offering customised speed.

In 2022, the telecom network will start to shift into space. Our new project satellite services will be in India by 2022 — from the Himalayas, deep deserts, to our security agencies, any place in the world you will have satellite communication.

Reliance Jio has talked about a 2G-mukt Bharat. Where do you see this argument going?

We made a statement that we agree with that and must transform from 2G to 4G in the fastest possible time. Thankfully we have taken the 3G layer out completely.

Every month few million customers get converted to 4G, so it is happening. In 2-3 years, we will be able to completely afford 4G.

There are many restrictions on 5G, especially on Chinese equipment. How do you see that panning out?

If you take China out, there are two players — Nokia and Samsung. So it will create some pressure on pricing. That is where the Government of India needs to ensure we create an ecosystem to bring in more manufacturers. The Cisco, IBM type of companies needs to start in this area. For 5G in any case we have made up our mind to go the western way.

What would you like to see in the Budget?

Fiscal space is restricted. We are a large nation and have limitation of money. So, the government has a very difficult job at hand. The industry should not expect any concessions in terms of tax reliefs. What we should hope is that the Budget directs a lot of money towards infrastructure development. People who have lost jobs should be a focus area. There is so much capital available, interest rates are low, so industry will manage. Small and medium industry needs support, so do people in the margins. So, give them support and put lot of money into infrastructure.

Covid has been a game-changer for digital... What could have happened in years happened in weeks

You have finally reported a profit. What did you do to turn around?

This has been a very difficult journey. On days when you are tired and exhausted, I wished we were a different industry where you didn't have a competitor as strong. But you don't control the hand that is dealt to you, you have to claim the hand that is dealt. We are grateful to the Lord. I would have been very bored if I was in the steel industry. That is not in my nature and so in some sense I got what I wanted.

In 2002, we were almost given up by the world. The question was when will they collapse? Our share price was down to ₹19 from ₹45. From there it went to ₹1,200 in 18 months.

In 2016 we launched discounted pricing. Out of a dozen-odd players then, eight or nine are not there today, and some from very big houses are struggling. One is of course the big competitor. I think we have done enough. I was clear that the storm will pass and we did emerge strong. We kept our head down, this has been the play-book we have followed earlier too. Our institutional strength is very, very good, the brand is very good, and so is the ethos and passion.

What did you do to push up your revenue this time?

We focussed on customers. We stepped away from having the maximum number of customer networks, and opted for a minimum charge of ₹35. We made adjustments and the quality of customers went up.

The industry's return on capital is very dismal... When we have spent ₹4 lakh cr — you need to have some return on capital

What about hiking tariffs?

We are in an intensely competitive industry. Before the new competitor came in, average revenue per user was ₹272-280. It has since gone down to ₹130-140. We are on ₹160 now and it needs to get to at least to ₹200. Eventually, the nirvana of this industry to put money into networks, 5G and beyond is ₹300. At ₹300, we will still be the cheapest provider by far in the world. But I see no reason why people who could afford ₹500 should be paying ₹150.

Has Reliance Jio agreed for a price increase?

The industry's return on capital is very dismal. While we are saying we have turned profitable, the fact is when we have spent ₹4 lakh crore — you need to have some return on capital. We have investors. We need to invest more in the network. This industry needs a lot of money. Unlike the steel industry or petroleum refinery where you put up big capex and then you have small maintenance, here every year you need to spend about ₹20-25,000 crore on towers, fibre and spectrum. It is a never-stopping process. You need a lot of good returns to keep on... if you look at the record of Airtel, how much dividend it has paid over the last 25 years, it will probably be lower than the smallest industry out there.

What next?

At 45, I would have told you I am going to politics and that was always my dream. At 49, I had lost that direction and I think that is something I will not do. But to do things which have high impact, which are new excite me. Public service excites me. Business is a kind of choice I made because I had no other choice. I was not well-educated, I was not an engineer or a doctor. This is the only thing I could have done.

You didn't want your son to succeed you in this business?

To be honest, this company was never designed like this... it is a rare company. Otherwise, you will never see any other Indian founder's company where friends and families are not integrated. This is a meritocracy driven organisation. Are they not qualified? I would not say that. They are also trained, but you can do what you want. As I get to an age I would like to step back from day-to-day work. They would be most welcome to come and take responsibility at the shareholder level. They must because that is what they are going to inherit. But if they want it at the managerial level it is their call. I wouldn't paradrop our children to boards. We must ensure that the company is professionally and meritocracy driven.

There is a buzz that you might concede majority rights to SingTel and move out of the business?

