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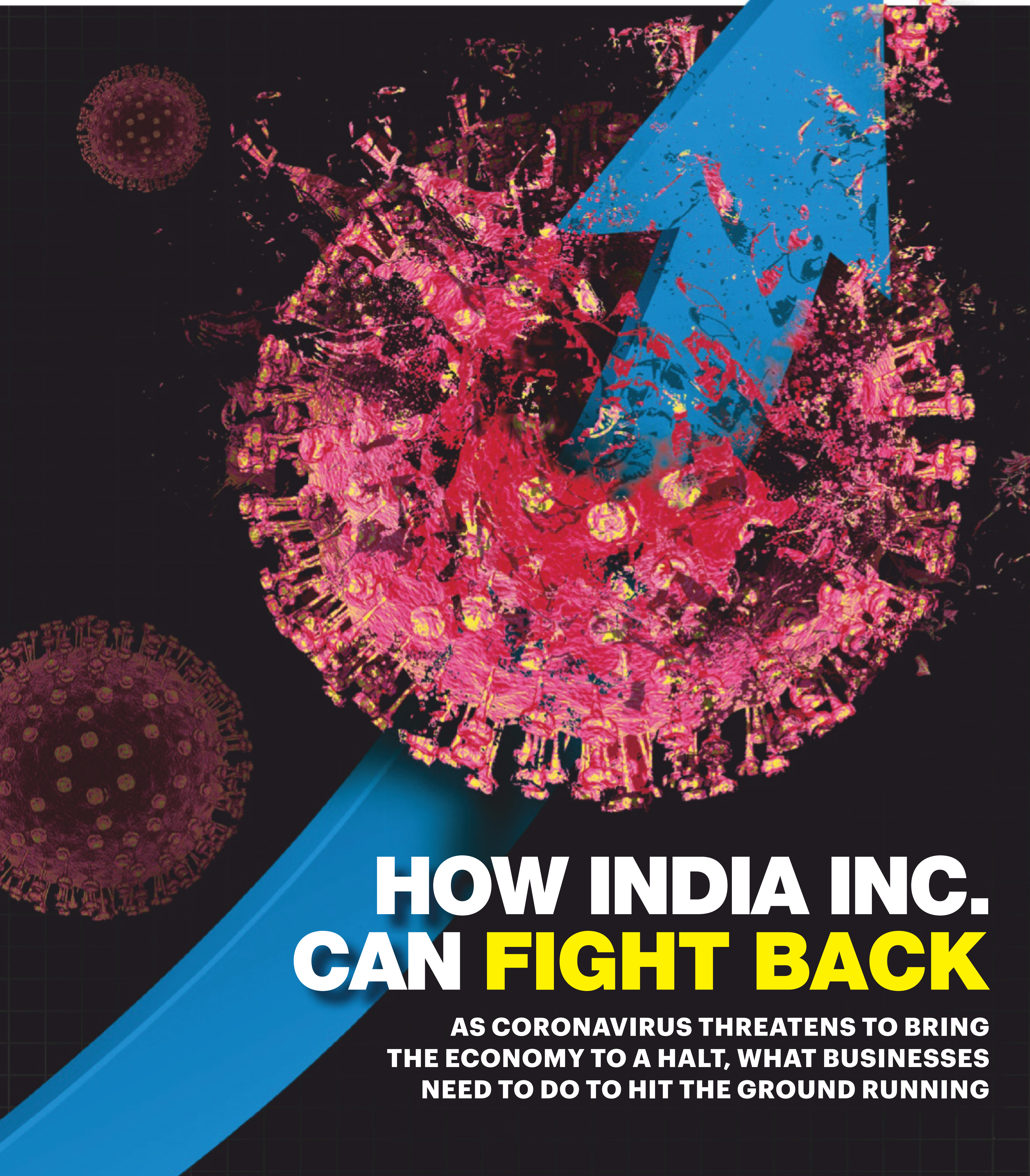
Business Today

April 19, 2020 ₹100



HOW INDIA INC. CAN FIGHT BACK

AS CORONAVIRUS THREATENS TO BRING THE ECONOMY TO A HALT, WHAT BUSINESSES NEED TO DO TO HIT THE GROUND RUNNING

From the Editor

Faster, Higher, Stronger...

We're living through an extreme nightmare of human civilisation. This generation of humanity will retain the bragging rights to narrate coronavirus tales to children and grandchildren for decades to come. But no story will be complete without a tinge of regret over the economic fallout, death, destruction and social consequences that entail.

Just as coronavirus ravages through countries, states, cities and villages around the world, India's decision to go for a nationwide lockdown may have been the best case scenario to prevent a severe outbreak in densely populated areas, including among the most vulnerable citizens in villages.

But most nations on Earth will pay an unimaginable social and economic price of the spread of virus. Depending on their reaction time – some more, some less. For instance, shrinking GDP is a certainty. Loss of output is a given. Loss of revenue is certain. Lower fiscal profitability or losses in firms are a given. And loss of jobs hinges on the timeline.

Just how long? That's a question up in the air right now as it depends on what it takes to break the cycle of transmission of the virus. Will it be just one 21-day cycle? Two? Or even three? The longer it gets, the more painful the outcome.

After all, that duration will decide whether a quarter of the fiscal is a write-off or two quarters. While a vaccine-based cure is about two years away, world GDP will shrink this fiscal. So will India's.

But as they say, never waste a crisis to push through a change!

Who recovers fast enough will depend on the resilience, the tenacity and resolve of the governments, the nation and its people. And of their microcosm in companies and their employees.

That's why this issue of *BT* is devoted to that one big question: What next after coronavirus?

Will Indian firms re-examine dependence on sourcing from China? Are there cost-effective options locally or internationally? World will look for alternatives to single source of supplies, including manufacturing. Are our firms up to the mark? Will it disrupt supply chains? Can our economy capitalise?

Entrepreneurs, venture capitalists, bankers and CEOs will have the luxury of time to mull over these during the 21-day lockdown. Companies and industries are readying strategies to hit the ground running when the lockdown is lifted. Chemicals industry aims to diversify sourcing and reduce dependence on China; in aviation, fleet additions would be gradual, and mostly concentrated around profitable metros, expat pilots may have to give way to domestic staff; hospitality will re-examine its cost structure to stay a lean, mean machine; IT firms, in particular, will aim for opportunities in Covid-ravaged sectors such as hospitality, aviation, travel, manufacturing and energy and utilities as against their traditional core focus areas of BFSI, retail and telecom, besides others.

If WFH does become the new norm as predicted, several industries, particularly IT firms, will free up expensive office spaces to cut cost drastically. How contracts are structured will be reviewed and new enabling clauses will be inserted.

And what do you do in the stock market after it has eroded nearly 30 per cent of market-cap since the peak in January? Rebuild a portfolio for the long term.

Look forward to the post-corona era! Lively, positive and full of energy...

Rajeev Dubey

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Business Today
http://www.businesstoday.in

Vol. 29, No. 8, for the fortnight April 6-19, 2020.
Released on April 6, 2020.

• Editorial Office: India Today Mediaplex, FC 8, Sector 16/A, Film City, Noida-201301; Tel: 0120-4807100; Fax: 0120-4807150 • Advertising Office (Gurgaon): A1-A2, Enkay Centre, Ground Floor, V.N. Commercial Complex, Udyog Vihar, Phase 5, Gurgaon-122001; Tel: 0124-4948400; Fax: 0124-4030919; Mumbai: 1201, 12th Floor, Tower 2 A, One Indiabulls Centre (Jupiter Mills), S.B. Marg, Lower Parel (West), Mumbai-400013; Tel: 022-66063355; Fax: 022-66063226; Chennai: 5th Floor, Main Building No. 443, Guna Complex, Anna Salai, Teynampet, Chennai-600018; Tel: 044-28478525; Fax: 044-24361942; Bangalore: 202-204 Richmond Towers, 2nd Floor, 12, Richmond Road, Bangalore-560025; Tel: 080-22212448, 080-30374106; Fax: 080-22218335; Kolkata: 52, J.L. Road, 4th floor, Kolkata-700071; Tel: 033-22825398, 033-22827726, 033-22821922; Fax: 033-22827254; Hyderabad: 6-3-885/7/B, Raj Bhawan Road, Somajiguda, Hyderabad-500082; Tel: 040-23401657, 040-23400479; Ahmedabad: 2nd Floor, 2C, Surya Rath Building, Behind White House, Panchwati, Off: C.G. Road, Ahmedabad-380006; Tel: 079-6560393, 079-6560929; Fax: 079-6565293; Kochi: Karakkatt Road, Kochi-682016; Tel: 0484-2377057, 0484-2377058; Fax: 0484-370962 • Subscriptions: For assistance contact Customer Care, India Today Group, C-9, Sector 10, Noida (U.P.) - 201301; Tel: 0120-2479900 from Delhi & Faridabad; 0120-2479900 (Monday-Friday, 10 am-6 pm) from Rest of India; Toll free no: 1800 1800 100 (from BSNL/ MTNL lines); Fax: 0120-4078080; E-mail: wecarebg@intoday.com
• Sales: General Manager Sales, Living Media India Ltd, C-9, Sector 10, Noida (U.P.) - 201301;
Tel: 0120-4019500; Fax: 0120-4019664

• Printed & published by Manoj Sharma on behalf of Living Media India Limited. Printed at Thomson Press India Limited, 18-35, Milestone, Delhi-Mathura Road, Faridabad-121007, (Haryana). Published at K-9, Connaught Circus, New Delhi-110 001.
Editor: Rajeev Dubey

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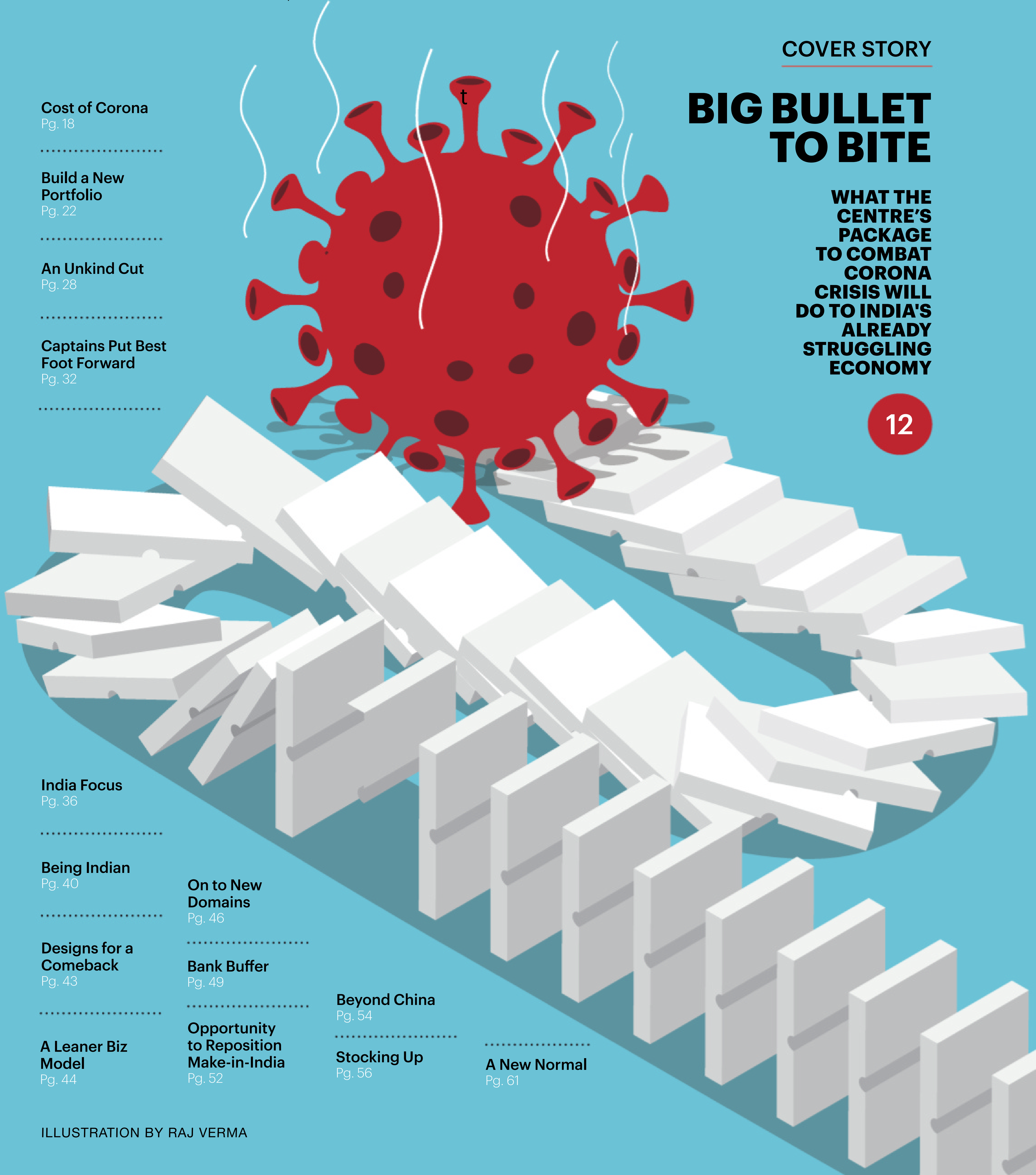
April 19, 2020
Volume 29, Number 8

Cover by
NILANJAN DAS



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An IMPACT Feature

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INDIA INC. SEES MUTED NUMBERS

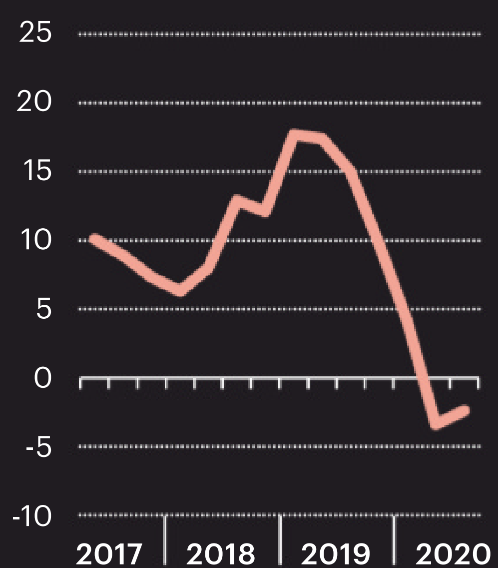
Revenues fell again in Q3, mainly due to muted private consumption and decline in revenue of industrial and construction-linked sectors

By **Shivani Sharma** | Graphics by **Tanmoy Chakraborty**

SHRINKING TOP LINE

Revenue growth of corporate India (excluding BFSI) shrinks for sixth consecutive quarter

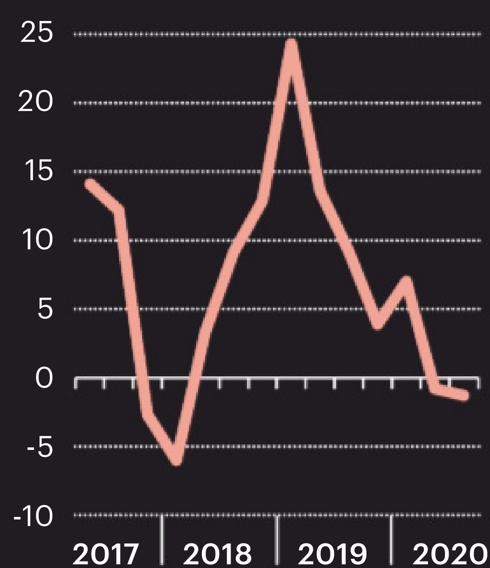
REVENUE GROWTH
(%, Y-o-Y)



EBITDA ALSO IN NEGATIVE

EBITDA slips 1-2% in Q3 – for the second quarter on the trot

EBITDA GROWTH
(%, Y-o-Y)



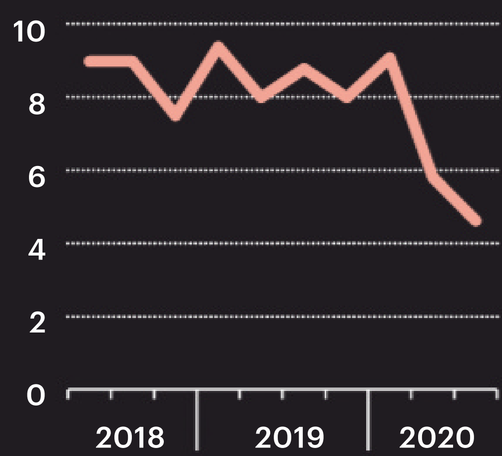
Source: Crisil, CMIE

-40%

Fall in telecom companies' net margin (Q3) on account of provisioning towards AGR dues

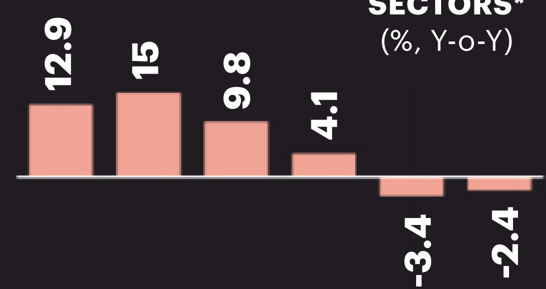
NET MARGINS DIP SHARPLY

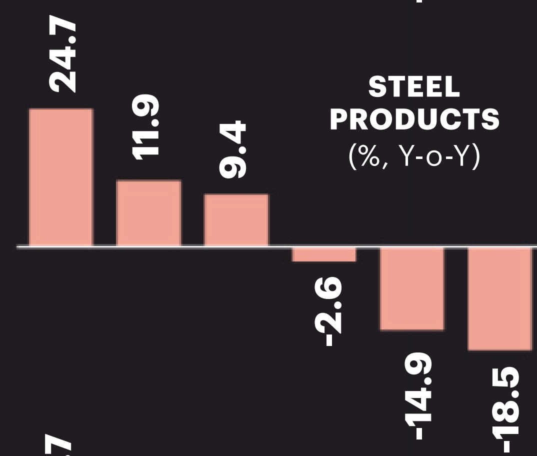
Touch a 10-quarter low

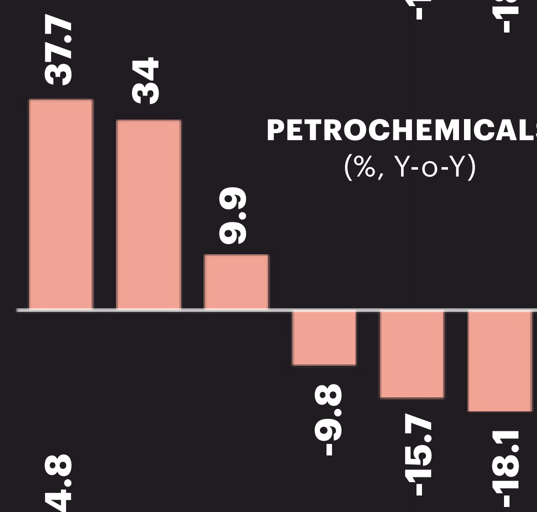


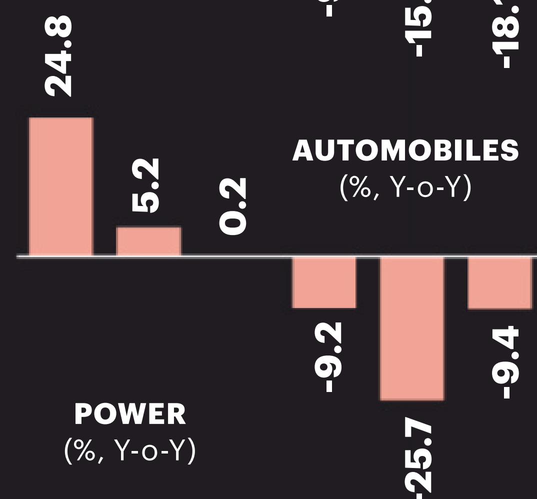
STEEL, PETROCHEM BADLY HIT

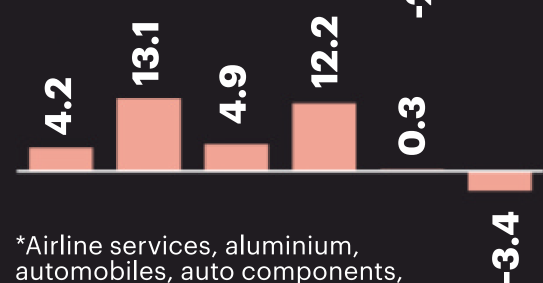
Both sectors see revenue fall of more than 18% y-o-y. While poor demand ails the steel sector, fall in feedstock naphtha price has affected petrochem companies