They have never come and approached me. I don't think SingTel can run this company as well as we run it, they have acknowledged that. They are good partners for past 20 years. But this company is publicly listed — our stake is down to 36 per cent, we have raised a lot of capital. I am sure our family will inherit the shareholding. BT

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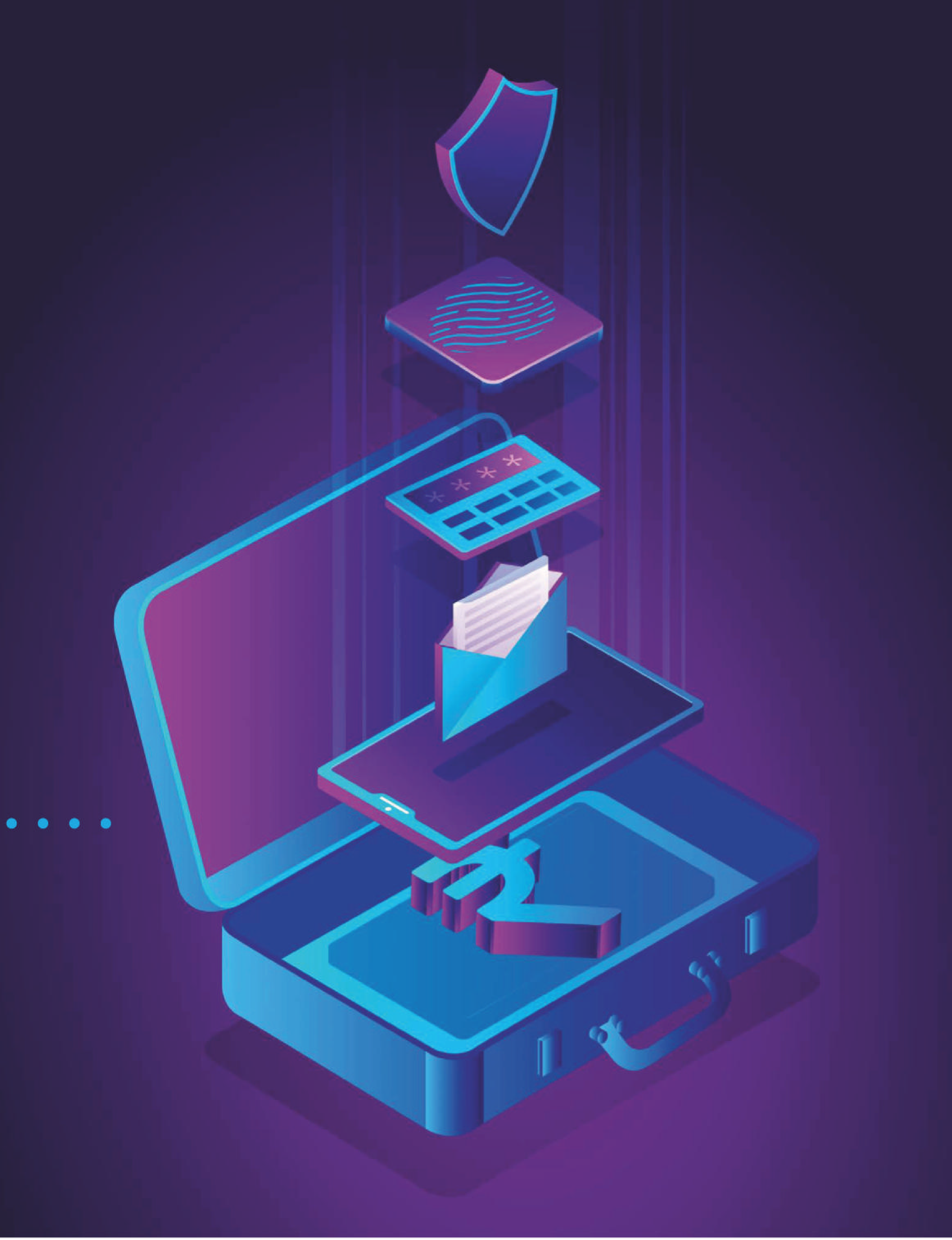

GUARDIANS OF THE ONLINE WORLD

Cyber security is becoming big business. Here's why

BY NIDHI SINGAL
ILLUSTRATIONS BY RAJ VERMA

$4.3 BILLION
Revenue generated by cyber security services industry in India in 2019

$7.6 BILLION
Expected revenue by 2022

21%
Expected CAGR of the industry till 2025

Grocery is a boring, low-margin business. But that did not prevent cyber criminals from stealing data of 20 million customers of online grocer BigBasket and selling it for a staggering $40,000 or nearly ₹30 lakh on the dark web. And that too non-financial data such as name, email ID, PIN, contact number, address, date of birth, location, IP address.

BigBasket had thankfully not stored customers' financial data such as debit/credit card details. But companies and their customers are not always so fortunate. In 2016, security of close to 3.2 million debit cards issued by major banks, including SBI, HDFC Bank, ICICI Bank, Yes Bank and Axis Bank, among others, was compromised. The breach, caused by a malware on an ATM network, resulted in not just financial loss to consumers and banks but also dented people's trust in digital banking.

"There is always risk of financial loss in a cyber attack. To combat the evolving cyber security threats, banks need adaptive 24x7 methods of detection, defence and counter-attack," says Abhimanyu Bhoan, CEO, New India Co-operative Bank.

With dramatic rise in cyber attacks over the years — they doubled to 6,96,938 between January and August this year — companies, especially those with a heavy online presence, are beefing up their security architecture, creating new business for providers of cyber security and making it one of the fastest growing areas in IT services. As per the India Cybersecurity Services Landscape report by Data Security Council of India (DSCI), the cyber security services industry in India generated revenue of $4.3 billion in 2019 and is expected to reach $7.6 billion in 2022. It will be registering a compounded annual growth rate (CAGR) of 21 per cent till 2025.