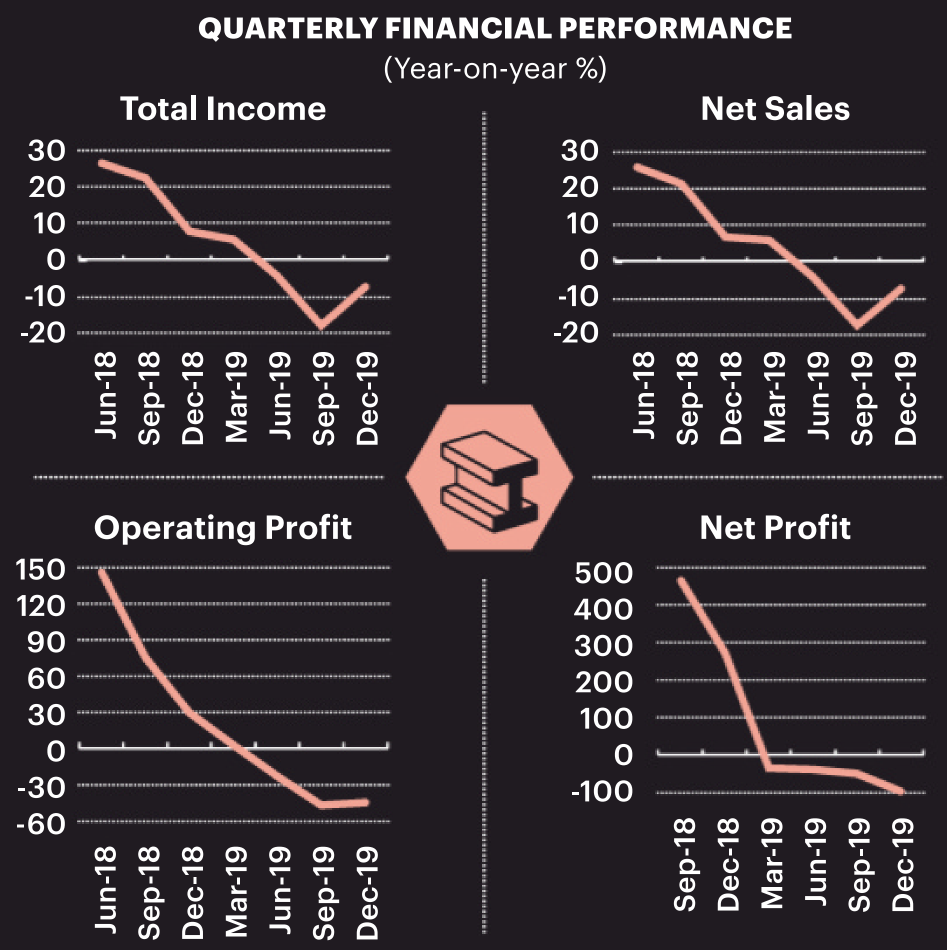


*Airline services, aluminium, automobiles, auto components, capital goods, cement, petrochemicals, construction, FMCG, IT services, media and entertainment, pharmaceuticals, power, retail, steel products, sugar, cotton yarn, telecom services and tyres

Steel Industry's Net Profits Fall for Fourth Consecutive Quarter

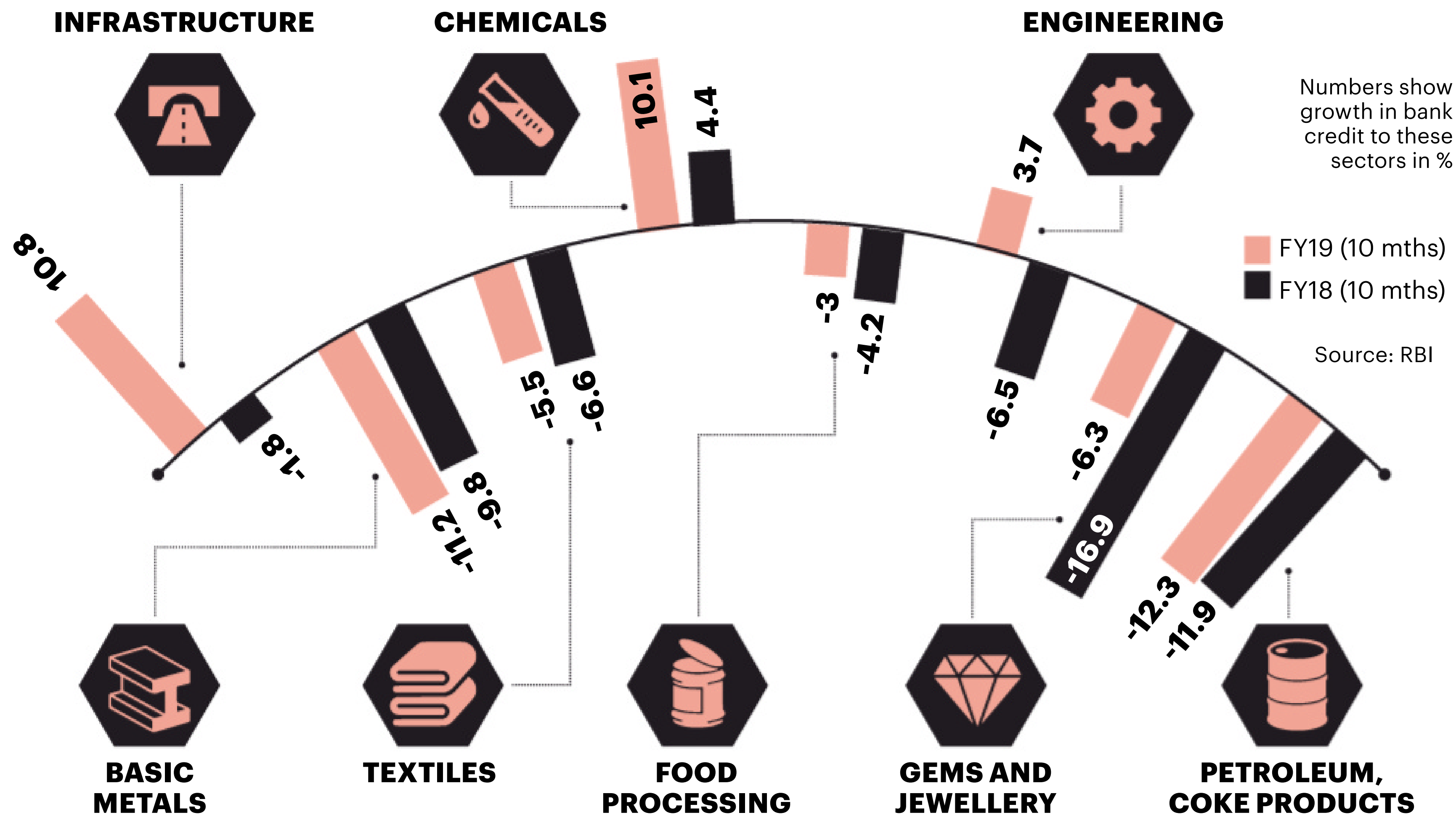
- The industry continued to deliver poor financial performance in quarter ended December 2019
- Sales revenue declined 7.5 per cent, net profit tanked 98.7 per cent on the back of 45 per cent decline in operating profit
- Revenue, operating profit fall for three consecutive quarters

Source: ACE Equity



BANK CREDIT SHRINKS

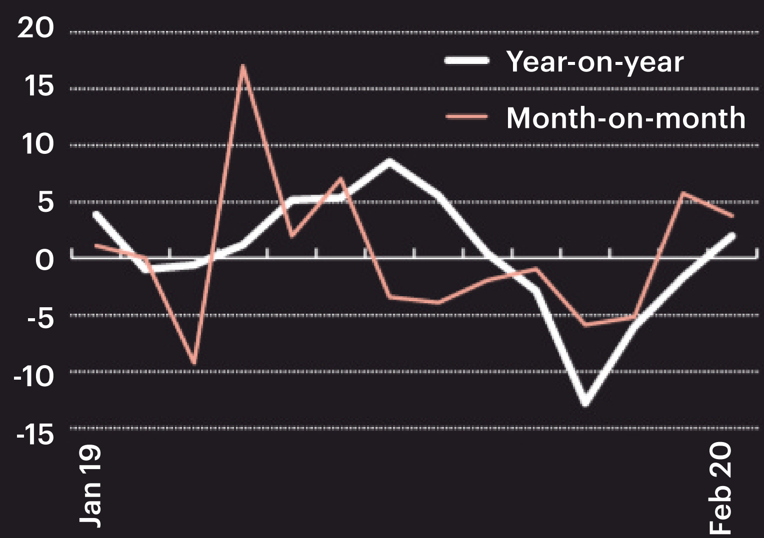
- Industries that witnessed negative growth included infrastructure, basic metals, textiles, engineering and food processing
- Chemicals is the only major sector that saw growth in bank credit



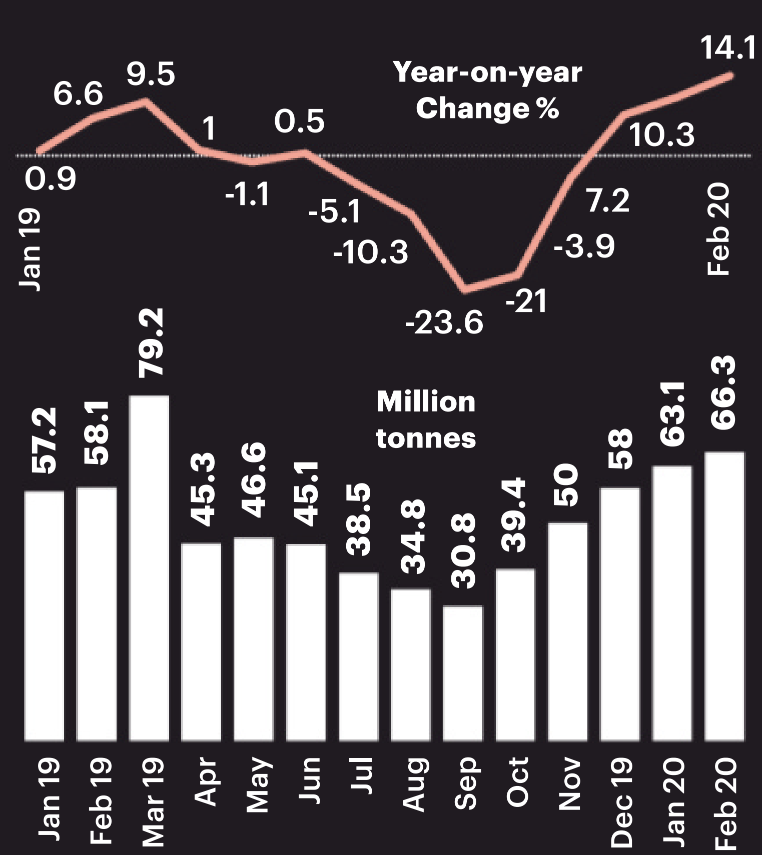
MILD UPTICK IN ELECTRICITY GENERATION

- Power generation contracted 12.9 per cent year-on-year in October 2019, an all-time low growth, but picked up in November 2019; M-o-M growth in November and December was the highest in six years. The reasons included increased agriculture demand and restoration of coal supply after heavy rains.
- In January 2020, the growth rate was 2 per cent y-o-y

ELECTRICITY GENERATION
(% change)



PRODUCTION BY COAL INDIA

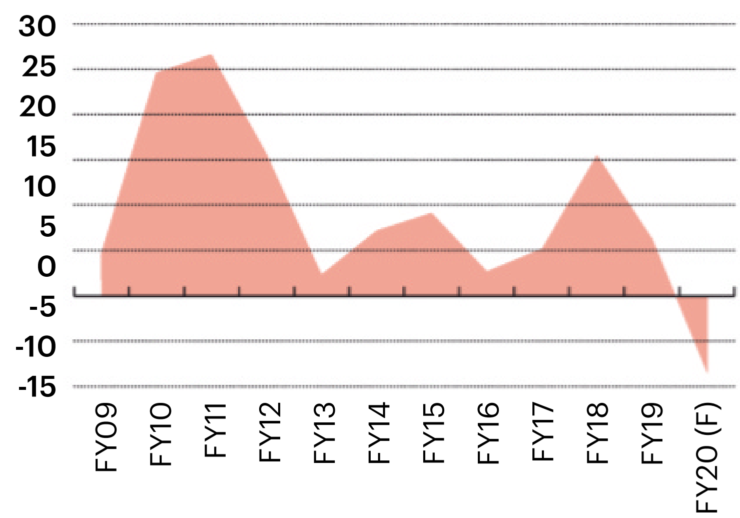


Source: CMIE

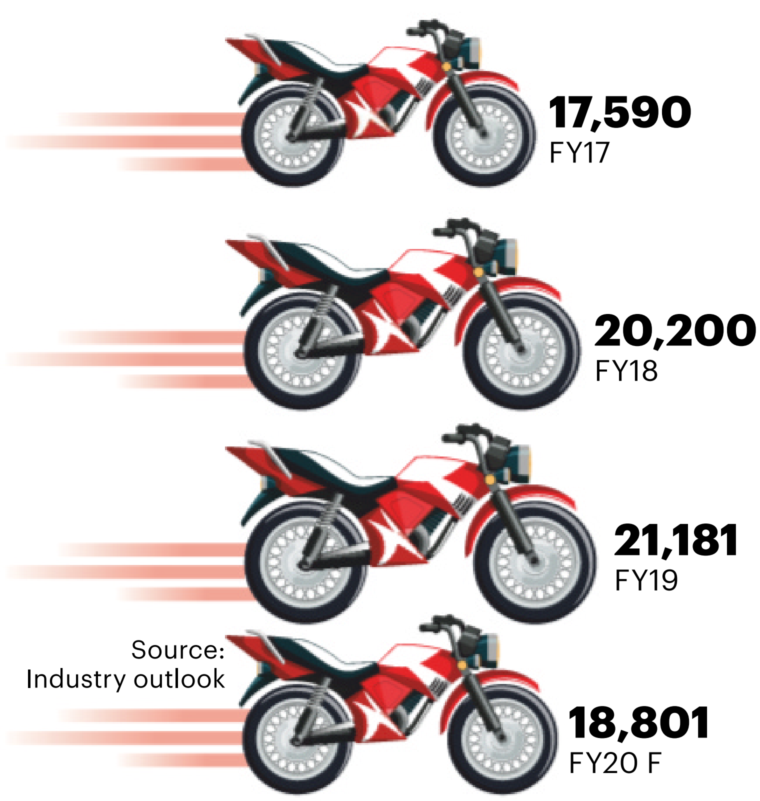
Two-wheeler Sales set for Double-Digit Decline in FY20

- **Domestic two-wheeler sales are expected to decline 10-15 per cent in 2019/20, the steepest fall ever and the first decline in 12 years**
- **The reasons are subdued consumer sentiment due to economic slowdown, rise in prices, liquidity crunch**

NET SALES OF TWO WHEELERS
(Year-on-year %)



DOMESTIC SALES OF TWO-WHEELERS
(In thousand; F is forecast)



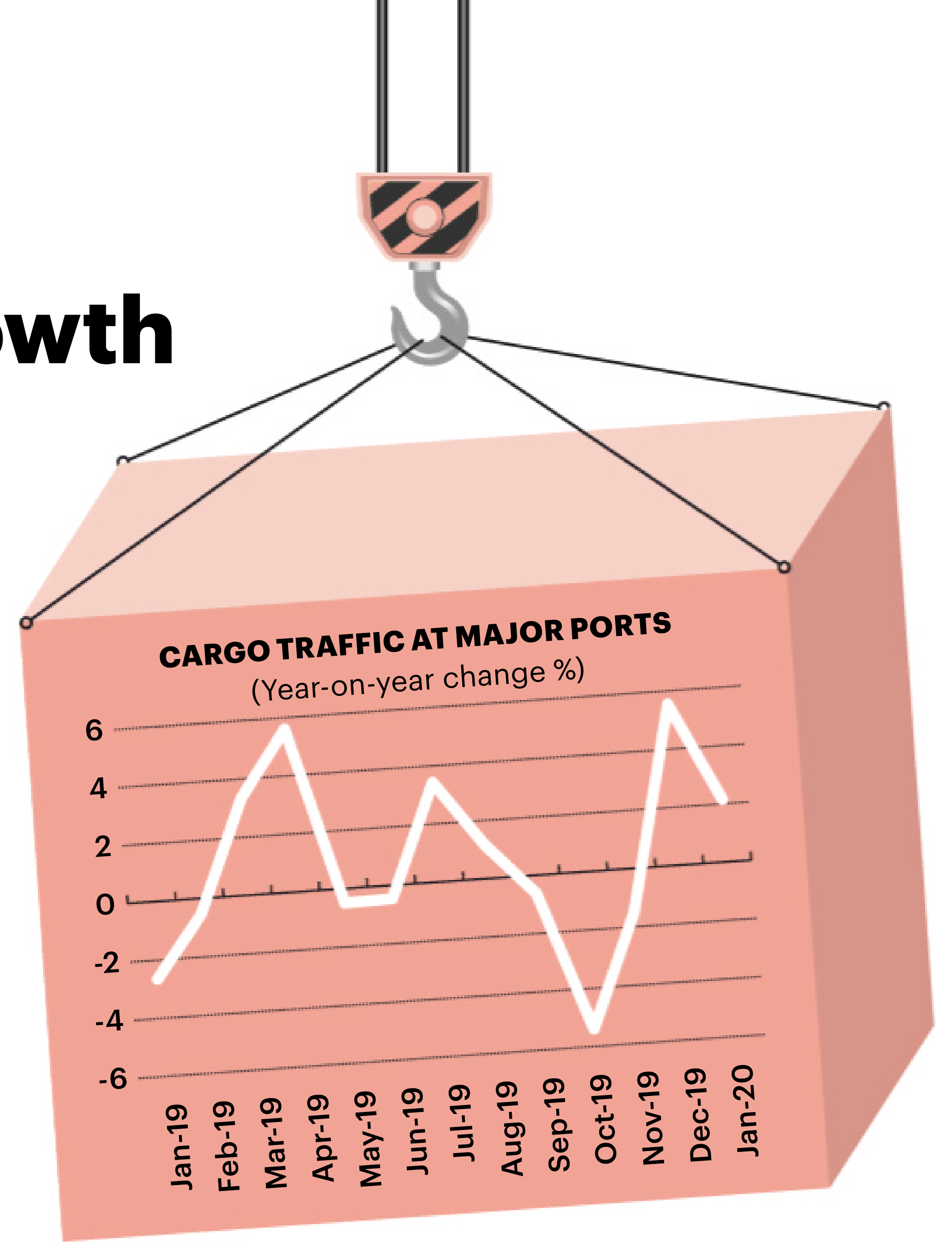
Cargo Traffic Growth Slows in January

- Growth in traffic at major ports was just 2.17 per cent in the first month of 2020, compared to 5 per cent plus in December 2019
- The major commodities whose traffic grew were iron ore (74.5 per cent), container (3.8 per cent) and coal (0.5 per cent)