Sector Contribution

Going forward, the cyber security market in India will be defined by three key sectors, banking, financial services and insurance (BFSI), information technology (IT) and IT-enabled services (ITeS) and government, which will account for 68 per cent of the market, according to the DSCI report. The BFSI sector's share will be the largest at 26 per cent. Driven by new regulatory norms as more and more businesses go digital, rapid adoption of technology and increased number and complexity of cyber threats, the BFSI sector's spending on cyber security is expected to rise from $518 million in 2019 to $810 million by 2022, a CAGR of 16.1 per cent, led by users such as New India Co-operative Bank, which has adopted IBM's Security Operation Centre (SOC) services for proactive monitoring of threats 24x7,

The User Club

BSE Ltd has deployed next gen SOC & technologies. In next gen SOC (Security Operation Centre), data monitoring extends beyond the organisation into cloud services, key executives' email accounts, mobile devices, and much more

New India Co-operative Bank uses IBM's SOC service for monitoring of threats 24x7, as well as for defence and counter-attack

Panasonic has deployed California-based Fire Eye's solutions at the gateway level to detect embedded malware

Some Recent Data Breaches

At BigBasket, data of 20 million users, including name, email ID, PIN, contact number, address, date of birth, location, along with IP address, available for sale – November 2020

Data breach at Dr Reddy's Laboratories resulted in shutdown of all production facilities across the world for 24 hours – November 2020

Administrative network of Kudankulam Nuclear Power Plant of Nuclear Power Corporation of India in Tamil Nadu was breached in malware attack. However, plant systems were not affected – September 2019

Data of over 100 million users of local search service JustDial was publicly available – April 2019

18+

WHAT IS AVAXHOME?

“Security leaders from SMBs to large enterprises need to continue their focus on the entire threat lifecycle which constitutes planning and detection, in-the-moment response and remediation–recovery”

Prashant Bhatkal, Security Software Leader, IBM India/South Asia

by IBM and an array of in-house teams working in areas such as risk, governance & compliance, application security and project management. The systems are designed and implemented based on Zero Trust Security Design & Architecture. They ensure coverage at all levels - endpoint, data centre, network, applications, cloud and more.

The IT/ITeS sector has emerged as the fastest-growing user of cyber security services. Its spending on cyber security is expected to grow from $434 million in 2019 to $713 million by 2022, a CAGR of 18 per cent.

The government sector is not far behind and is expected to spend $581 million by 2022, up from $395 million in 2019, a CAGR of 13.8 per cent. This growth is primarily driven by increased focus on digitisation of government systems and rising cyber attacks on critical state infrastructure. Digitisation of citizen services, consumer awareness and smart city initiatives will also drive substantial investments in cyber security. The cyber security spend in other sectors is expected to grow from $630 million in 2019 to $949 million by 2022, a CAGR of 14.6 per cent, says the DSCI report.

Pandemic Impact

Rise in cyber attacks and changes because of the pandemic are impacting the industry positively. Organisations working with disconnected teams and disparate data are feeling the need for an open and connected platform approach to cyber security. Cyber security is emerging as a business necessity and not just a support function.

With multitude of employees and partners accessing enterprise and messaging applications remotely, Panasonic Life Solutions is doing its best to stay safe. “We have implemented a very strict information security policy, which is regularly communicated and explained to employees and partners. We conduct regular vulnerability tests to ensure safety of our network and have deployed a VPN for closed access,” says Dinesh Aggarwal, Joint Managing Director, Panasonic Life Solutions India Pvt. Ltd. The company has been pursuing a large-scale move towards digital technologies for internal and external stakeholders and has deployed Fire Eye at gateway level to detect embedded malware.

Pidilite Industries Ltd, on the other hand, believes in keeping good stuff in and bad stuff out. “We isolate and ring-fence what we consider IP (intellectual property) or confidential information, and implement stringent controls to protect such information. For keeping the bad stuff out, we have adopted an objective

apart from detection, defence and counter-attack.

Entities such as stock exchanges are also not behind. “When you talk about stock exchanges, speed and accuracy are very important. We are a fully digital platform. Cyber attacks like DDoS (distributed denial of service), malware, ransomware, phishing, social engineering and many more can have a huge impact on BSE’s contribution to the financial system of India,” says Shivkumar Pandey, Group CISO, BSE Ltd. BSE’s robust IT system includes the Next Gen SOC & Technologies deployed score-based approach that measures our security posture on various parameters and suggests remediation measures to improve the score on an ongoing basis," says Mayur Danait, CIO, Pidilite Industries Ltd.

However, there isn't 'one strategy that fits all'. The approach differs according to the nature of the organisation. "A sound security strategy for remote workforce always includes proactive endpoint protection (or next-generation antivirus) that mitigates attacks before, during and after they are executed. Advanced approaches include automated rollback to return infected Windows PCs to their previously clean state," says Debasish Mukherjee, VP Sales - APAC at SonicWall, a network security solutions provider.

With global growth engine coming to a halt, IT spending will be aligned with business projections. However, allocation for security is expected to increase significantly.

Spending & Impact

Investment in cyber security technologies is an ongoing need. Hence, many organisations in India, even after being aware of cyber security as one of the top five risks to their business, continue to contemplate on the recurring cost involved. "The reason is the dynamic and ever-evolving threat landscape. Security leaders from SMBs to large enterprises need to continue their focus on the entire threat lifecycle which involves planning and detection, in-the-moment response and remediation–recovery. This will help them prepare for additional unforeseen threat scenarios," says Prashant Bhatkal, Security Software Leader, IBM India/South Asia.

Investments will depend on multiple factors such as the nature of the business, the domain it operates in, regulatory compliances, types of risk involved and awareness level. For instance, a financial institution might invest more in security compared to a manufacturing organisation due to the nature of data it handles. As per the industry norms, enterprise security budgets are 8-10 per cent of overall IT budgets, which have been increasing every year. "Security operations itself have become so complex that they involve a significant amount of technology. Of the technology spend of 30 per cent, 15-16 per cent will be on security," says Shree Parthasarathy, Partner, National Leader - Cyber Risk Services, Deloitte India.

However, there is a shift in how the budget allocation takes place. "While earlier, security was a percentage of IT spends, security spend is now being considered as part of the overall organisation budget separate from IT. This is primarily due to growing regulations, increase in number of attacks and larger impact to businesses," says Tony Velleca, Chief Executive Officer, CyberProof and CISO, UST Global.

A cyber attack can have grave consequences for the enterprise. It may suffer financial losses either due to legal troubles such as class-action suit or loss of clients/customers. "A company may also have to spend millions of dollars in reparation for damages as well as investment to prevent future attacks. This was exemplified in the Target data breach where the company spent more than $100 million in upgrading systems to prevent another breach, besides suffering a 46 per cent drop in profits after the attack," says Nilesh Jain, Vice President, Southeast Asia and India, Trend Micro, an American-Japanese cyber security software company with global headquarters in Tokyo, Japan, and Irving, Texas, United States.

A breach may also lead to stringent penalties with increasing number of companies adopting legislation such as EU's GDPR (General Data Protection Regulations). There are cases of espionage and sabotage too. "Proprietary information, such as formulas or trade secrets, can be targeted in an attack to eliminate competitive advantage. In case of sabotage, disrupted operations can give a competitor, or even another country, an advantage in the market," says J. Kesavardhanan, Founder and CEO, K7 Computing.

QKD – The New Frontier

Quantum Key Distribution (QKD) is proclaimed to be the ultimate technology for keeping information-sharing safe over the network. It uses photons, particles of light, to generate a random secret key. Using this key, the messages can be encrypted and decrypted. In case of any interference from an unauthorised third party, the composition of photons is altered, rendering the randomly-generated keys inoperable.
Toshiba has successfully deployed the technology in partnership with Quantum Xchange to enhance capacity for the first quantum-secured network in the US. Toshiba QKD technology can detect if somebody is eavesdropping or attempting to steal information.

"We are a fully digital platform. Cyber attacks like DDoS, malware, ransomware, phishing, social engineering and many more can have a huge impact on BSE's contribution to the financial system of India"

Shivkumar Pandey, Group CISO, BSE Ltd.

"Security operations itself have become so complex. They involve a significant amount of technology. Of the technology spend of 30 per cent, 15-16 per cent will be on security"

Shree Parthasarathy, Partner, National Leader - Cyber Risk Services, Deloitte India.

In certain cases, recovery can take long, impacting business operations. Some organisations may never be able to recover. A cyber attack is an existential threat for an enterprise, and investing in effective cyber security makes sense for any business that wishes to remain in business. "Cyber security is not an extension of IT but core to our digital strategy. It is essential to retain customer trust and build business process resilience," says Bharat Kalia, Co-founder and CEO, LifeLong Online Retail. The home-grown white goods company has partnered with a specialised cyber security partner which helps it monitor, backup and restore the company's core assets.

Regulatory Issues

While India will soon have a robust cyber security policy, current laws do not mandate notification of data breach to customers. However, there are sector-specific regulations on this. For example, companies in the financial sector like banks and NBFCs are required to notify cyber security incidents to the Reserve Bank of India. Further, certain types of cyber security incidents need to be reported to the Indian Computer Emergency Response Team ("CERT-In").

"India should fast-track enactment of the Data Protection Act and set up a strong and effective Data Protection Authority. This regulatory framework will provide for appropriate consents to collect and process data and prescribe penalties for non-compliance. Since the draft Bill already provides for high fines (₹5 crore or 2 per cent of worldwide turnover), it is expected to usher in a strong compliance culture," says G.V. Anand Bhushan, Partner at Shardul Amarchand Mangaldas & Co.

Recently, though, with launch of Indian Cyber Crime Coordination Centre and a dedicated National Cyber Crime Reporting Portal, India has taken a firm step towards reporting and acting on such incidents. BT

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Minding It Right

COMPANIES ARE TAKING STEPS TO ADDRESS THE ISSUE OF MENTAL HEALTH. WILL THEY BE SUCCESSFUL?