61.6

MILLION TONNES
Cargo traffic handled by major ports in India in January 2020

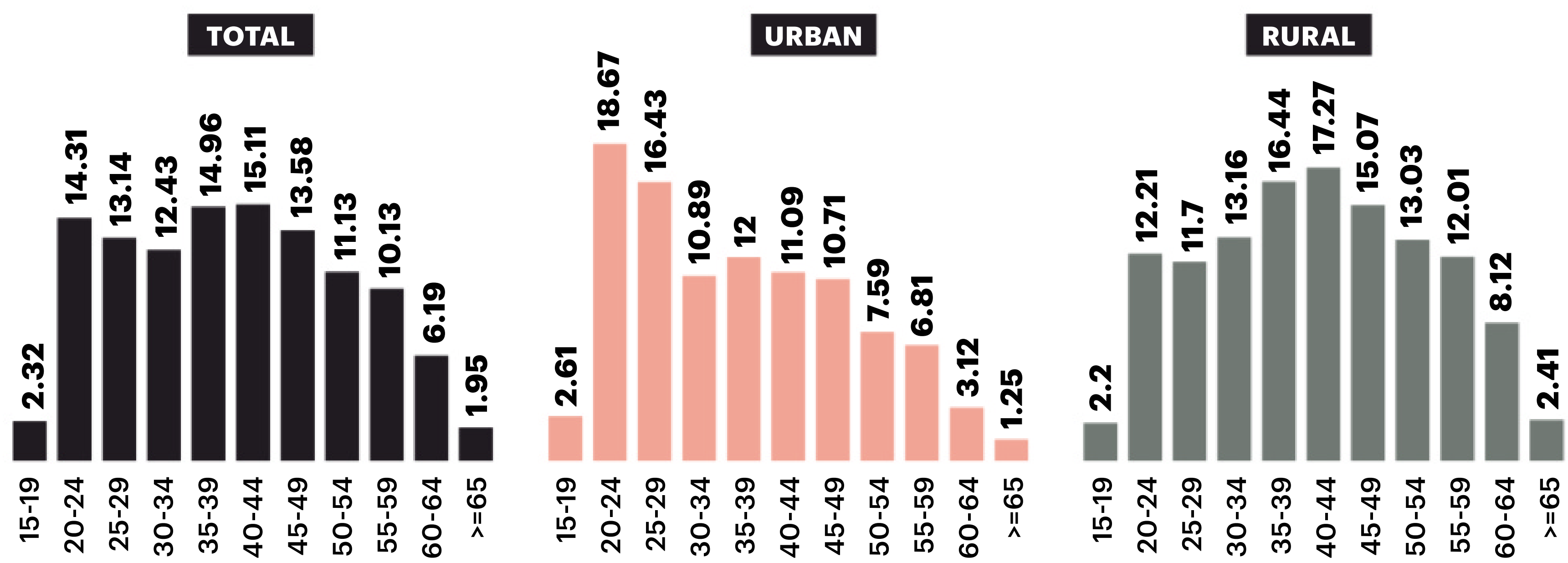
Source: Labour Ministry



THE MISSING WOMEN

- The rate of labour force participation among urban women is the highest for those in the 20-24 age group (18.67 per cent); it falls thereafter due to social reasons such as marriage; in rural, it falls after peaking for the 40-44 age agoup

FEMALE LABOUR FORCE PARTICIPATION RATE DURING SEP-DEC 2019 (%)



Source: Labour Ministry

COVER STORY

LEAD ESSAY

BIG BULLET TO BITE

WHAT THE CENTRE'S PACKAGE TO COMBAT CORONA CRISIS WILL DO TO INDIA'S ALREADY STRUGGLING ECONOMY

BY DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

Almost 80 per cent of India's ₹204 lakh crore economy has ground to a halt since the 21-day national lockdown began on March 25. At an average of ₹55,890 crore per day, India's gross domestic product (GDP) will suffer a setback of at least ₹9.4 lakh crore. Hence, in FY2021, the Indian economy will in all likelihood shrink rather than grow.

The lockdown, though necessary to break the chain of transmission of coronavirus, will leave destruction across industries such as travel and tourism, aviation, hotels and restaurants, malls, multiplexes, automobiles, among others. And, to a lesser degree, impact sectors such as consumer durables, fuel, electricity and petrochemicals.

But, that is provided the lockdown lasts just the 21 days announced so far. Experience of coronavirus containment in South Korea and Japan suggests it may need up to 60 days to break the cycle of transmission. If so, India may have to brace up for not just one burst of 21-day lockdown but two, possibly three – with or without breaks. If the lockdown extends as far as June, as per some predictions, the economic misery will multiply manifold.

What's making it worse is that India was already in a deep slowdown and economic contraction. It could possibly be a recessionary trend, says CMIE. India Inc. is in a deep contraction, the biggest contraction in real value added in over 20 years, according to CMIE. "The contraction in 2019/20 is 12.9 per cent. This is worse than the six per cent contraction during 2008/09 following the global liquidity crisis. All other contractions in the past 20 years for which data is available have been much milder than these," says Mahesh Vyas, Managing Director & CEO, CMIE, in a note.

With Finance Minister Nirmala Sitharaman announcing what may be the first instalment of the much

18+

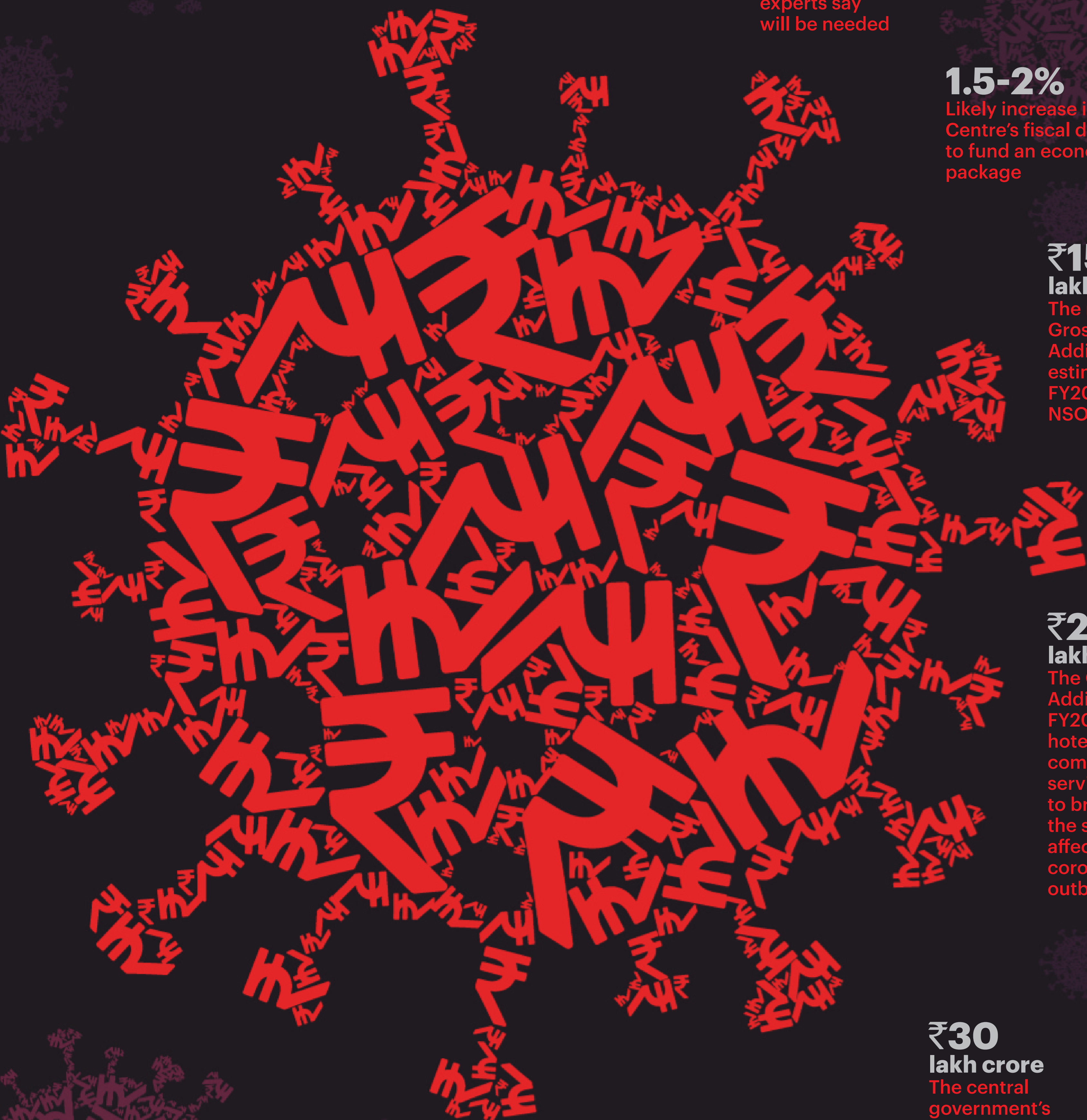
WHAT IS AVAXHOME?

PUTTING THINGS IN PERSPECTIVE

₹7-8
lakh crore
(3.5-4% of GDP)
Conservative estimate of impact of Coronavirus outbreak on Indian economy

₹3-5
lakh crore
The total value of the economic package that experts say will be needed

1.5-2%
Likely increase in the Centre's fiscal deficit to fund an economic package



₹15
lakh crore
The monthly Gross Value Addition estimated for FY20, as per NSO

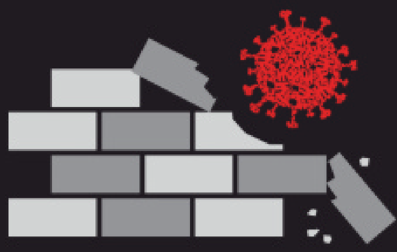
₹24.5
lakh crore
The Gross Value Addition for FY20 from trade, hotels, transport, communication and services related to broadcasting, the sectors most affected by the coronavirus outbreak

₹30
lakh crore
The central government's expenditure budget for FY21

₹40-50
lakh crore
The aggregate annual spending of state governments

₹7.96
lakh crore
The central government's likely borrowings in FY21

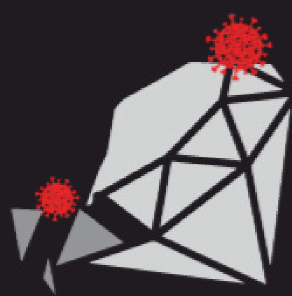
SOME OF THE WORST-AFFECTED SECTORS AND LIKELY IMPACT



Construction

₹8,70,000 crore

IMPACT
Availability of workers to be hit; delay in awarding projects in Q4FY20 and Q1FY21



Gems & Jewellery

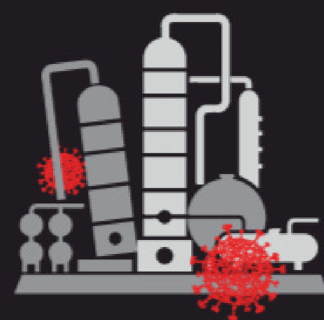
₹5,20,000 crore

IMPACT
60% of India's gold and rough diamond imports are from the top 15 affected countries. 50% of revenue is from exports and 84% of this comes from these countries

Auto Ancillaries

₹3,59,000 crore

IMPACT
20% dependency on imports for raw material. Of this, 70% imports are from top 15 coronavirus-affected countries



Petrochemicals

₹2,30,000 crore

IMPACT
Imports — 20% of domestic consumption — to be hit. Prices to be under pressure because of low crude prices, fall in domestic demand

Source: Crisil

awaited economic package – ₹1.7 lakh crore food and direct cash transfer measures targeted at poor and underprivileged – the government may finally be getting its act together. The Reserve Bank of India's (RBI's) rapid fire announcements the next day will complement the Centre's moves in providing relief to individuals and businesses through three-month EMI moratorium, reduced interest rates and pumping in an unprecedented ₹3.74 lakh crore additional liquidity to businesses to hit the ground running when the lockdown is lifted.

₹10-Lakh Crore Hole

Most offices and establishments are closed or operating at minimal capacity with staff working from home. Travel, tourism and hospitality sectors were the first to bear the brunt of coronavirus' global spread with the Centre restricting travel of foreign citizens first and then cancelling domestic flights as well. Metro rail services and around 12,000 passenger train services have also been cancelled till April 14.

As the virus spread in China, it forced a lockdown and closure of ports, which disrupted supply chains for many Indian businesses. Now, as economic activity begins to pick up in China, the lockdown in India and other countries is disrupting supply chains across the globe as the coronavirus outbreak is spread across 199 countries and territories.

While the lockdown started only in the last week of 2019/20, the fourth quarter of FY2020 has seen large disruption. But the real impact in loss of GDP will be felt in the first quarter of FY2021, when a major part of the lockdown will be in place, even if we do not factor in an extension of the lockdown.

How much of a hit will the Indian economy take? It is estimated to vary from 1-4 per cent of the FY2021 GDP, which is estimated to be ₹224 lakh crore. Former RBI governor Bimal Jalan says GDP could get impacted by 1-2 per cent. Lekha Chakraborty, Senior Economist at the National Institute of Public Finance and Policy (NIPFP), says it's too early to put a number as things are changing exponentially. She believes one can safely say 1 per cent of GDP would get wiped off.

A 1-2 per cent hit on GDP means business activities worth ₹2-4 lakh crore could be shaved off due to the outbreak. But these are very conservative estimates. Some analysts and economists are predicting doom and gloom for India and the global economy.

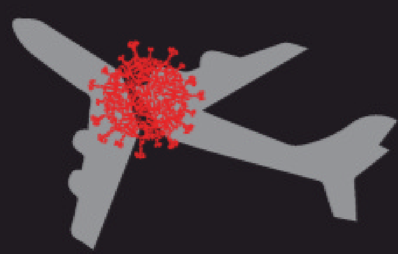
A report by Soumya Kanti Ghosh, Group Economic Advisor, State Bank of India (SBI), says the total cost of the lockdown is at least ₹8.03 lakh crore in nominal terms or output loss of at least 4 per cent. The report further estimates a 1.7 per cent impact on real GDP because the 21-day lockdown will result in at least 70 per cent of the economy grinding to a halt. SBI pegs the 2020/21 real GDP growth at 2.6 per cent with a clear downward bias and first quarter GDP numbers witnessing a contraction. For 2019/20, it has revised GDP growth rate from 5 per cent to 4.5 per cent with fourth quarter growth at 2.5 per cent.

Ratings agency CARE estimates the dent to be in the region of ₹6-7 lakh crore. It explains: "Real GDP in 2019/20 is around ₹140-150 lakh crore. Assuming 300 working days, we can be looking at ₹45,000-50,000 crore

Hotel Industry

₹1,10,000 crore

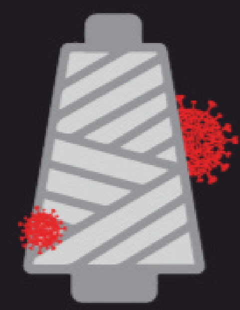
IMPACT
With near zero occupancy, experts say the informal segment will suffer more compared to the organised segment due to its sheer size



Airline Services

₹99,000 crore

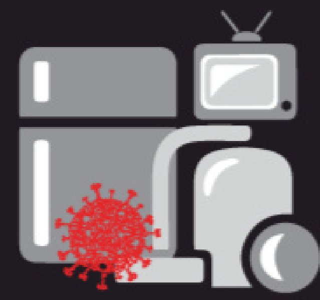
IMPACT
30-35% of total passenger traffic is international passengers; 25% of them are from the top 15 countries affected by coronavirus



Textiles (cotton yarn)

₹97,000 crore

IMPACT
Exports likely to be impacted; global demand to fall; closure of ports will put pressure on prices



Consumer Durables

₹76,000 crore

IMPACT
India imports 45-50% of completely built units, as also components; supply chain disruption expected

of daily output which can potentially be lost due to shutdowns. Assuming 80 per cent is lost while 20 per cent still functions, there could be something like ₹35,000-40,000 crore of GDP lost every day. Hence, the total loss can potentially be in the region of ₹6.3-7.2 lakh crore assuming 18 working days."

It further says that as the 21-day lockout spills over to 2020/21 with 14 days going into the next year, the loss in 2020/21 can be in the region of ₹4.2- 4.8 lakh crore. Other collateral damages of the lockdown are loss of income and consumption.

Sachchidananda Shukla, Chief Economist, Mahindra Group, says their analysis of consumer wallets shows the coronavirus outbreak could impact $470 billion (₹35 lakh crore) worth of items, which is equivalent to 30 per cent of India's consumption.

Economic Package: Damage Control

Mahindra's Shukla argues that though the lockdown could cost 4 per cent of GDP, activity could rebound later and eventual FY2021 GDP growth could be in the range of 2.5-3 per cent depending on how soon we reach normalisation and the way governmental measures be it monetary, fiscal and administrative – are executed.

By government measures, Shukla means an economic revival package. Can the government make good of this loss by pumping in money, reviving demand and the economy? The bigger question is if it can afford an economic package what will be fiscal consequences in future?

Given that the estimated loss of GDP due to the outbreak could be in the range of ₹2-7 lakh crore, the economic package should be, at least, in the range of ₹3-5 lakh crore, experts say. Former finance minister P. Chidambaram has asked for a ₹5 lakh crore stimulus. He says with the Centre estimated to spend ₹30 lakh crore in 2020/21 and states likely to spend ₹40-45 lakh crore, it is possible to find ₹5 lakh crore over the next six months to mitigate the impact of coronavirus on the economy.