BY SONAL KHETARPAL
ILLUSTRATION BY RAJ VERMA

In **2009,** a 24-year-old employee of Singapore-based software-as-a-service (Saas) customer engagement firm Capillary Technologies went on a holiday and didn't return. It was found that he had a break-up and had committed suicide. Two years on, a similar incident occurred in the company. "He was 23, looked happy and was doing quite well in the organisation. In fact, we had moved him to Mumbai," says Aneesh Reddy, Co-founder and CEO. The firm is still not sure what happened in this case

49% Indians are struggling with depression

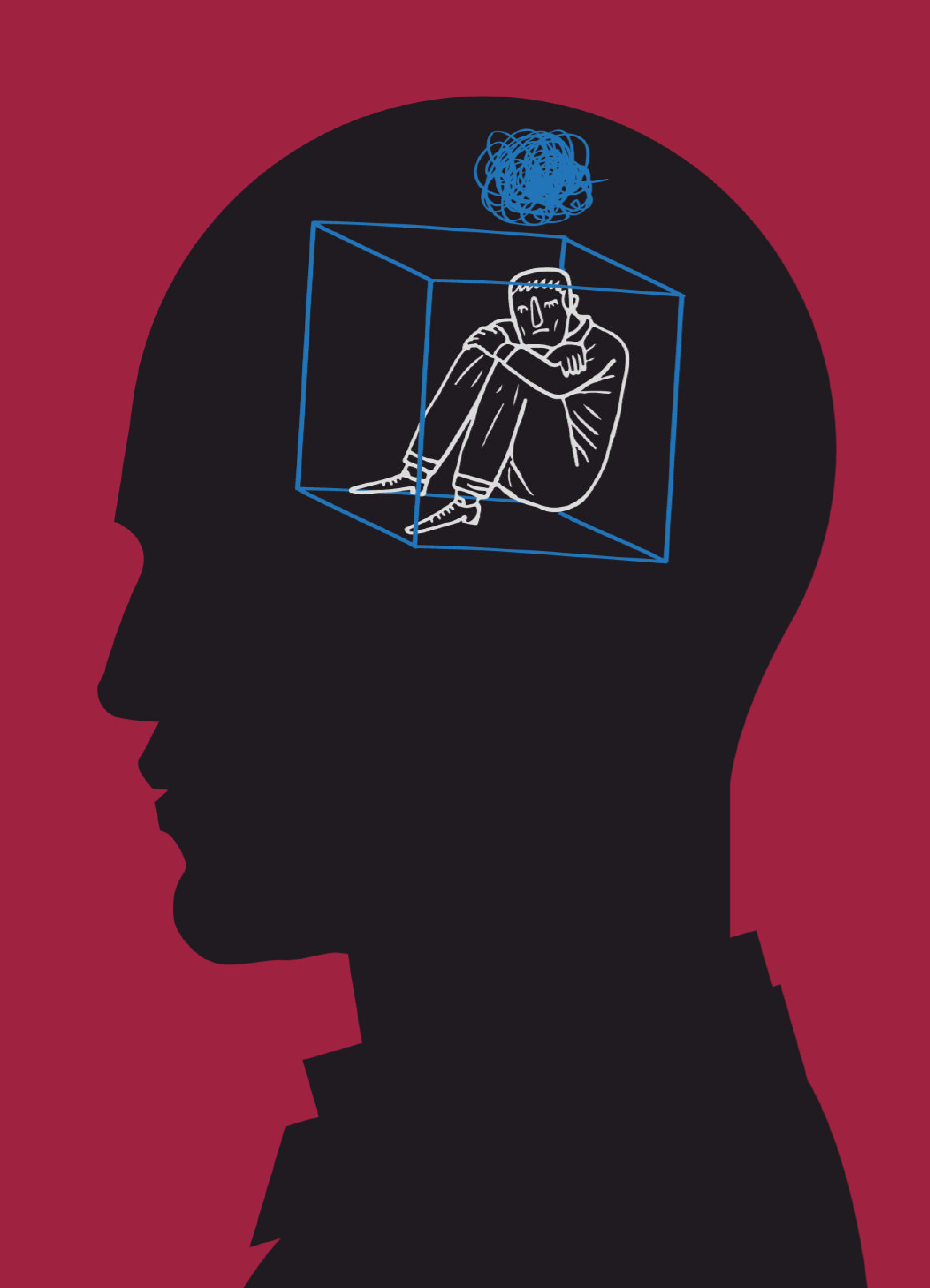
Of them...

26% Are facing mild depression

17% Face a more strenuous kind

6% Are severely depressed

Source: GOQii



though. "Generally we hire a batch of 5-10 freshers from campus, but no one from his cohort knew," adds Reddy.

The incidents were an eye-opener for Reddy. "I realised the extent of stigma around mental health and how important it is to ensure that people have access to someone to talk to and lean on." So, when one of his former employees launched online counselling and emotional wellness firm YourDOST, Reddy became one of their early angel investors and also their first corporate client.

According to the government's National Mental Health Survey 2016, over 10 per cent of Indian adults, approximately 150 million people, suffer from some form of mental health disorder. It also found that nearly one in every 20 people suffer from depression.

The country was already at a tipping point. Covid-19 only added to the problem and brought the issue out in the open. According to a study of 10,000-plus individuals by smart-tech healthcare platform GOQii, almost 49 per cent of Indians are struggling with depression. Of these, 26 per cent are facing mild depression, 17 per cent face a more strenuous kind and 6 per cent are severely depressed.

1
in 20 people suffer from depression (NMHS, 2016)

Companies have started taking note as well. "Covid has brought the focus on mental health to the forefront and we are seeing openness in corporates to address it," says Neerja Birla, Founder and Chairperson, Mpower. Counselling services, sensitivity workshops for managers and fixed working hours — India Inc is going all out to address such issues. But the question is, are they working?

The Right Values

The pandemic has had its effect on most people. Work from home has been difficult, job losses and pay cuts have led to financial constraints, and families have lost their loves ones. "On top of that, social isolation for prolonged periods is making people anxious. Mental fatigue has set in, people are fed up and want to get on with their lives, but there is no end in sight causing depressive disorders in many," says Birla.

Companies are rolling out programmes for mental well-being of employees, including roping in counselling support firms for delivering self-help workshops (online and offline), knowledge-sharing sessions and online counselling and therapy. From April to date, Mpow-

Lockdown Blues

Top three issues for which professionals sought support in 2020

Work-life balance:
The distinction between personal and professional life was completely blurred. Many complained about work extending late into the night and increasing number of hours spent working

Relationship & Marital Adjustment:
A lack of work-life balance led to relationship issues for a number of couples

Confidence & Self-Esteem:
Many suffered job losses or pay cuts in 2020, which affected their confidence and self-esteem

Source: YourDOST

“

We get requests from organisations to remove the phrase ‘mental health’ from their workshops. The stigma is so high that people want to address it, but don't want to make it obvious that they are discussing mental health”

NEERJA BIRLA
Founder and Chairperson, Mpower

er has on-boarded 30 corporates and its 24x7 helpline has received more than 65,000 calls from employees. YourDOST, too, increased its client's base by 100 during lockdown.

But access to counsellors is not enough, it is important to call out the elephant in the room. Birla shares how her organisation gets requests from companies to remove the phrase ‘mental health’ from workshops. “The stigma is so high that people want to address it but don't want to make it obvious that they are discussing mental health,” she adds. “This we don't like to do because it defeats the very purpose of de-stigmatising it.”

Pidilite Industries Chief Human Resources Officer (CHRO) Rahul Sinha says the company conducts general awareness sessions on mental well-being every week on its communication platform Facebook@Work hosted by occupational experts on topics such as managing stress, distancing work and life etc. Law firm Trilegal, too, has conducted six such workshops.

But conversations around mental illness still remain largely stifled due to the stigma associated with it. An employee, who works as a digital marketer, says he lost out on a number of job opportunities whenever he disclosed to his manager that he was suffering from schizophrenia. At times, he adds, companies would increase his work load. The result: He has stopped sharing about his condition for the last seven-eight years, and now, he is gainfully employed.

Very often, companies don't make concessions on targets or workloads, despite knowing that stress is a common trigger for several mental health ailments, says another employee. “My manager is okay with my anxiety issues as long as I continue to perform.”

The Trust Factor

For mental health programmes to work, the fundamental values of respect, dignity and non-discrimination have to be in place. "People need to be reassured that seeking mental healthcare, which the company has made available, will be strictly confidential. And that, under no circumstances, any disclosure will affect the concerned person's employment," says Vikram Patel, Professor of Global Health at Harvard Medical School. "One has to begin with these values otherwise there is no way that any employee will seek mental healthcare."

Capillary, says Reddy, keeps a track of monthly aggregate data on top stressors for employees. "When we onboarded YourDOST, 3-4 per cent of employees went and got a session. I was worried that we were doing something wrong, but the counsellor said that at any given point in time, 5 per cent of the population will always have issues." The only time the company has made a request to be made aware of someone's situation is when they are at the risk of harming themselves.

An employee in a media firm who spoke on condition of anonymity says he doesn't use the services of his corporate therapist because of the requirement of sending a mail to the HR before seeking an appointment.

Another adds she will never use the service because of trust issues. "While my organisation has a great culture, it is still a corporate house where everything is driven by economics. I can't trust the therapist they provide with my deepest and darkest secrets that I don't want even my family to know."

Tanmoy Goswami, Founder of mental health journalism platform *Sanity by Tanmoy*, suggests giving employees mental health allowance, which they can use as and when they deem fit.

Culture Issues

Mental health programmes can't be relegated to a one-time workshop or session, an overall strategy needs to be put in place. "For its communication to be effective leaders have to be involved, otherwise it will remain another unread HR email in the inbox," says YourDOST Co-founder and COO Puneet Manuja.

"They have to be treated very much like cultural initiatives," says Ira Gupta, HR head, Microsoft India. It would start with training leaders, making them talk about mental health issues and demonstrating those values to their teams. Sriram Rajamani, Managing Director, Microsoft Research India, heads the mental wellness community at the firm. The employee group focusses on creating systemic capability to support employees and destigmatise the issue within the organisation.

Work-life balance, too, plays a crucial role in minimising stress since long work hours over sustained periods can be demoralising. During an internal survey among employees at Mondelez, the management found that people were

"Pidilite has created digital etiquette guidelines, one of those is to ensure all meetings happen between 10 a.m. and 5.30 p.m., with the exception of lunch time from 1.30 p.m. to 2.30 p.m. We are now sharing data with leaders on the number of times meetings happened outside designated hours"

RAHUL SINHA
Chief Human Resources Officer,
Pidilite Industries

not taking breaks as they were working from home. The company decided to institutionalise a culture to enable work-life distancing. "Earlier the conversation was about work- life integration, but we realised it was important to create work-life distancing," says Mahalakshmi R., Director, HR, Mondelez India.