Former RBI Governor Bimal Jalan says the government should be willing to increase the fiscal deficit by 1.5-2 percentage points. "The government has to pump money into the system. Demand is not very high, (and therefore) to create demand, government has to transfer some money (into the hands of people). These are measures to ensure that even if growth declines, the economy does not go into recession."

The government has projected GDP at ₹224 lakh crore, and fiscal deficit at 3.5 per cent of GDP, in 2020/21. With a 2 percentage point increase in fiscal deficit, we are looking at a stimulus package of up to ₹4.5 lakh crore, and fiscal deficit of 5.5 per cent in 2020/21.

Can the government afford such fiscal profligacy? And, should it? The economic package comprises 5 kg of cereals per person and 1 kg of pulses per household free for the next three months; hike in daily wages under MGNREGA from ₹182 to ₹202; ₹1,000 in two instalments over next three months to widows, senior citizens and specially-abled persons, three LPG cylinders for free under the Ujjwala Scheme.

What Next

Is this a comprehensive plan? Will this add greater burden on the exchequer? No, feel experts as the package in current form requires a fresh expenditure of ₹70,000 to ₹1 lakh crore.

NIPFP's Lekha Chakraborty says if you look at the demand for grants of 2020/21, you would notice these announcements are marginal. In MGNREGA, the 2020/21 budget estimate is ₹9,500 crore less than revised estimates of 2019/20. A ₹20 increase in daily wage will not make much of a difference to either the beneficiary or government budget. The SBI report puts fresh expenditure by the government for the package at ₹73,000 crore, which means ₹1 lakh crore is already budgeted by the government.

The RBI has announced a massive ₹3.74 lakh crore liquidity boost through various measures, including a 75 basis point cut in the repo rate. This will bring down the cost of funds for businesses and provide consumer loans at lower rates. It has also allowed banks to offer a three-month moratorium, which means any default during the three months won't make the loan account an NPA. The government has promised that if situation does not improve by April, it will suspend the Insolvency and Bankruptcy Code (IBC) by six months.

However, if the spread of the virus does not slow down by April, the government might go for another period of lockdown. Then, these measures will not be enough, and the Centre and state governments between them can pump in additional support worth 1.5 per cent of GDP, feel economists. An economist from a large business conglomerate says each day the government delays a stimulus for businesses, industry loses ₹1,500 crore.

The government might still need to pump in another ₹3-4 lakh crore to compensate for loss of revenue due to sharp decline in business activities, GST compensation for states and even waiving of interest and penalty of telecom companies' AGR dues.

How can such a large package be funded? This will have to be via deficit financing. The government has two options: First, borrow directly from the market as it does every year or ask the RBI to subscribe to its paper, which then means monetising the deficit. Or, simply, RBI prints more currency. That option would be more costly for the economy. So, how will it be done? The current gross borrowings of government of India for FY2021 at ₹7.8 lakh crore have resulted in a fiscal deficit of 3.5 per cent. Any additional borrowings would push it up by 1-1.5 per cent depending on the size of the stimulus.

However, in Option 1, lower interest rates prevailing in the market provide an opportunity to raise resources at a low rate from the market. But it will have a crowding out impact as lesser funds would be available for the

Nirmala Sitharaman, Finance Minister

STEPS TAKEN BY THE GOVERNMENT SO FAR

₹1.7 lakh crore special package aimed at poor and underprivileged

GST, I-T return filing and other tax-related compliance deadlines extended to June 30

Foodgrain for 3 months can be lifted by states and UTs on credit from Food Corporation of India

Centre has released ₹2,570 crore — the pending instalment of grants to states under 14th Finance Commission that had been withheld as local elections were not conducted. Of this, ₹941 crore is for rural local bodies and ₹1,629 crore for urban local bodies

Special open market operation purchase of government securities worth ₹1 lakh crore to improve liquidity

Coronavirus outbreak declared Force Majeure event; suppliers to government departments asked to invoke Force Majeure clause if required

Insolvency threshold triggering proceedings upped from ₹1 lakh to ₹1 crore

New IBC proceedings may be suspended for six months

Due dates for compliance under Companies Act extended to June 30 and September 30; CSR funds spent on Covid-19 eligible as CSR activity

Contractual, outsourced and casual workers engaged with government departments, ministries would be treated as 'on duty' even if they can't go to work due to lockdown till April 30 private sector. This implies that in the event of a large requirement, the Centre may have to opt for a mix of the two options. If it goes for the RBI option, it will amount to monetisation of debt or printing of more money to finance the deficit. This will have negative implications like higher inflation and depreciation in the value of the currency.

Forex and Gold Reserves

Can India use its forex and gold reserves? It is highly unlikely as foreign exchange reserves are still inadequate. The Bimal Jalan Committee, which decided the issue of RBI's surplus capital, has actually made a case for increasing the size of the foreign exchange reserves from the present level. The current reserves can cover only 11 months of imports. Second, the $491 billion forex reserves are lower than the country's total external debt of $558 billion. Much of the external debt is short term, due in next one year.

Forex reserves provide a buffer against any external risk to the country. India's external position is vulnerable because of persistent current account deficit and dependence on hot inflows into the stock market. The country needs stable flows like FDI.

The Consequences

The government has so far been reluctant to announce a big stimulus package despite many countries doing so.

The global coronavirus war chest has already crossed the $12 trillion mark. The US government recently announced a $2 trillion stimulus package, which is 10 per cent of its GDP, while France announced a $380 billion package. Spain has in mid-March announced a stimulus package worth $220 billion, which is almost 20 per cent of its GDP.

Why is India, then, still shying away from a comprehensive economic package? The fiscal cost of an economic package could be very high. The Narendra Modi government has always maintained that the extravagant stimulus during the UPA government was one of the reasons for the economy getting into a mess.

There are long-term fiscal challenges of a badly thought-out or too generous stimulus package. "We should avoid the temptation of splurging money. First, it may not be as sound it is in the United States or elsewhere.

"THE GOVERNMENT HAS TO PUMP MONEY INTO THE SYSTEM. DEMAND IS NOT VERY HIGH. TO CREATE DEMAND, GOVERNMENT HAS TO TRANSFER SOME MONEY (INTO HANDS OF PEOPLE)"

Bimal Jalan
Former RBI Governor

• • • •

"WE SHOULD AVOID THE TEMPTATION OF SPLURGING MONEY. FIRST, IT MAY NOT BE AS SOUND AS IT IS ELSEWHERE. ALSO, IT'S VERY DIFFICULT TO SLOW DOWN THOSE PROGRAMMES"

Subash Chandra Garg
Former Secretary, Department of Economic Affairs

Also, it's very difficult to slow down those programmes once the crisis is over," says S.C. Garg, the former economic affairs secretary.

An economic stimulus means the central government borrowing more to fund such a scheme. With 3.5 per cent estimated fiscal deficit for 2020/21, the Central government's borrowings are pegged at ₹7.96 lakh crore, and an interest cost of ₹7 lakh crore, which accounts for almost a quarter of its ₹30 lakh crore estimated spending. A ₹4.5-5 lakh crore package means additional borrowing, higher interest outgo in future, leaving little scope for spending on asset creation.

This may further affect the country's sovereign rating and result in higher cost of borrowings for the government and companies overseas. An extravagant economic package can also lead to unsustainable inflation. However, Jalan says rating agencies will understand India's compulsion as the corona outbreak is affecting other countries too, and may be more lenient with ratings.

An economist from a large business house says repercussions of recession and joblessness will be much severe than a 100 basis points rise in interest rates. While the government's first instalment of the economic package targeted the poor and vulnerable, several industries, including auto, aviation, tourism and hospitality, are still awaiting a package.

The demand is for a sharp cut in the borrowing rate, reduction in income tax and GST rates, relaxation in NPA norms and interest rate subvention for the impacted sectors. The government has already deferred income tax return filing date from March 31 to June 30, extension for filing GST 3B returns for smaller companies for March, April and May to June 2020. It has increased the threshold for triggering insolvency proceedings against a company from (default of) ₹1 lakh to ₹1 crore.

While these are important steps in making life easier for businesses, vastly impacted sectors haven't lost hope yet of comprehensive sectoral packages. That remains to be seen. After all, the Modi government's stated policy on sector-specific economic relief is a strict—NO! BT

(*With inputs from Joe C Mathew*)

@Dipak_Journo

COVER STORY

CORONAVIRUS

COST OF CORONA

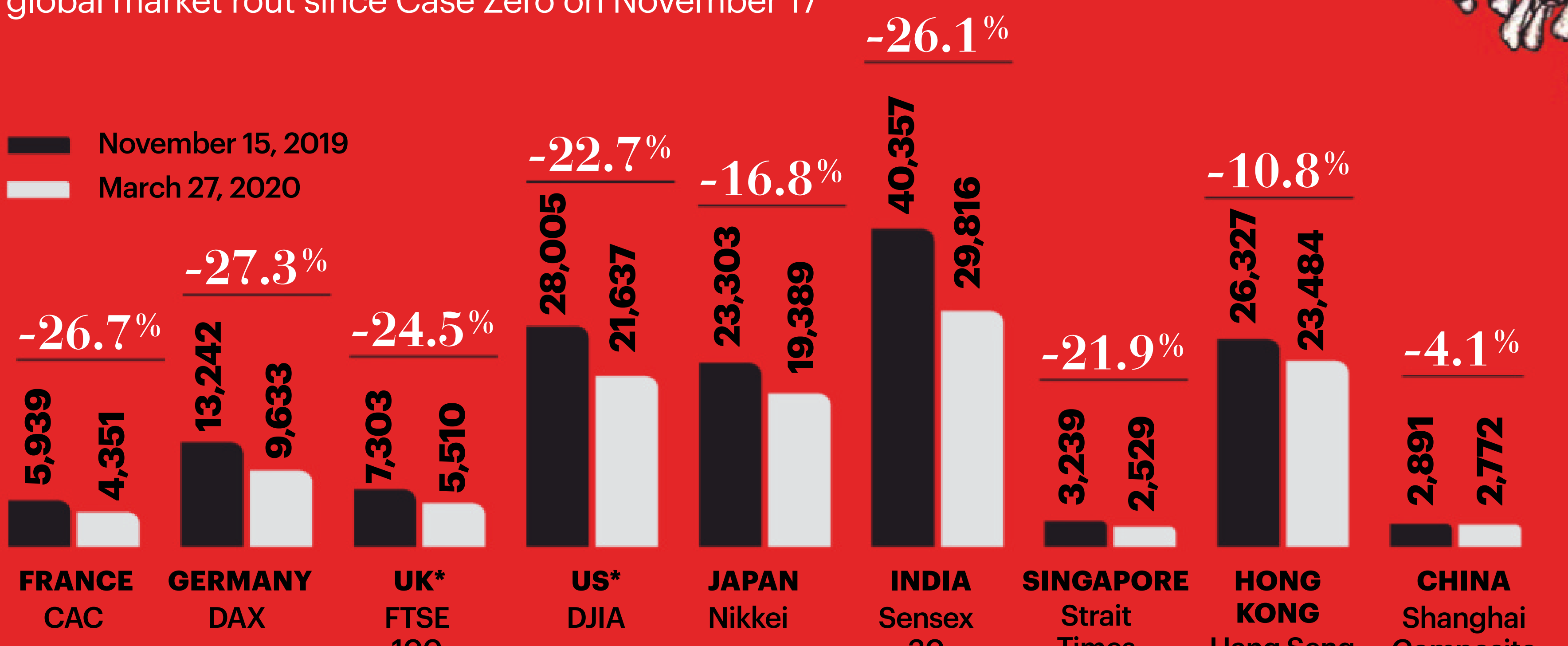
WHILE THE ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC IS HARD TO ESTIMATE IMMEDIATELY, BOTH AT HOME AND WORLDWIDE, THE SPREAD WILL LEAVE BUSINESSES COUNTING COSTS

TEXT BY NITI KIRAN

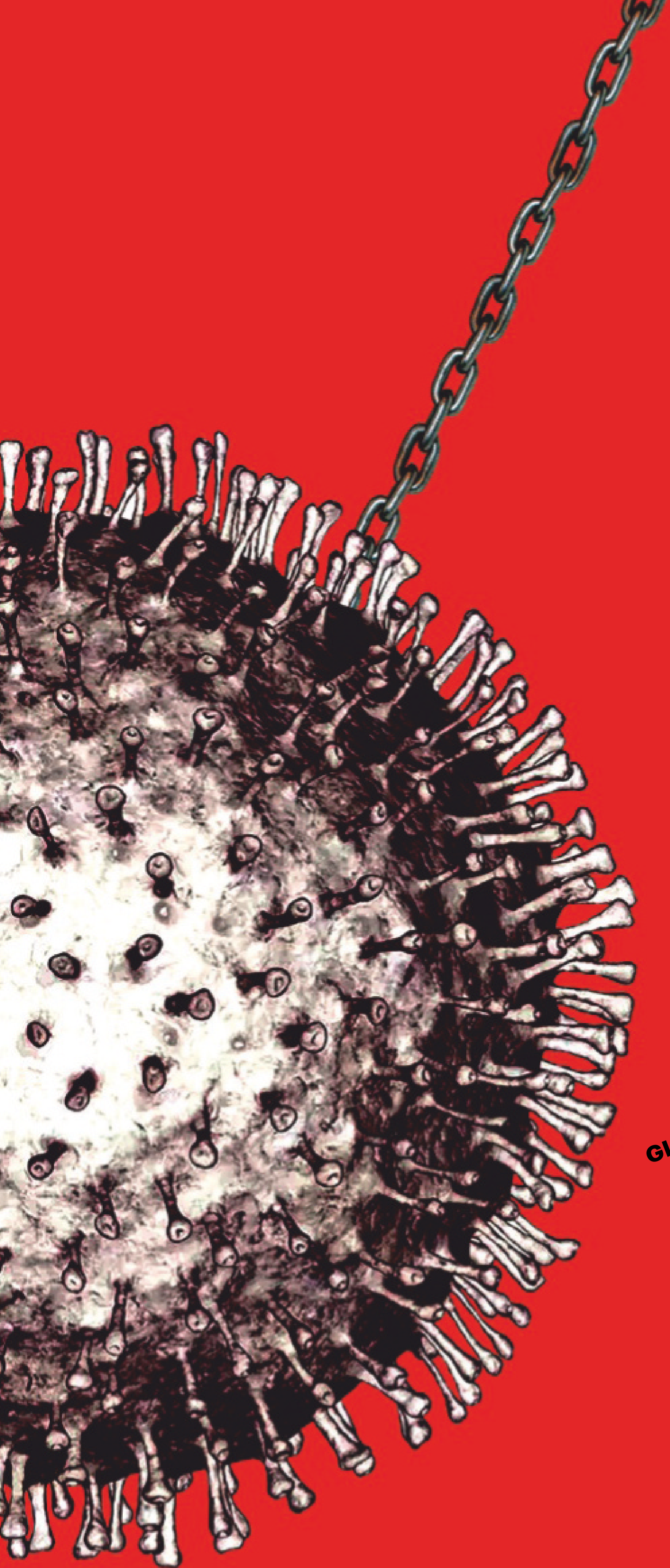
GRAPHIC BY TANMOY CHAKRABORTY

China Market Immune...

The Chinese market index has emerged almost unscathed amid a global market rout since Case Zero on November 17



Closing index value



...But Not Industry

Retail sales fell 20.5% during the period, China's first decline

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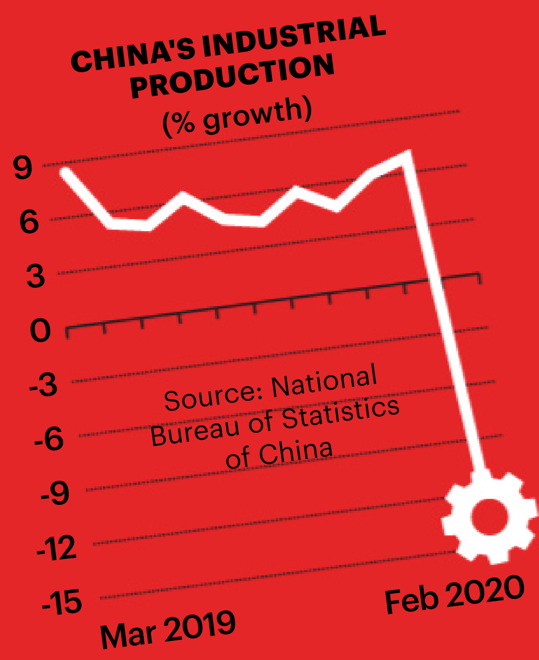
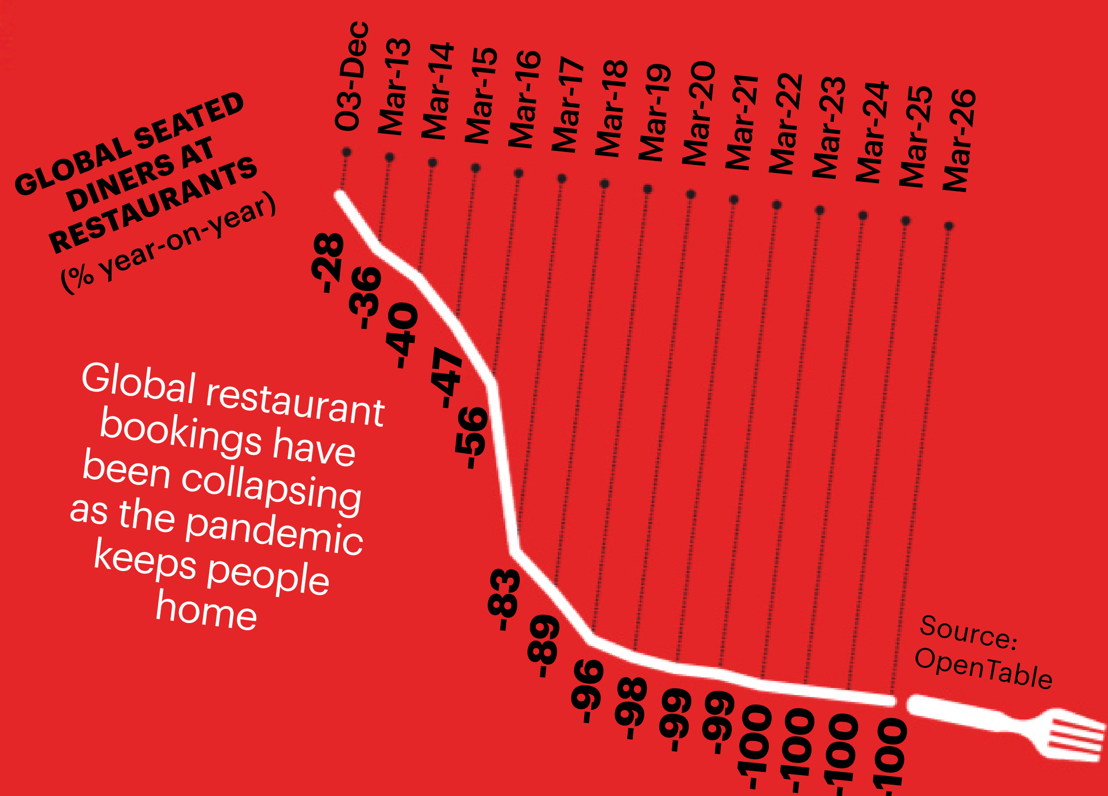
China's industrial production, combined for January and February, declined for the first time in a year by 13.5%