The maker of Cadbury Dairy Milk, Oreo and Tang, among others, created a five-point Leadership Pledge, which was taken by Mondelez India President Deepak Iyer, along with the country's leadership team on remote work commitments. The leadership has been encouraging others to follow it as well. The five-point agenda includes setting 30 minutes of digital detox time, taking care of oneself through an exercise/ meditation routine, setting a time limit to switch off from work, expressing gratitude, and the last, but most important, the 'Do Nothing Days'.

"We realised people were not taking leaves, so we created 'Do Nothing Days' where we encouraged people to take breaks and utilise their leaves, to spend time with themselves and their families," adds Mahalakshmi.

Sinha of Pidilite says the company has created digital etiquette guidelines, one of those is to ensure all meetings happen between 10 a.m. and 5.30 p.m., with the exception of lunch time from 1.30 p.m. to 2.30 p.m. "We are now sharing data with leaders on the number of times meetings happened outside designated hours," he adds. Almost 30 per cent of the meetings were spilling outside earlier, now it has reduced to 8-9 per cent.

Training Sessions

A company may have the best of policies, but without participation from the workforce, it is just an initiative on paper. That is where training can play a critical role.

Harvard's Patel says one of the most important strategies to ensure employee well-being is to have a zero-tolerance policy on workplace harassment and bullying. "This means those in positions of power are the ones who are going to have to change their behaviour towards those who are reporting to them," he adds.

He shares how at Harvard University all the senior faculty have to undergo not only a regular training on aligning with the policy of zero harassment, but are also made aware that there is a system for their staff to report.

Training can also help in overcoming the bias that mental illness is a personal failing, that the person is not capable of handling stress and therefore may not be the right person for the company. "It is a scientific fact today that mental illness can be treated like any physical ailment, and this needs to be conveyed that it doesn't have any association with the capability of the person to work harder," says Patel.

Pidilite has been conducting sensitivity training for leaders for the last seven months on managing and identifying stress for themselves and their team members. Microsoft does ally-ship training where the focus is to teach people how to be an ally, how to communicate with the person on how he/she is feeling and the right language to use.

It is still early days for mental health advocacy in India. It is a positive that everyone is talking about it, but there's still a long way to go. BT

@sonalkhetarpal7

What Organisations Can Do

Tanmoy Goswami, founder of mental health journalism platform *Sanity by Tanmoy*, on what companies can do for well-being of employees

The agenda of well-being programmes should be to make employees feel good and well, not more productive

Use language sensitively. Phrases such as war for talent give the impression to employees that there is no leeway to slow down

Reward empathetic leadership traits, incentivise managers who listen and take care of their teams

Create safe spaces within organisations for people to have radically honest conversations

Network

PHOTOGRAPH BY RACHIT GOSWAMI

Mehta's Fitness Regime

When gyms, parks and fitness centres were out of bounds during the peak of the Covid-19 lockdown, **Sanjiv Mehta,** Chairman and MD of the country's biggest FMCG company, Hindustan Unilever, walked up and down the staircase of his 57-storey apartment complex in central Mumbai, to stay fit. "Me and my wife climbed five floors on the first day, we did 10 floors on day two and 15 on day three, then we had a good rhythm of 20 floors and I was feeling very pleased with myself. One day we bumped into a person on the stairway, who looked my age. I asked him where he was coming from. He said he stayed on the 18th floor and climbed 57 floors every day. That set the context." Mehta also connected with his fitness trainer twice a week on Zoom, and the latter gave him tips on staying fit despite being locked down at home. While Mehta embraced the work-from-home lifestyle, the one thing that didn't change was his morning tea ritual. A tea lover, his favourite pastime is blending tea. "I use Lipton from the Middle East, which is a blend of Kenyan and Sri Lankan teas. That is my base, and on that I throw flavours. I still look forward to making my morning cup of tea."

– AJITA SHASHIDHAR

PHOTOGRAPH BY RAJWANT RAWAT

AGRAWAL'S SOWING LESSONS

PHOTOGRAPH BY RAJWANT RAWAT

It was the experience of staying at the Dar Ahlam resort in Morocco, which served dishes made of ingredients from traditional farming methods that got **Sanjeev Agrawal,** Chairman and Developmental Licensee, Connaught Plaza Restaurants (which operates McDonald's restaurants in North and East India) hooked to organic farming. He invested in 2.5 acres of land at The Greens in Rajokri and started learning the technique. That was five years back. Agrawal and his team started with growing household vegetables, including carrots, potato, tomato and asparagus, and later expanded to culinary herbs such as dill, fenugreek, coriander, basil, parsley and thyme. He goes to the farm once in two weeks to check the growth and quality of the produce and the health of the livestock. "The best thing about choosing to grow my food is that I have full control of what I sow, what I reap, and what I cook," says Agrawal. In fact, he ensures he does random checks on the quality of produce sent by vendors at McDonald's to ensure the lettuce is fresh and the taste of tomatoes is sweet. He is currently exploring the option of hydroponic technology (where soil is replaced with a solution of water and nutrients) to grow the produce.

– SONAL KHETARPAL

Kumar's 'Flowery' Side

Be it collecting winter flowers or capturing them though his lenses, Esri India President **Agendra Kumar's** love for nature knows no bounds. With a large garden at home, Kumar has been adding varieties of Chrysanthemum for over 18 years. An avid flower lover, Kumar, along with his wife, started this as a serious hobby around 2002. "We sourced chrysanthemums from different countries to build a collection of over 200 varieties, which was the largest in Delhi at that time," says Kumar. He participated in various chrysanthemum shows and has won awards too. Today, Kumar has around 400 potted Chrysanthemums at home, along with 50 other varieties of winter flowers, including petunia, dahlia, dianthus, salvia, pansy, alyssum, hollyhock, antirrhinum, begonia, cineraria, verbena, carnations and aster, to name a few. Other than collecting flowers, Kumar loves clicking them as well. Nature and heritage are his favourite picks. He has had over seven exhibitions of his photographs between 2004 and 2009.

– NIDHI SINGAL

Chandiok, Mumbai's Doggie Dabbawala

PHOTOGRAPH BY SANDESH RAVIKUMAR

A chef by profession, **Ishmeet Singh Chandiok**, the founder of Harleys' Corner, a ready-to-eat wet dog food brand, is also a passionate dog lover. When he welcomed his dog Harley home, he pampered him with his best skill — cooking. "If I wouldn't eat the same flavour every day, how can I do that to my dog? That's when I got into cooking for Harley." Chandiok started reading up online, connected with canine nutritionists and did a course on dog nutrition.

Three months on a home-cooked diet and Harley lost weight. And that worried Chandiok. "But when I checked with the vet, he told me Harley has never been in a better shape. His one advice that stuck to me was a dog on a home-style diet could live three years longer. For a pet owner, it is priceless."

More experiments followed. Chandiok would share portions with other pet owners as well. "When they started coming back to me asking for a larger portion in exchange for money, I considered turning it into a business. People would call me Bombay's Doggie Dabbawala. I actually hired Mumbai's dabbawala services to deliver dog food."

From brown rice, chicken, *daliya* to soup and sauces, Chandiok cooks a variety of food. There are also fresh treats such as cakes and ice-creams. The cakes are sugar, salt and fat-free and the ice-creams are yogurt-based. "Whatever I cook, Harley tastes it first. He is my chief tasting officer," he quips.

– APRAJITA SHARMA

Working Towards Work-outs

PHOTOGRAPH BY MANDAR DEODHAR

Sanjay Chakrabarti, Founding Partner, tag8, a firm whose solutions facilitate the finding and return of lost valuables, played Under-19 against Sachin Tendulkar in mid-90s. But when he took up a job, he lost all the fitness. "It was a demanding 12-14-hour job, and I had access to the best junk food, and that too, on office expenses," he laughs. Thanks to a two-year-long sedentary lifestyle of all work and eat but no play, acidity became a part and parcel of his life. "I would take Gelusil every day. It had become a dessert for me. Once my grandmother caught me off-guard and warned something is dramatically wrong with me. Between that day and now, I have never spent a week when I have not walked, ran or worked out."

Even during the lockdown, Chakrabarti did not miss his gym. "I discovered the beautiful sea-facing terrace in our apartment building. We would hardly go there pre-lockdown. Now it's a morning routine to go upstairs and work out, and make my kids exercise too."

Chakra meditation is the recent addition to his fitness regime. "I have mastered headstand too." The 45-year-old Chakrabarti has a fitness bucket list that he aims to tick off before hitting 50 — the Ladakh Marathon, running marathons in London, NYC, Berlin & Tokyo, climbing the Everest Base Camp and Scuba Diving certification. "I aim to improve myself marginally every day in cardio, weights, balance and flexibility."

–APRAJITA SHARMA

Best Advice I Ever Got

"ADVERSITY BRINGS OPPORTUNITY, BUT WE OFTEN NEED HELP IN FINDING IT"

PRADEEP NAIR, Vice President & Managing Director, VMware India

PHOTOGRAPH BY DANESH JASSAWALA

Q. What was the problem you were grappling with?

A. I've been in the world of enterprise software for a while now, but how I got here wasn't planned. Years ago, I was doing really well at a leading technology firm, taking on increasing responsibilities in what was then a largely hardware-led business. But I had a couple of not-so-good quarters. One day my boss told me the management was removing me from my high-profile "leadership" role. They weren't firing me, but I was demoted to run a small software business. It was the first time I had encountered professional failure, and frankly, I was devastated.

Q. Who did you approach?

A. I reached out to a former boss, who was then at another firm. I told her I have to leave, and would she help me find another job?

Q. What was the best advice you ever received?

A. She told me — pause and think things through. You are still at a very influential firm, and what you see as a demotion could be your stepping stone into an industry with incredible potential.

Q. How effective was it in resolving your problem?

A. I threw myself into learning this new software business. We built a strong team, and I got to understand the transformative power of software. A year later, after our success in India, I was asked to lead the business across South-east Asia and India. And I haven't had to look back since — I had found my calling. Adversity brings opportunity, but we often need help in finding it. BT

– RUKMINI RAO

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