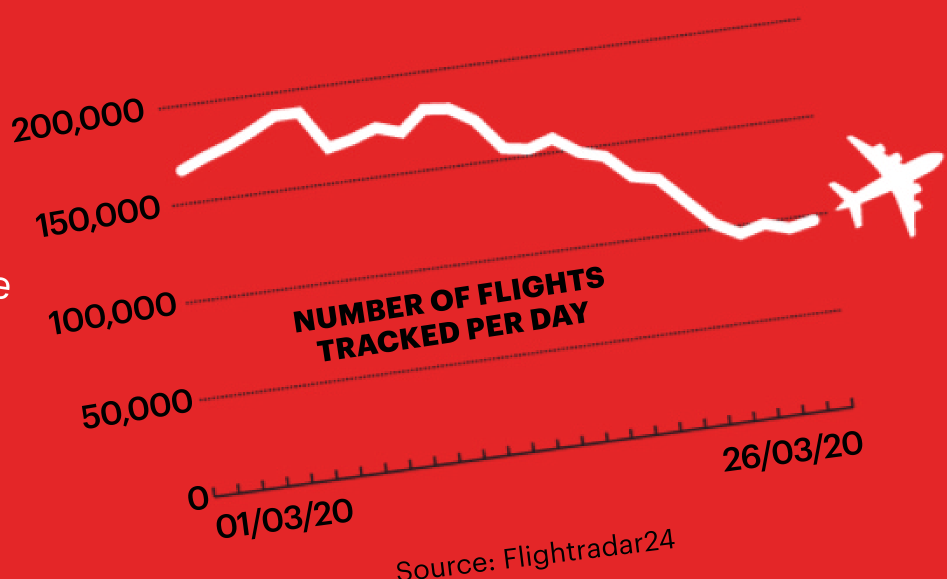
The Empty Table

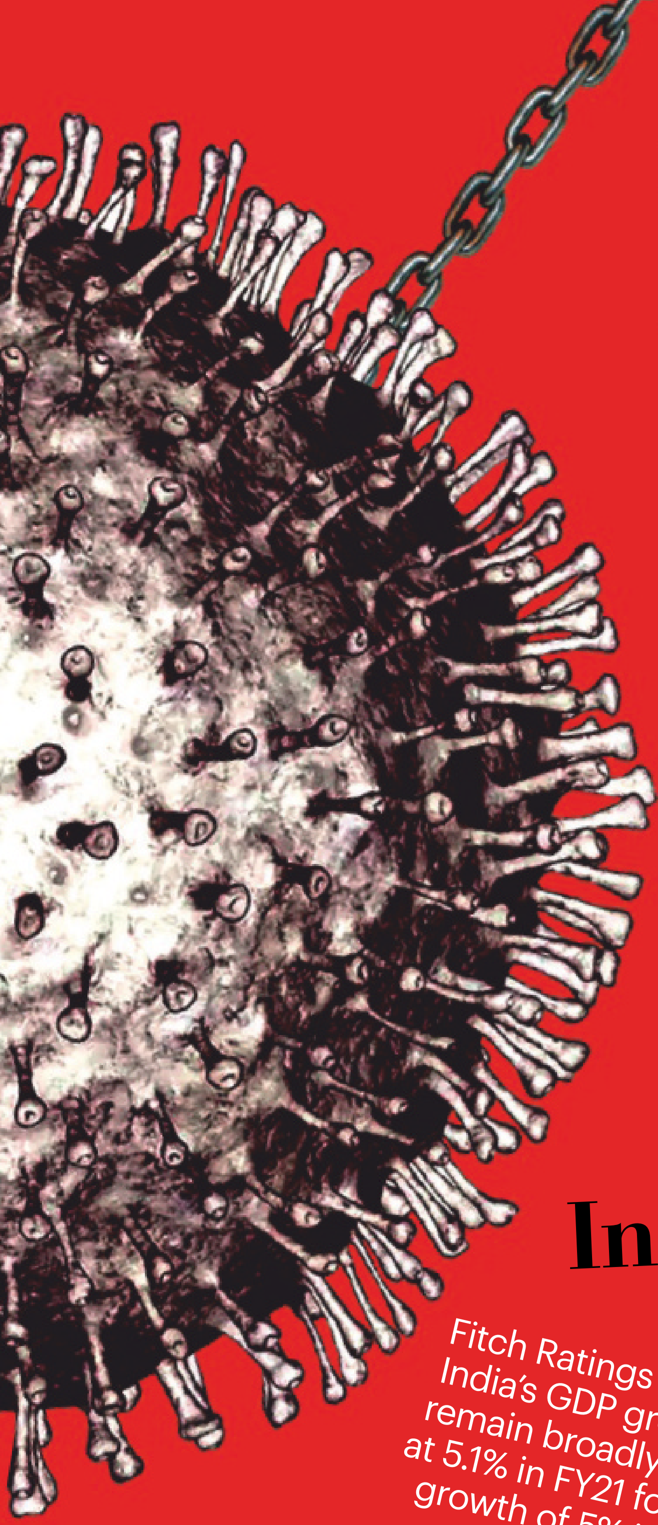


Global restaurant bookings have been collapsing as the pandemic keeps people home

Travel Halts

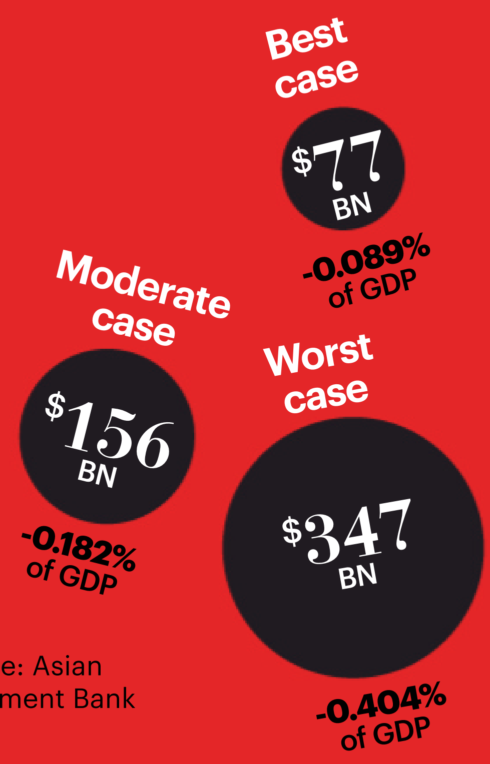
Mounting restrictions across the world have taken a toll on travel. The number of flights per day shrunk drastically from 1,67,470 to 96,970 between March 1 and March 26, a fall of about 42%





Global Growth to Take a Hit

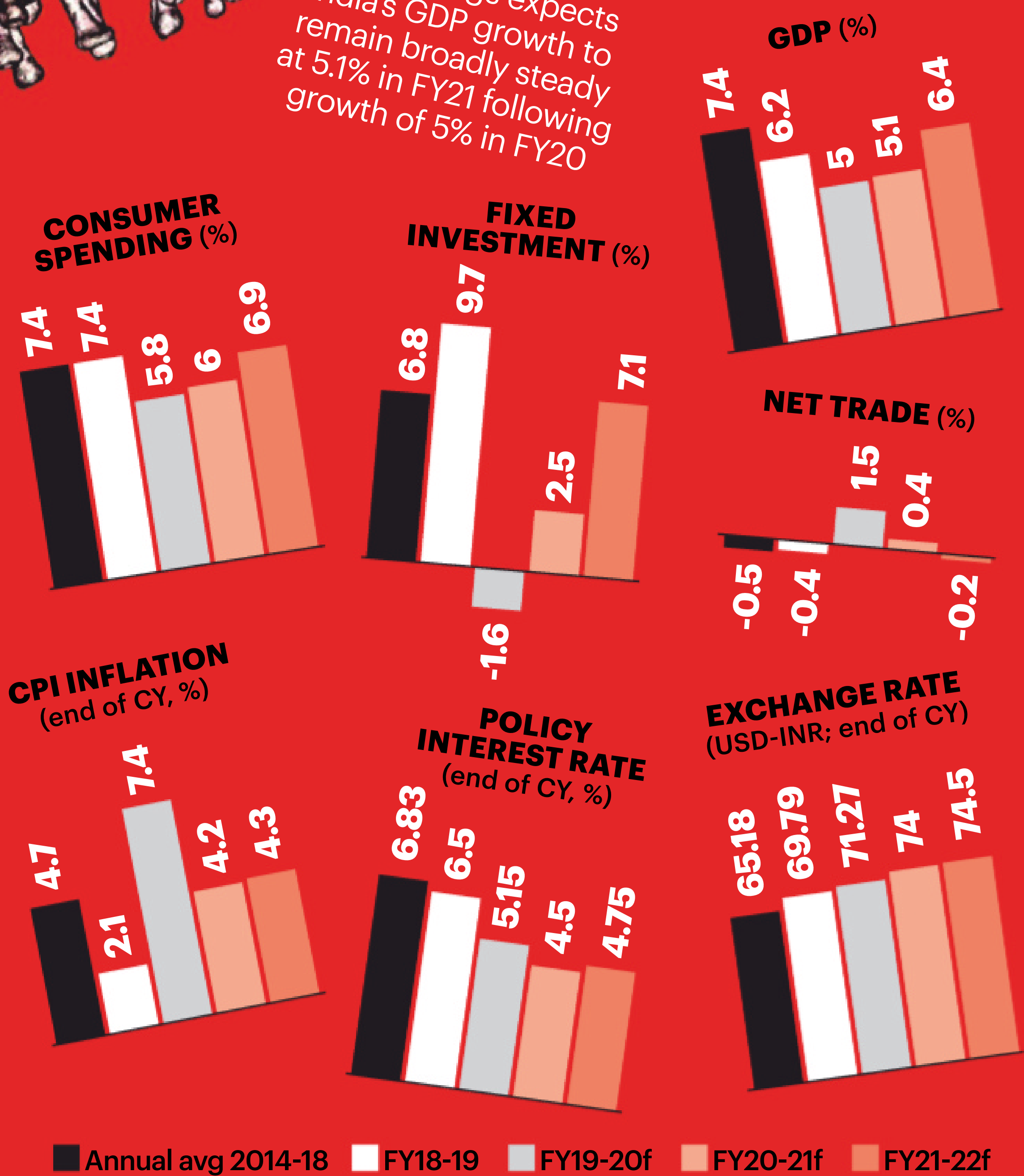
The scenarios explored by the Asian Development Bank suggest global impact ranging from $77 billion or 0.1% to 0.4% of $347 billion or 0.1% to 0.4% of global GDP, with a moderate-case estimate of $156 billion or 0.2% of global GDP



Source: Asian Development Bank

India May Pull Through

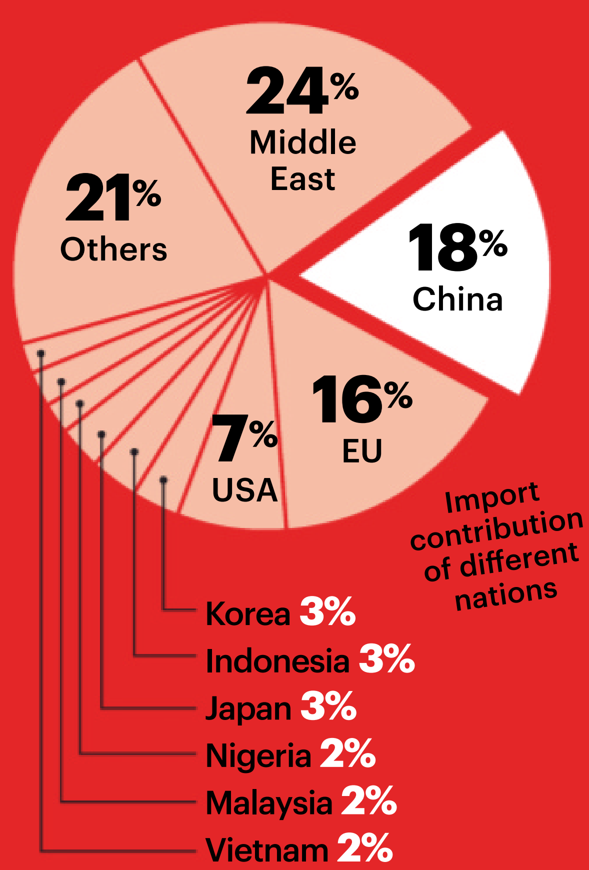
Fitch Ratings expects India's GDP growth to remain broadly steady at 5.1% in FY21 following growth of 5% in FY20



f is forecast; Source: Fitch

China Dependence

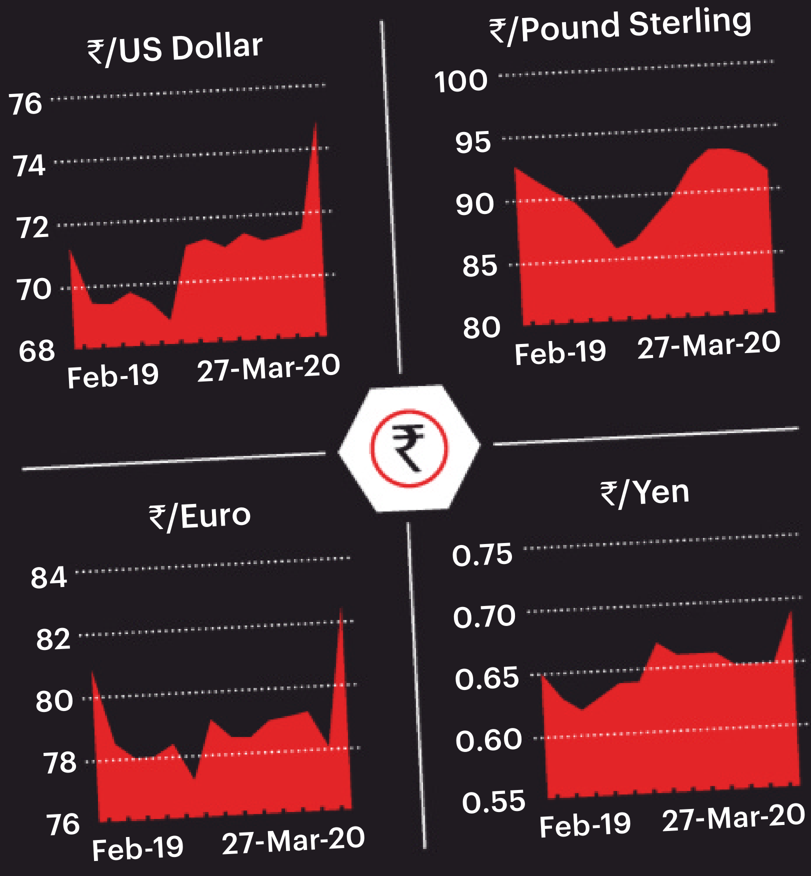
- India remains a net importer from China (including Hong Kong) of $56 billion
- Over the past three years, India's overall merchandise imports have logged a compound annual growth rate (CAGR) of 12% while imports from China grew 6%



The Macro Impact

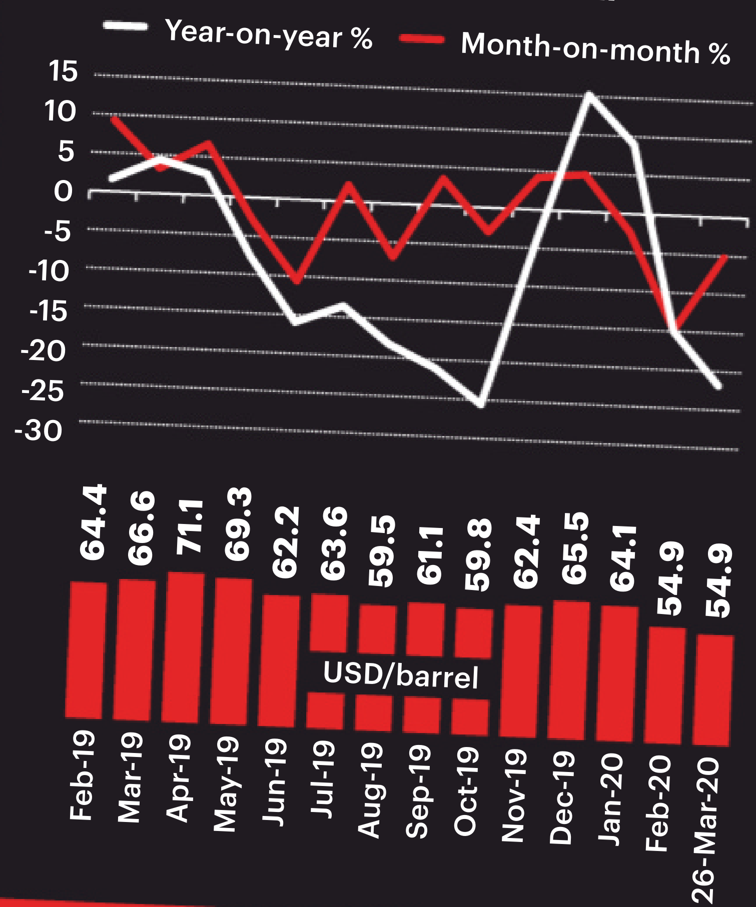
Oil price crash is expected to provide India some relief while a weakening currency could help exports

Rupee Weakens

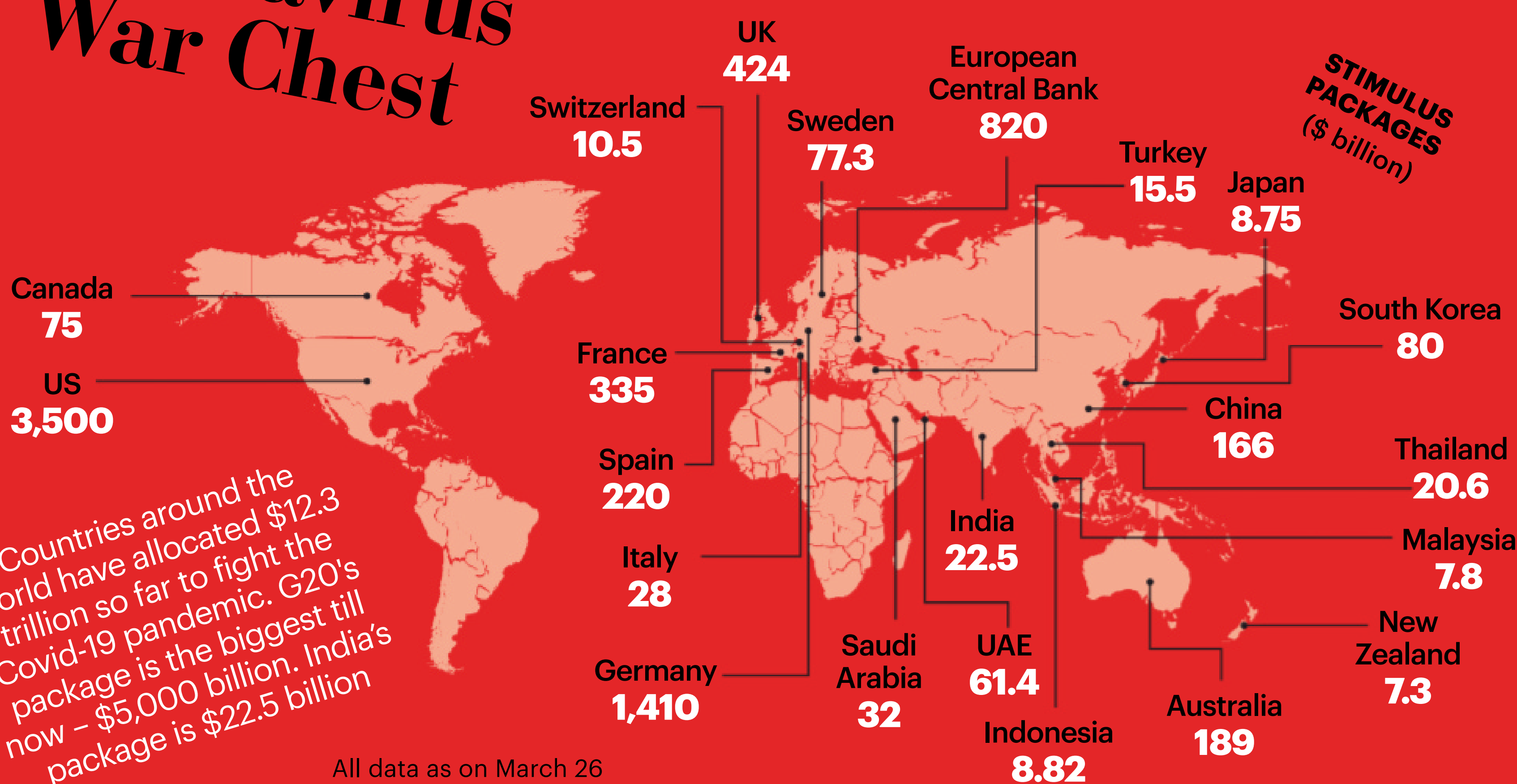


Oil Prices Crash

Indian Basket of Crude Oil



Coronavirus War Chest



Countries around the world have allocated $12.3 trillion so far to fight the Covid-19 pandemic. G20's package is the biggest till now – $5,000 billion. India's package is $22.5 billion

All data as on March 26

BUILD A NEW PORTFOLIO

DIVERSIFY AND PARK MONEY IN SELECT LARGE CAPS AVAILABLE AT THROWAWAY PRICES

BY TRIPTI KEDIA
ILLUSTRATION BY RAJ VERMA

Seated in the iconic BSE building, 81-year-old K.R. Choksey says he has never seen a fall like this in his 59 years as an investor. "Not even during the tech bubble or 9/11. This beats even the 2008 global financial crisis. What makes it different is that finance and health (crises) have come at the same time," says the founder of KRChoksey Investment Managers. The coronavirus pandemic coupled with an economic slowdown could have a devastating impact all over the world, and India is no exception. Most stock markets are seeing steep falls and investors are looking to minimise the red on their books.

In India, the BSE Sensex has bungee-jumped 35.7 per cent, hitting lower circuit a number of times from the beginning of January to three weeks into March. Its market

40%
Nifty's crash in just 11 weeks. During the subprime crisis, it had taken a full calendar year to drop by 50 per cent

5.2%
S&P's 2020 growth projection for India; down from 5.7 per cent

cap fell from a high of ₹77.7 lakh crore on January 17 to about ₹50 lakh crore on March 23. Though it recovered marginally to ₹56.78 lakh crore on March 27, setbacks may occur every now and then.

In 2008, during the subprime crisis, it took the Nifty a full calendar year to drop by 50 per cent. In 2020, it took just 11 weeks for the index to crash 40 per cent. The 21-day nation-wide lockdown will have an impact on GDP growth and weaken investor sentiment further. According to a Barclays research statement – which factors in four weeks of complete shutdown, followed by another eight weeks of partial shutdowns until the end of May – its new forecast for CY2020 GDP growth in India is 2.5 per cent from 4.5 per cent earlier, and 3.5 per cent for FY21 from 5.2 per cent earlier.

The uncertainty will take a toll. Dipen Sheth, Head-Equity and Strategic Marketing, HDFC Securities, says, "Year 2008 was a result of defaulters, which plagued the financial system. But real businesses were still running. Covid-19 spread is global and is having an impact on real economy and real businesses." But investors are a practical bunch and are already looking for silver linings. Chennai-based Shyam Sekhar, founder of ithought Advisory, says he is looking at 2020 as a year of investments and almost nil returns.

What the Markets Are Pricing In

Today, markets are pricing in the adverse impact on India Inc's balance sheets for the next few quarters. Even blue chip stocks have been brutalised. On March 12, as many as 1,242 stocks were trading at 52-week lows. BSE market cap has eroded 35 per cent since January 17 this year. More than two-fifth of Nifty stocks are down by over 40 per cent from their two-year highs.

In any case, for the last two years, just a few heavy weights were holding the fort. The advance-decline ratio reflects deep seated anxiety over earnings downgrades and weak fundamentals. "Earnings are expected to decelerate across sectors with the first two quarters being very bleak. There is still no visibility of the real spread, impact and cure of the virus. We all have to recalibrate our expectations," says Sekhar.

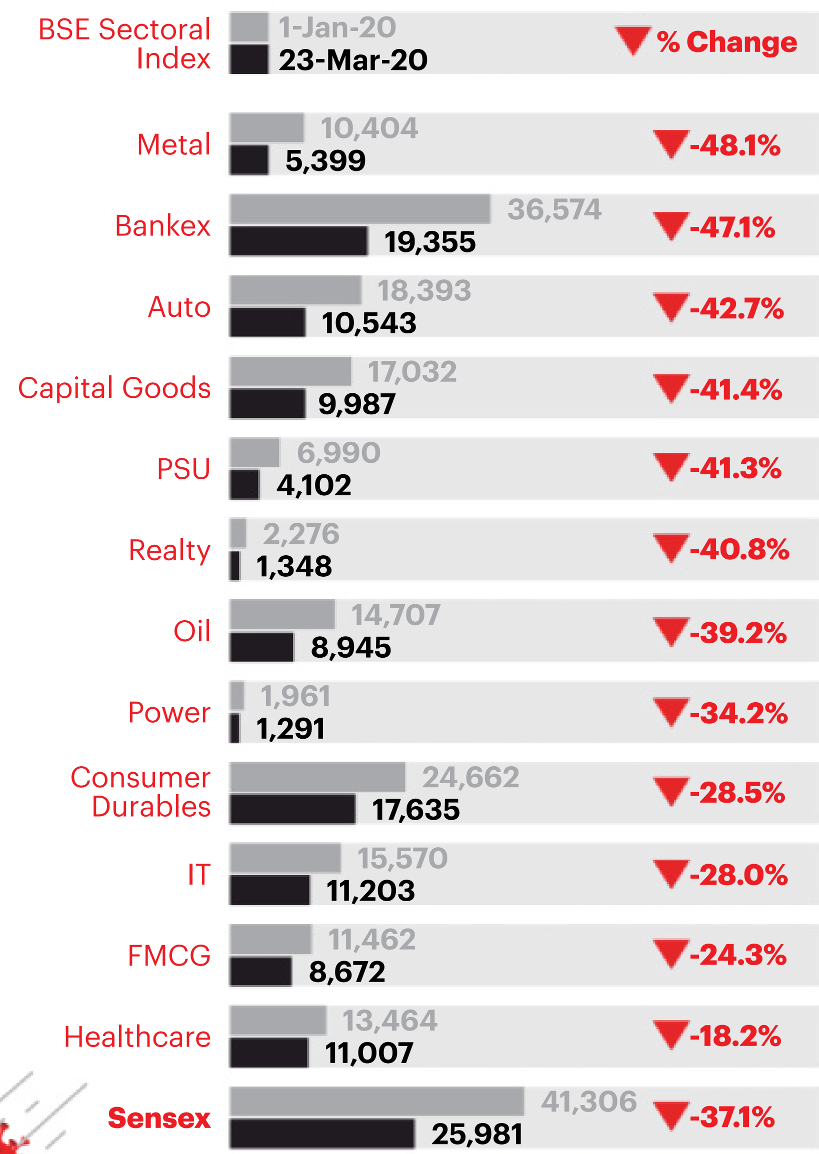
Reality Check

S&P has slashed its 2020 growth projection for India from 5.7 per cent to 5.2 per cent, as it foresees a recession both in the US and the Eurozone. The forecast for China's growth is down from 4.8 per cent to 2.9 per cent. Amidst this unprecedented situation, a 10 per cent cut in Nifty earnings estimates in FY21 by Motilal Oswal Securities in its 4QFY20 strategy report looks like a positive.

According to Sheth of HDFC Securities, earnings of

HOW VARIOUS SECTOR INDICES PERFORMED

Most major indices have seen a steep fall



Source: BSE

companies will come down because there will be operating deleverage as business volumes shrink. "One will also see drastically lower bottom lines as pricing power and input costs will be readjusted and there will be margin cracks," he says.

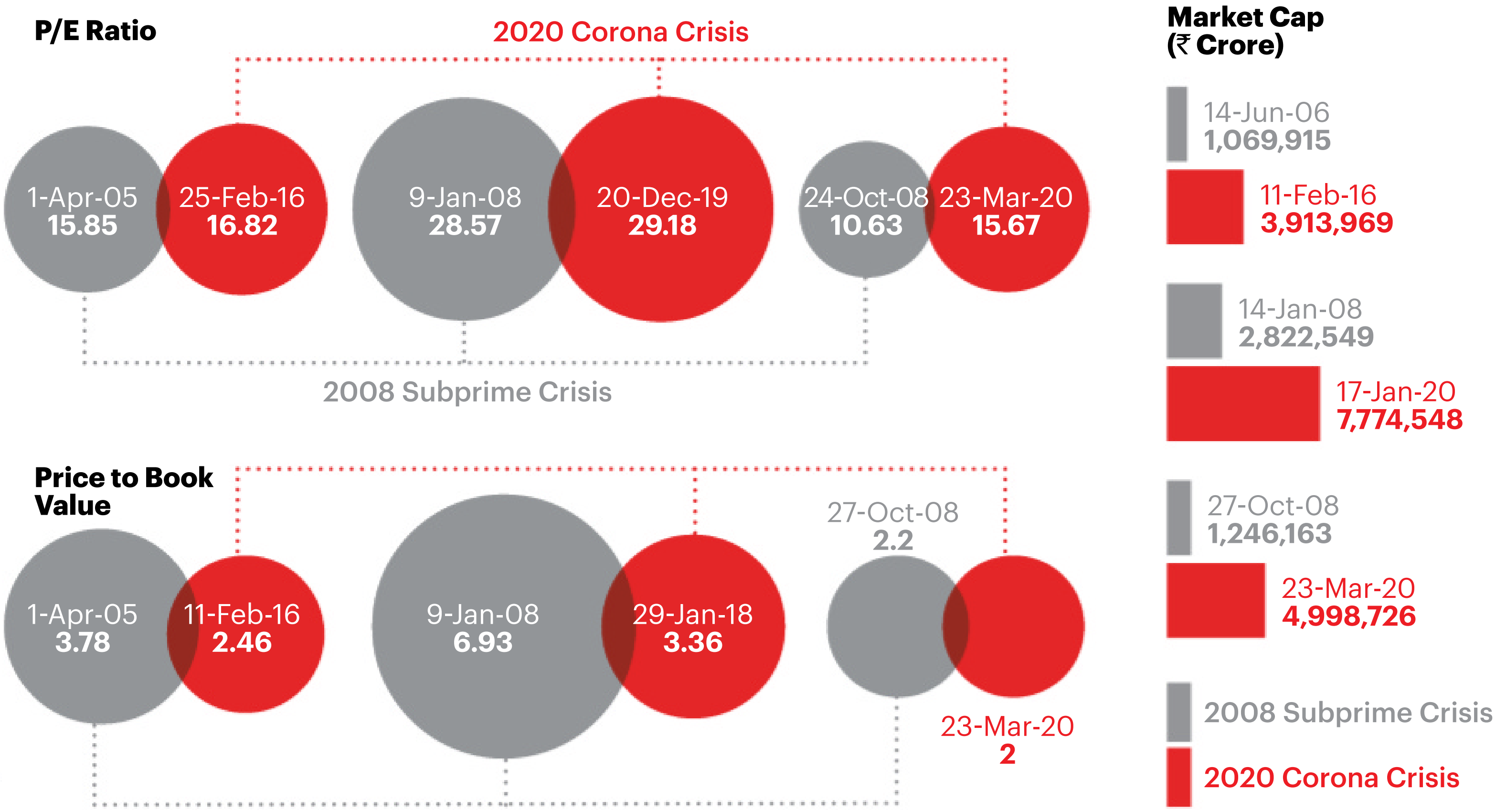
The question that investors are asking is: should one turn a buyer in the D-street sale or steer away from it? For their part, analysts and fund houses have tried to distinguish between the immediate and the long-term impact of this disaster on various sectors.

A Close Look

The Indian markets are facing a two-pronged attack. One is the global black swan event of the corona virus and the extent of damage, and the other is the country's own weak banking and financial sector, marked by deteriorating

PEAKS AND LOWS FOLLOW A SIMILAR PATTERN

The subprime crisis and the current one have much in common in terms of market valuations



Source: CMIE

balance sheets. Yes Bank and Punjab and Maharashtra Co-operative Bank are recent incidents and the DHFL and the resultant NBFC liquidity crisis continues. According to Jigar Shah, CEO, Maybank Kim Eng Securities, banks will have to deal with many a nasty surprise on their NPAs due to retail as well as corporate defaults. "It will be a tough year for banks in terms of capital adequacy and deposits. The problem is being extended to private banks. Things need to improve and one needs to win confidence," says Shah.

Aviation, hospitality and tourism are already being hit hard as passenger traffic has plummeted. All this at a time when many airline companies have to cope with not just high fixed costs but also generous helpings of debt. To cope with the situation, salary cuts are being considered. That means investors will stay away from these stocks till some semblance of a robust business model emerges.

Soumya Kanti Ghosh, Chief Economic Advisor, State Bank of India, says, "On an aggregate basis, it is estimated that the impact of a 5 per cent inoperability shock on GDP could be 90 basis points from transport, tourism and hotel sectors, that could be spread over FY20 and FY21, with a larger impact in FY21." This inoperability shock might inhibit many of India's key sectors such as retail, for both Q4FY20 and Q1FY21.

₹27.7 lakh crore

Fall in Sensex market cap from January 17 (₹77.7 lakh crore) to March 23 (₹49.98 lakh crore)

Fault Lines

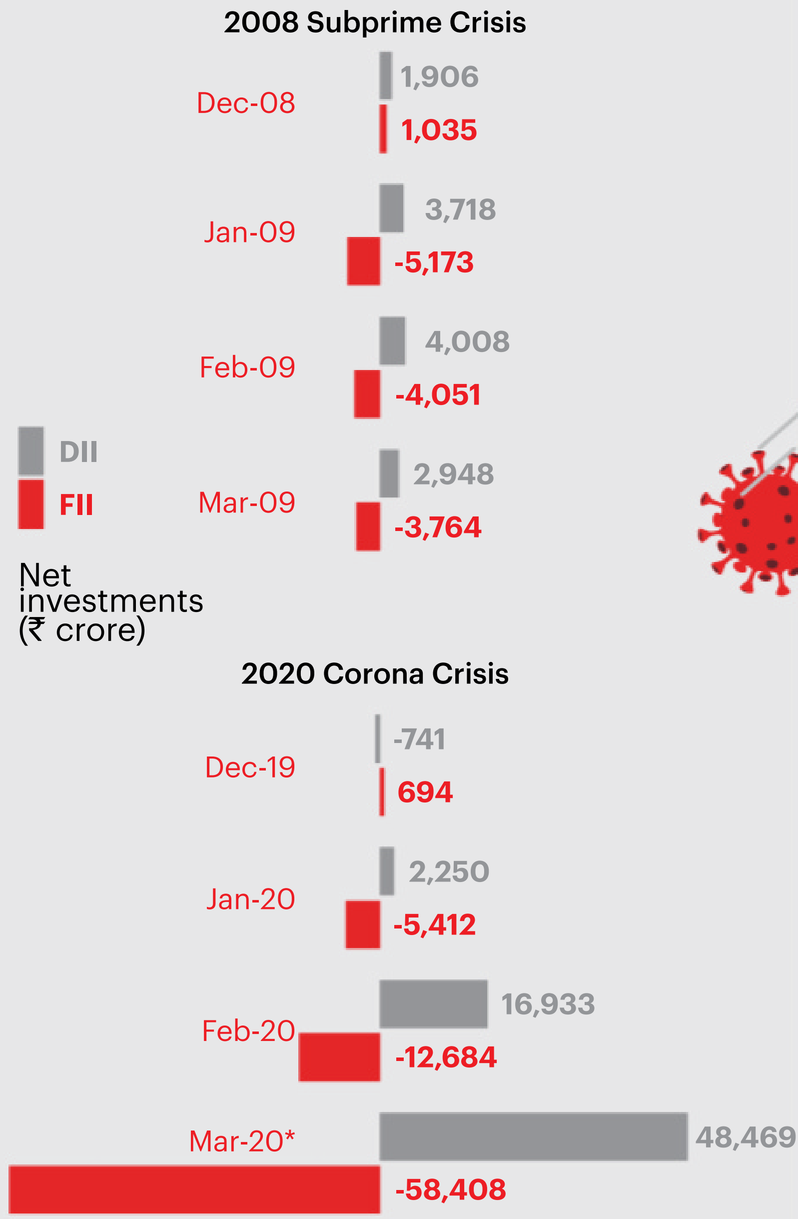
The manufacturing sector, which accounts for about 25 per cent of GDP, will have to brace itself for a deep cut. According to Motilal Oswal's strategy report, a sharp fall in commodity prices will push global cyclicals towards an earnings downgrade. Sheth says, "I am worried about the lower pricing power and erosion of gross margins in the commodity sector. Upstream companies like ONGC, metal and mining will be hurt."

With Brent Crude being down 54 per cent from January levels, ONGC will take a hit on its price realisations, which in turn will impact profits. In early-March, the stock price had hit a 16-year low.

It is ironic that the benefits of lower oil prices for some downstream companies are being offset by poor demand. However, every dollar drop in oil prices benefits India by $1.4 billion. Therefore, if oil prices persist at the level of

INVESTMENTS IN EQUITIES: DII VS FII

FIIs/FPIs have sold heavily in equities, contributing to the market fall. But DIIs have remained buyers



*Till 27 March. FII: Foreign institutional investors; FPI: Foreign portfolio investors; DIIs: Domestic institutional investors; Source: ICRA Analytics

$35 a barrel, then India will benefit by $46 billion, according to Kotak Securities.

But metals and mining could take a beating, says Shah of Maybank Kim Eng Securities. "Their plants will operate at lower utilisation for at least two quarters with both lower global prices and lower demand. Companies like Hindalco, Vedanta and Tata Steel have a lot of debt on their balance sheet, which will only add to the pressure." The BSE metal index has fallen 48 per cent since January till March 23. A manufacturing and import halt in the world's second largest economy has affected the entire supply chain, reducing demand, especially when China's own inventories are high.

Auto to Switch Gears

Auto companies in India have been seeing poor sales for many quarters now. And those with exposure to China and Europe will fare worse. Car retail sales in China slid 85 per cent in February alone. Tata Motors stock price tumbled 62 per cent (January 1-March 23), much more than the auto index itself (-43 per cent) as Europe accounts for almost 40 per cent of Jaguar Land Rover revenues.

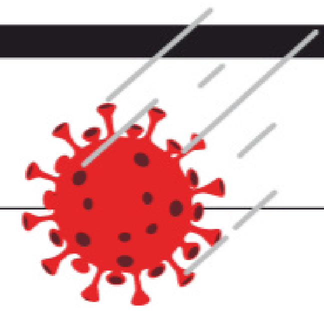
However, analysts are seeing the glass half full for the auto sector. Even though industry specific challenges, policies and consumer sentiment plague the sector, much of the negative perception is already built into the stock prices. Except for Maruti, many stocks are close to their FY09 price levels. "Besides, prices of metal, polymer and rubber are down 6-10 per cent in the last two months and this will cushion the impact on earnings. Passenger and commercial vehicles may see some pressure due to high prices, but two-wheelers and tractors are on a steady sale path on the back of a good crop season," says Shah. This perhaps also explains why mutual funds have parked ₹2,500 crore in February 2020 in the auto sector alone, which contributes around 7.5 per cent to India's GDP.

Money Flow

Mutual funds were net buyers in March too – buying shares worth ₹23,047 crore in a single month (till March 23). There is distinct similarity between the current crisis and the 2008 subprime crisis, specially in terms of price earnings (P/E) multiples of BSE Sensex. On both occasions, the peak P/E of Sensex was around 29 (around 28.57 in 2008 peak and 29.18 in December 2019) from where it went into a free fall. The 2008 crisis still appears bigger because the fall was more – to P/E level of 10.63 - while the lowest P/E during the current crash so far has been registered as 15.67 on March 23. This time, however, domestic institutional investors (DIIs), have held on .

While DIIs have been buyers, foreign institutional investors (FIIs) and foreign portfolio investors (FPIs) have fled from the Indian equity playground. They were net sellers – selling stocks worth ₹58,408 crore in March (till March 27). But this is not only in India. FIIs sold equities worth around $85 billion in March across all emerging markets. The money for now has made its way back to the US treasury as bonds.

Currencies have also seen a sharp fall. The pound has hit its lowest point since 1985. The Indian rupee has slid past the 76 per dollar mark for the first time. Export-oriented businesses such as IT and pharma could benefit from this but import-oriented sectors like petroleum, electronics, metals and minerals might take a beating.



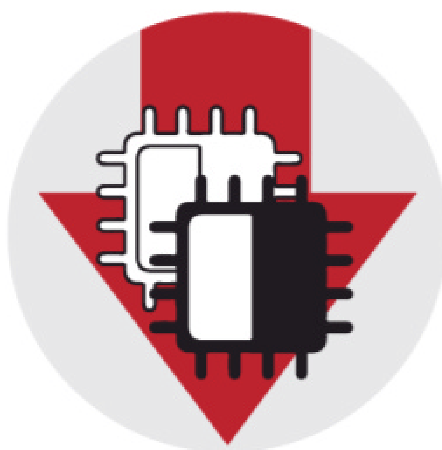
The dollar index has been advancing mostly due to liquidity concerns amid volatility arising from the pandemic. Stimulus packages have been announced by many countries but the traditional crisis response of central banks dropping interest rates is effectively inoperative. Interest rates are already very low in the US, and negative in Europe and Japan.

Back home, the RBI has taken some measures to inject liquidity into the system. It has reduced the cash reserve ratio by 100 basis points (bps) to 3 per cent; cut repo rate by 75 bps to 4.4 per cent (lowest ever) and reverse repo rate by 90 bps to 4 per cent. This will allow banks to lend more. The central bank has also allowed a delay in interest payment and increased moratorium on loans by three months. This should help take the pressure off banks and cut the borrowing cost for individuals and companies.

Analysts say radical steps are needed to cease the multi-layered impact. "Without strong economic stimulus, even DIIs may lose patience. So far, we haven't seen redemptions, but that depends on how Covid-19 is contained and how regulators manage the economy," says Shah.

Export-oriented sectors such as **IT** and **pharma** to benefit from a **sliding rupee**, which has crossed the 76 to a dollar mark

Higher **rural consumption** likely to spell good news for **FMCG companies**; urban demand to remain muted



Many **blue chip companies** that had high valuations earlier are **available** at throwaway prices

Safe Spots

While retail as a whole may suffer, there are pockets that are likely to see higher consumption. Abhijeet Kundu, VP-Research, Antique Broking, and a long-time tracker of the sector, says, "Grocery retailers are expected to do reasonably well as their sales have spiked due to stocking up of groceries. We have factored in a one-month impact in 4QFY20 and two months' impact in FY21 for all apparel retailers. Sales impact across apparel retail companies is expected to be 2-9 per cent in FY20 and 16-34 per cent in FY21."

Consumption continues to be low and a V-shaped recovery is not in sight. However, the FMCG sector might just be in for some good news after a bumpy FY20. Rural demand, which makes for 40 per cent of sales, could take off due to an uptick in agricultural output. The rabi cultivation season has been good and there is a surge in demand for agri-chemicals. Kundu, however, anticipates no particular increase in urban demand.

The retail and FMCG space will continue to reward investors even though domestic demand in urban areas may slow down temporarily. Sekhar of ithought says, "While large companies may show more resilience, medium and small companies will crack faster causing an unimaginable domino effect on manufacturing, services and consumption patterns."

Up For Sale

Meanwhile, investors must sift through their portfolios, diversify and then look at parking their money in select large caps. Many blue chip companies are currently available at throwaway prices. Sekhar says some stocks were untouchable due to their high valuations but "are trading at a discount of 40 per cent-plus which makes them a good buy." Investors must choose with care, conviction and a long-term view.

The coming weeks and months will be full of uncertainty but the silver lining is to consider the year as full of investment opportunities and not handsome returns. **BT**

The writer is a Mumbai-based freelance journalist

AN UNKIND CUT

A LARGE NUMBER OF MSMEs EXPECT TO RESIZE OPERATIONS IN THE COMING MONTHS

BY NIRBHAY KUMAR
ILLUSTRATION BY RAJ VERMA

The 21-day lockdown in the wake of the Covid-19 pandemic will be in force till April 14. But cash-starved micro, small and medium enterprises (MSMEs) remain uncertain about their future and survival for months beyond this period. The 63 million MSMEs are the lifeline of India's economy as well as big employers, providing livelihood to 110 million people, around 40 per cent of the total workforce. They account for 48 per cent of exports and contribute 30 per cent to the nation's GDP.

Finance Ministry and the Reserve Bank of India (RBI) have announced a host of measures to bring relief to MSMEs but that hasn't calmed their nerves yet.

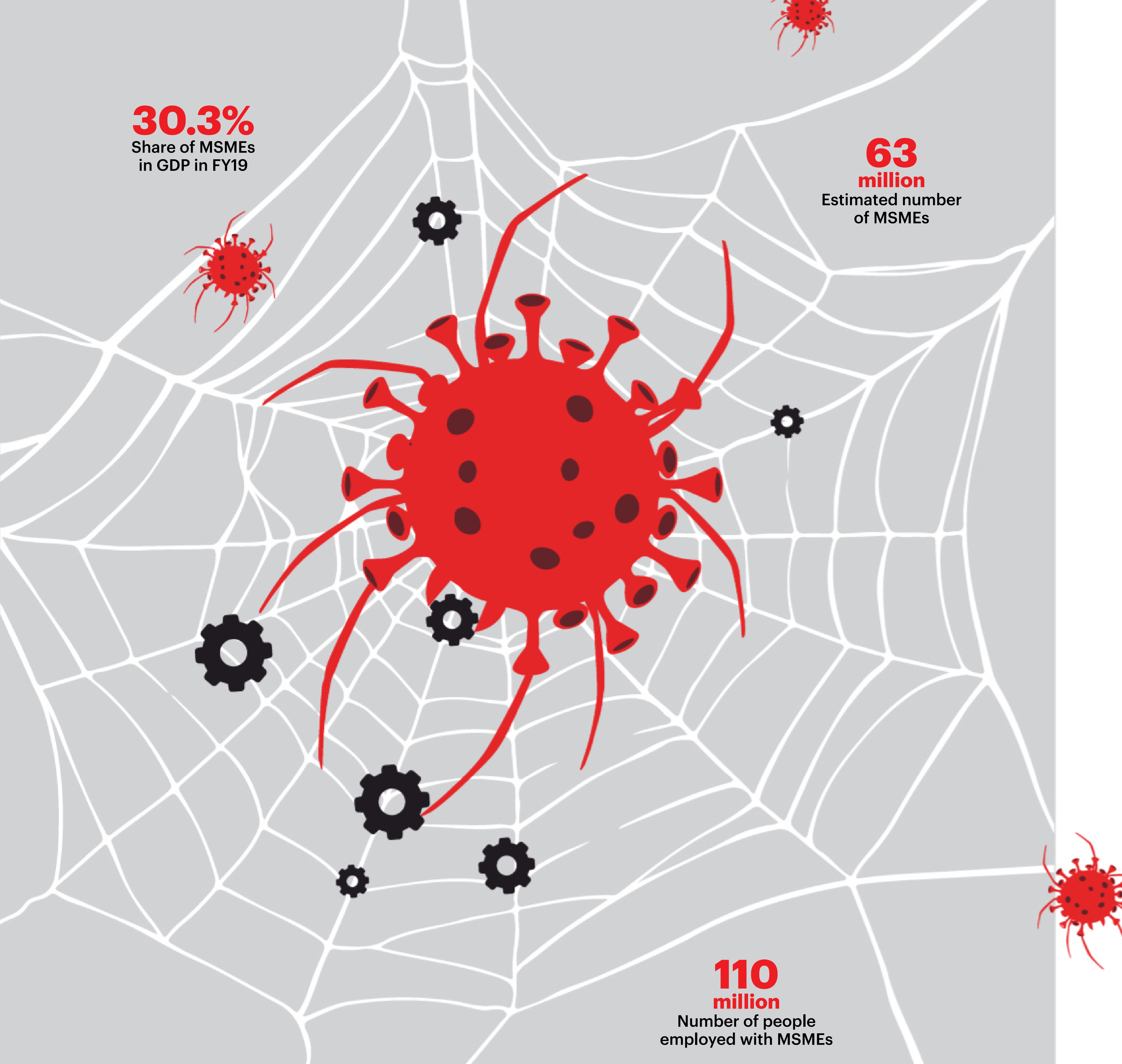
The RBI has allowed banks and other financial institutions to provide a moratorium of three months to all term loan borrowers for all loans due for payment between March 1 and May 31. It also allowed banks to defer interest on working capital by three months, besides easing compliance in GST.

Earlier, in a major relief, RBI permitted one-time recast of loans by GST-registered MSMEs to prevent them from turning NPAs. All accounts in default but standard as on January 1, 2019, qualified for the relaxation. The scheme has now been extended to accounts that were standard but in default as on January 1, 2020. Last month, the central bank also announced that incremental loans to MSMEs, along with retail loans for auto and residential housing, will be exempted from the cash reserve ratio between January 31 and July 31, 2020. "A whole lot of things have been announced and quite a number of things are going to be announced. The government is aware of the need," says A.K. Panda, Secretary, Ministry of Micro, Small and medium Enterprises (MSMEs), indicating that more relief measures could be in the offing.

Yet, fearing that the war against the deadly virus could be a long-drawn one, MSMEs have started bracing for tough times. Since the bulk of MSMEs rely mostly on manual work, a large number of them have decided to downsize manpower and reduce expenses. This will mean lakhs of job losses, particularly, since the sector is still to recover from the two back-to-back shocks of demonetisation and GST.

Banks Drag Feet

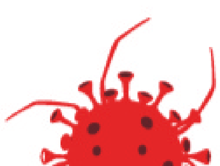
The RBI has announced several steps to give relief to MSMEs. But the question is, will banks implement them in letter and spirit? K.R. Sekar, Partner, Deloitte, says RBI announcements will help MSMEs through lowering the rate of interest and deferment of loan payments. But that's not how it's playing out on the ground.



After the RBI's three-month instalment deferment announcement, Bharat Garg, Managing Director, JK Metal Industries, contacted his bank, State Bank of India. "I asked if they are going to pass on the benefits. The official was non-committal and said their expenses had gone up and so they would think about it (later). If they don't pass on the benefits to us, what is the use of these measures?" he asks. JK Metal makes aluminum utensils at its factory in Yamuna Nagar, Haryana, and employs nearly 200 people. It has an annual turnover of about ₹40 crore. There are dozens of similar firms in the area whose situation is not different.

V.K. Aggarwal, Managing Director, Shashi Cables, says MSMEs may not be the recipients of any largesse because of historical risk averseness of bankers. "MSMEs need cash to meet their daily needs even though their plants are closed. For this, banks will have to be liberal. The Ministry of Finance needs to issue a strong advisory to banks that all relaxations permitted by the RBI must be extended mandatorily to the borrowers," he says.

Aggarwal, however, noted that several RBI steps have the potential to inject huge liquidity in the system, saying changes in the reverse repo rate will dissuade banks from parking money with the RBI and thus nudge them to lend. "Corporates can greatly benefit by getting funds against their bonds and commercial papers," says the owner of a small factory in Lucknow. "However, the bigger challenge will be rise in cost and liquidity crunch once the business starts operating again. MSMEs are looking for government subsidy or grant or deferment of GST collections.



While the RBI's announcements are welcome, we need to wait for the government's announcements on improving cash flow," says Sekar. Responding to the RBI decision to slash the repo rate, SBI has passed on the entire 75 bps cut to borrowers availing loans linked to external benchmark-linked lending rate as well as repo-linked lending rate. Many other banks like Bank of India, Central Bank of India and Bank of Baroda have announced moratorium on all term loans across the board and deferment of interest on working capital limits for three months. Small businesses hailed the move but said there should be an institutional mechanism to ensure that these benefits reach all.

Federation of Indian Micro and Small & Medium Enterprises (FISME) President Animesh Saxena says the measures so far are insufficient given the scale of the disruption. "Probably, they do not understand the working of MSMEs. MSMEs have an extreme cash flow issue. It is a cycle. You are supplying, you are getting payments and you are buying raw material and paying wages. If your incoming payments dry up for one-and-a-half months, how can you run the business?" he says.

The chief of another leading MSME body says the RBI has issued a lot of advisories but there are no clear instructions to banks. "We expect a little more. We need more concrete terms. The banks need to allow a longer moratorium on term loans. Cash flow has dried and MSMEs don't have huge reserves. They are going to suffer a huge business loss," he says.

Saxena of FISME says the RBI should have asked banks to immediately give additional cash credit limit to MSMEs so that they can pay salaries. S.K. Jain, Managing Director, Solo Components, says anything that eases the pain and gives them time to recoup will be good.

Refunds from centre key

Many MSMEs are facing delay in payments from government agencies and PSUs. Industry representatives have appealed to Commerce Minister Piyush Goyal to bear salary cost for two months. "Many workers are covered under Employees' State Insurance (ESI). This a national issue. The government may ask ESI to pay our workers for March and April. And then, for middle and senior staff, the government could partly support the companies in paying salaries. This will help MSMEs pay salaries and retain workers," FISME has suggested to the government.

The industry is looking at cutting staff count. "More

WILL THE STEPS ANNOUNCED WORK?

Three-month moratorium on EMIs of all term loans

Deferring interest on working capital loans

No asset downgrade on EMI deferment

RBI measures are advisory in nature

Will help MSMEs but clarity awaited

They are not binding on banks

Each bank will take a call independently based on its finances

Banks to frame board-approved polices to extend relief

Sharp cut of 75 basis points in repo rate to bring down cost of borrowing

Credit will be cheaper, but will depend on bank and decided case to case

Last date for filing income tax returns for FY19 extended from March 31, 2020 to June 30, 2020

Deadline for filing GST returns for March, April and May extended till June 30

Gives more time to meet compliance requirements

WHAT MSMEs FORESEE

Latent demand may mean increasing production and hiring more people

Sectors: Food processing, pharma, automobiles

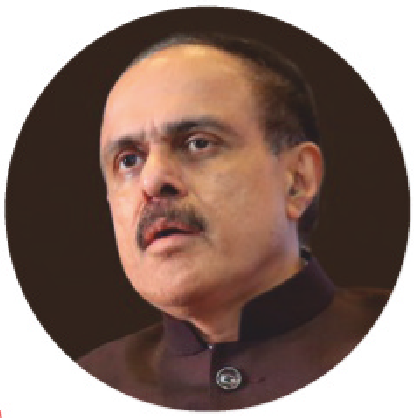
Some expect demand to fall, which will mean downsizing

Sectors: Garments, luxury goods

people at lower level could be hired on contract based on daily requirement. At middle and senior levels, people could be asked to take a 25 per cent pay cut or offered a higher variable pay with a cut in basic salary," says Shashi Cable's Aggarwal.

Different Strokes for Different Folks

The response of companies will vary from sector to sector. Even within a sector, different enterprises will follow



"A WHOLE LOT OF THINGS HAVE BEEN ANNOUNCED AND QUITE A NUMBER OF THINGS ARE GOING TO BE ANNOUNCED. THE GOVERNMENT IS AWARE OF THE NEED"

A.K. Panda
Secretary, Ministry of MSMEs

"PROBABLY, THEY DO NOT UNDERSTAND THE WORKING OF MSMEs. MSMEs HAVE AN EXTREME CASH FLOW ISSUE. IT IS A CYCLE"

Animesh Saxena, President, Federation of Indian Micro and Small & Medium Enterprises

different strategies. While some firms in sectors like automobile, food processing and pharmaceutical may not see the need to reduce staff strength, many in sectors like garments and luxury goods will have to resize operations.

Further, most manufacturers and service providers expect that normalcy will take months, in some cases more than a year, to return, as getting workers back will not be easy. The industry has in the past seen that workers take at least a month to return once they go back to their villages. In the current scenario, it may be longer due to the heightened fear of coronavirus.

"We are part of an auto supply chain and do not downsize manpower when every now and then there is a hiccup in the economy. It is difficult to replace these people. Neither does it make business sense as where will you hire when the chips are up?" says S.K. Jain, Managing Director, Solo Components.

However, a large garment maker from Gurgaon, Haryana, says he plans to lay off staff, especially at middle and senior levels. Unlike him, many firms see latent demand once the lockdown is lifted. That is why several companies have directed their HR departments to contact workers and stop them from leaving for their native places. They are even assuring cash relief. These include Gurgaon-based auto parts maker Solo Group and JK Metals.

Multiple Challenges

MSMEs play a key role in economic growth but face numerous challenges. Most score poorly on automation and adoption of technology and hence lag their counterparts in developed countries. They also lack access to cheap credit and risk capital. Then there is the problem of delayed payments from government agencies as well as big corporates.

U.K. Sinha, former Sebi chief who was head of an RBI-appointed panel on MSMEs, says his committee had suggested several steps to help MSMEs but they have not been implemented. "One important thing, for example, is that the ceiling for collateral-free loan be extended from ₹10 lakh to ₹20 lakh. We should do something for providing them special line of credit and delayed payments. The government should arrange that all its agencies/PSUs start making payments to MSMEs," says Sinha. He says Covid-19's impact on MSMEs may last longer than what was initially understood.

Post Lockdown Phase

MSMEs expect more relief, especially as the government wants them to play a key role in its target to make India a $5 trillion economy by FY25. The share of MSMEs in GDP is projected to touch 50 per cent in the next few years from 30 per cent at present. Industry too wants the sectoto be in focus after the lockdown. Saxena says hand-holding is the need of the hour. "If they are not supported, the sector will find it difficult to tide over the crisis. The government does a lot of things for marginalised sections of society. We are the marginalised section of the industrial society. If hand-holding does not happen, this sector will see a lot of retrenchments," he says.

"After the lockdown is over and factories open, people will require hand-holding and support. The government is definitely going to come up with (the support)," says Panae. That may be music to the ears of SME promoters. But for now, they have to deal with the grim, grimmer and the grimmest! BT

@nirbhay_kumar1

CAPTAINS PUT BEST FOOT FORWARD

AS THE COUNTRY FIGHTS COVID-19, INDUSTRY LEADERS STEP IN TO SHOW COMMITMENT TO BOTH THEIR WORKERS AND SOCIETY AT LARGE

BY NEVIN JOHN

It is in difficult times that true leaders emerge. And, these truly are extraordinary times. As India goes under a protracted lockdown, the list of those facing an economic tragedy is running into millions.

As India faces the coronavirus threat with grim courage, captains of India Inc., too, are locked down in their homes. In spite of a near certainty that most of them will suffer serious losses in their business, some of them are showing serious social commitment by compensating contract workers not on payroll and offering medical assistance to employees as well as public. Others are looking to divert their manufacturing facilities to produce things that are in great demand due to the spread of the pandemic, including ventilators, soaps and hand sanitisers. A few have publicly promised to retain their employees, though production at their plants has been halted. Tata Trusts Chairman Ratan Tata, Reliance Industries CMD Mukesh Ambani, Bajaj Group Chairman Rahul Bajaj, Vedanta Group Chairman Anil Agarwal, Hindustan Unilever CMD Sanjiv Mehta and Hero Cycles CMD Pankaj Munjal have set aside funds to deal with the virus outbreak, while Mahindra Chairman Anand Mahindra have announced a series of social initiatives.

Guards of Employees

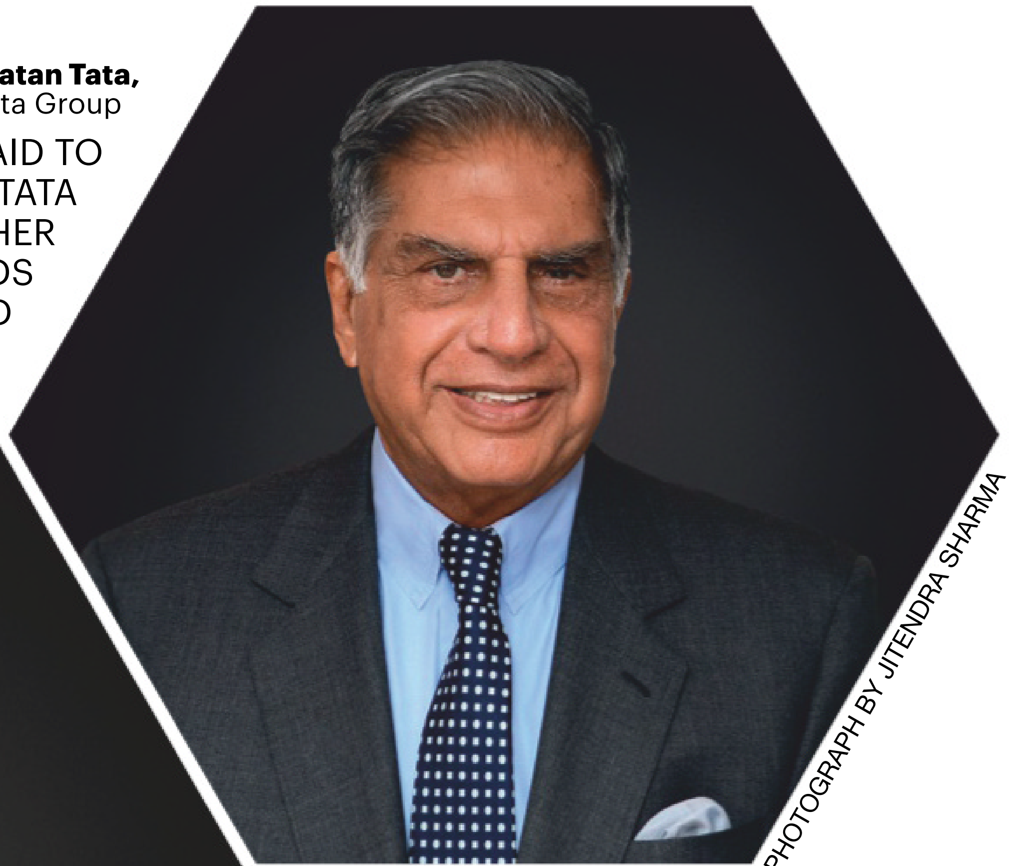
N. Chandrasekaran, Chairman, Tata group, promised full salary to temporary workers and daily wage earners who are working in offices and at sites in India for March and April. The group employs 7.2 lakh people. Its temporary workers run in lakhs. The workers will get salaries even if they don't go to work because of quarantine measures, site closures and plant shutdowns.

S.N. Subrahmanyan, MD & CEO, Larsen and Toubro (L&T), said the company will take care of the daily requirements of its 3,00,000-odd contract workers and their families, and ensure food and medical assistance, since the virus scare has halted construction activities at its project sites in India and the Middle East.

Earlier, Anil Agarwal had also promised that Vedanta

Ratan Tata,
Former Chairman, Tata Group

ANNOUNCED THE BIGGEST FINANCIAL AID TO FIGHT VIRUS OUTBREAK. TATA GROUP – TATA TRUSTS AND TATA SONS – WILL TOGETHER DONATE **₹1,500 CRORE** TOWARDS CORONAVIRUS RELIEF FUND



PHOTOGRAPH BY JITENDRA SHARMA

PHOTOGRAPH BY BANDEEP SINGH

Mukesh Ambani
CMD, Reliance Industries

WILL CONTRIBUTE **₹500 CRORE** TO PM'S CITIZEN ASSISTANCE AND RELIEF IN EMERGENCY SITUATIONS FUND (#PMCARESFUND); **₹5 CRORE** EACH TO MAHARASHTRA AND GUJARAT GOVERNMENTS

PHOTOGRAPH BY SUBIR HALDER

Sanjiv Puri
Chairman, ITC

HAS ANNOUNCED THAT ITC HAS SET UP A **₹150 CRORE** COVID-19 CONTINGENCY FUND FOR VULNERABLE SECTIONS OF SOCIETY

will not cut salaries or fire any employee, including casual workers, during the crisis period. Besides, it will provide a special one-time insurance to cover employees and their families against COVID-19. S.N. Subrahmanyan of L&T said in his address to employees, "We employ a huge amount of contract labour who are dependent on us for daily livelihood. It is important for us to protect them and to ensure daily needs are provided at both essential work-sites and places of stay."

Bajaj Auto has shut down its plants in Pune, but Rajiv Bajaj confirmed that there will not be any job or salary cut. He said the company is prepared for an eight-week halt, including the four weeks to set the supply chain in order.

Chandrasekaran said the situation is likely to have a deep impact on weaker socio-economic segments of our society. "At the Tata Group, we have asked all our companies to exercise extreme caution. The health and safety of our employees, their families and our suppliers, vendors and our larger ecosystem are of paramount importance. Our companies have largely enabled a 'Work from Home' environment," he said. He promised group companies will make timely payment to MSME companies. The Aditya Birla group and the Essar group have promised not to cut any jobs or salaries. Apollo Tyres promoters, Onkar Kanwar and Neeraj Kanwar, have announced a 25 per cent cut in pay while H.M. Bangur's Shree Cement and Emami are putting in place contingency plans without any pay cuts.

Providing Funds

Industrialist Ratan Tata announced the biggest financial aid to fight virus outbreak. Both Tata Trusts and Tata Sons

Anil Agarwal,
Chairman, Vedanta Group

COMMITTED **₹100 CRORE** TOWARDS FIGHTING COVID-19. VEDANTA WILL NOT CUT SALARIES OR FIRE ANY EMPLOYEE, INCLUDING TEMPORARY WORKERS. IT WILL PROVIDE A SPECIAL ONE-TIME INSURANCE COVER TO EMPLOYEES AND FAMILIES

PHOTOGRAPH BY RACHIT GOSWAMI

PLANS TO USE PLANTS TO MAKE VENTILATORS. HAS DONATED SALARY OVER THE NEXT FEW MONTHS AND OFFERED CLUB MAHINDRA RESORTS AS TEMPORARY CARE FACILITIES

Anand Mahindra
Chairman, Mahindra & Mahindra

will together donate ₹1,500 crore towards coronavirus relief fund. The fund will be utilised for providing protective equipment to medical personnel, respiratory systems for treating increasing cases, testing kits to ramp up testing and setting up treatment facilities for those who have already caught the virus.

Mukesh Ambani, who directly assesses the business impact and safety of employees on a daily basis, has announced a contribution of ₹500 crore to the Prime Minister's Citizen Assistance and Relief In Emergency Situations Fund. He is also co-ordinating with Reliance Retail, Jio and Reliance Foundation to help the government. In partnership with the Brihanmumbai Municipal Corporation (BMC), the CSR arm Reliance Foundation has set up a 100-bed facility in two weeks' time at Seven Hills Hospital, Mumbai, to treat Covid-19 patients. It has also built an isolation facility in Lodhivali, Maharashtra. RIL is involved in importing test kits and enhanced production of Personal Protective Equipment (PPE). The company said it will produce 1,00,000 face-masks per day.

ITC has set up a contingency fund of ₹150 crore to help vulnerable sections of society. "This will be utilised primarily to provide relief to the vulnerable and most needy sections of society who have been harshly impacted by the pandemic," said the company. The Godrej group has earmarked ₹50 crore for community support and relief initiatives. It has donated ₹5 crore to the BMC; 115 hospital beds to Maharashtra government hospitals; and will spend for buying medical equipment and protective supplies. It has helped set up a 75-bed quarantine centre at the Seven Hills Hospital, Andheri.

Shekhar Bajaj, Chairman, Bajaj Electricals, says business heads are in an unprecedented situation. "We have never faced such a situation. Raw material and auxiliary supplies have been stopped. The main manufacturing plants are shut because of fear of community spread and government restrictions. The supply chain ground to a halt after transporters went back to their villages," he says. While business activities stopped at one side, as industrialists, there is pressure on us to fulfil commitments to employees and society at large, says the chairman of an infrastructure company.

Rahul Bajaj's Bajaj Group has donated ₹100 crore to the fight against Covid-19. Billionaire Anil Agarwal has also set aside ₹100 crore to support daily wage workers and contract employees working at the mining giant's factories in India. If the need arises, the company will increase the corpus, said the Vedanta chairman. Gautam Adani and Sajjan Jindal have each contributed ₹100 crore to the #PMCARES Fund. FMCG giant HUL and Hero Cycles have also allocated money to deal with the contingency.

The Bajaj group will support upgrade of key healthcare infrastructure in Pune—home to Bajaj Auto factories and NBFC arm Bajaj Finance. "The aid will support government and identified private sector hospitals to upgrade

PHOTOGRAPH BY SHAILESH RAVAL

Gautam Adani
Chairman, Adani Group

ADANI FOUNDATION HAS ANNOUNCED **₹100 CRORE** CONTRIBUTION TO #PMCARESFUND. IT HAS PROMISED ADDITIONAL RESOURCES AS WELL

PHOTOGRAPH BY RACHIT GOSWAMI

JSW GROUP HAS ANNOUNCED **₹100 CRORE** FOR #PMCARES FUND. IT WILL ALSO PROVIDE FOOD TO COMMUNITIES THAT ARE LOCATED AROUND THE GROUP'S FACILITIES. THE COMPANY ALSO PLANS TO SOURCE AND IMPORT VENTILATORS

Sajjan Jindal
Chairman, JSW Group

ICUs, procure additional equipment and consumables including ventilators and personal protection equipment, enhance testing, and set up isolation units," said the senior Bajaj. He has also initiated programmes on food supply, shelter and sanitation and healthcare for daily wage workers, homeless and street children.

Fighting the Virus

Anand Mahindra has a different plan. Quite like Detroit-based automakers did, the Mahindra Group chairman tweeted that the company would look at options to switch to manufacturing ventilators since automobile production has stopped. Mahindra has plants in Kandivali, Pune, Nashik, Zaheerabad and Haridwar, among others. Mahindra has offered Club Mahindra Holidays' resorts as temporary care facilities as he feels the number of cases could rise exponentially, straining the medical infrastructure.

Pawan Goenka, the Managing Director of the company's automotive division, tweeted that it has embarked on a two-pronged strategy to produce ventilators at its factories. "At one end, we along with two large PSUs are working with an existing manufacturer of high spec ventilators to help them simplify design and scale up capacity. Our engineering team is right now with them working on it," his tweet read. The government has also reached out to other companies including market leader Maruti Suzuki, Tata Motors and Hyundai to look at ways to manufacture ventilators expeditiously.

Tata Trusts, which hold controlling stake in Tata Sons, is running awareness campaigns in the 8,000 villages where it runs social programmes. It is expected to come up with more healthcare initiatives soon. Reliance Foundation in partnership with local NGOs provides free meals to the needy. The parent company made a donation of ₹5 crore to the Maharashtra and Gujarat governments' relief funds. L&T has decided to take care of labour camps in its project sites to ensure proper hygiene and removal of waste. They will also take care of the food requirements in the camps.

Salary Support

According to Hurun Rich List, India has 138 billionaires. But most are struggling with the cash flow crunch and dip in market valuation of their companies. Still, Mahindra will contribute his entire salary over the next few months to a fund created by his group's philanthropic arm which will assist those who have been hit hard in the value chain such as small businesses and the self-employed. The chairman of Mahindra & Mahindra earned a remuneration of ₹9 crore in the last financial year.

Sanjiv Mehta of HUL said: "We are working closely with the government and our partners to ensure we overcome this health crisis together." HUL has cut prices, provided free soaps to the needy, and pledged a ₹10-crore donation for better testing facilities, and organised public awareness programmes.

Hero MotoCorp has rolled out a plan to ensure safety of its employees. Chairman Pawan Munjal said the company is committed to standing with employees despite severe disruptions. He has set up a task force to monitor developments through video conferencing and tele-meetings to ensure safety and business-continuity.BT

@nevinjl

COVER STORY

AUTOMOBILE

INDIA FOCUS

ONCE THE CURRENT CRISIS IS OVER, **AUTO COMPANIES EXPECT SOPS TO MAKE PARTS IN INDIA.** THE AIM IS TO DIVERSIFY SOURCING AWAY FROM A SINGLE DESTINATION LIKE CHINA

BY SUMANT BANERJI

If one has to understand the chronology of the spread of the COVID-19 pandemic in India, one needs to just look at developments in the domestic automobile industry over the last two months. When reports of the first casualty came from China in mid-January, they were ignored. It was then just a local virus after all.

Things became serious when China's Wuhan province was quarantined and the World Health Organization (WHO) declared a public health emergency in late January. Then, the worry was more about the virus jeopardising the biennial Indian Auto Expo in early February. This year, there was a significant Chinese presence, but after contemplating a cancellation, the organisers took a chance, helped by the fact that no cases had been reported

PHOTOGRAPH BY SANDEEP SAHDEV

THE HIT...

8.3%
Estimated contraction in production during 2020 following a 13.2 per cent decline in 2019, as per Fitch Solutions

1,00,000
Number of jobs in danger if lockdown persists beyond March 31

58%
Fall in footfalls in car dealerships across India in the first fortnight of March. This has since increased to over 90%

...AND THE SOLUTIONS

India imports components worth $4.6 billion from China every year. The industry will diversify sourcing and bring this number down

The players will look to make in India with support from the government

in India till then. While the gamble paid off, the first strain on business became evident as shipment of parts from China started getting impacted.

It has quickly gone downhill since then. With the virus gaining a firm foothold in the country, operations started getting impacted at the start of the month. The 21-day country lockdown that came into effect from March 25 was only the next logical step. Not only has the $120 billion industry, which accounts for 49 per cent of the country's manufacturing GDP, been brought to a grinding halt, the future is also very hazy. Battling a protracted near two-year slowdown in the domestic industry, the sector was hoping for a revival and sustainable growth from the second half of fiscal 2021. That is history now. In its latest report, research firm Crisil has said it does not foresee a recovery across the sector in FY2021.

"Clearly, recovery is now off-track and further challenged by the COVID-19 impact. Entering into the fourth month of the growing global pandemic, the Indian auto industry is beginning to feel the heat with rampant disruptions to its supply chain and having to suspend operations with the lock-down," says Vinay Piparsania, consulting director for automotive at Counterpoint Research. "With no clear relief in sight, OEMs (automobile companies) are scrambling to put in place countermeasures to salvage the year. The situation is fairly fluid and with every passing week, the recovery timeline is getting pushed further. Revised projections for this fiscal will be bleak. It will surely take time for consumer confidence to return to normal."

The industry was lumbering along — set to log the biggest decline in sales in two decades this fiscal, when the virus struck. While the period of lockdown will be a complete washout, in the post Corona stage, revival is expected to be very gradual. Another sharp decline in FY21 even on a low base of FY20, cannot be ruled out. The crisis staring in the face is of giant proportions — factories running at low capacities for months on end, companies bleeding, which can manifest itself in big layoffs.

"This is the most unprecedented crisis that we have even seen in our lives. It is bigger than any other pandemic, be it SARS or Zika or swine flu or even the Spanish flu of the last century," says R.C. Bhargava, Chairman, Maruti Suzuki India Ltd. "Restarting operations once the clampdown is lifted does not take more than five-seven days but the crucial thing is how the demand situation will be." A definite fallout of the crisis would be industry realigning itself to reduce dependence on China. It is something where the industry expects the government to provide sops for import substitution. In the area of electric vehicles for example, China is a big supplier of lithium ion batteries. "It is a very capital intensive business but the industry will be wary of putting all its eggs in one basket after Covid 19," says a senior executive who works in an electric vehicle startup in Bangalore. "We are already looking at alternative sourcing destinations. The scale that China has is such that it is difficult for others to match their prices. But something needs to be done. The best scenario will be to make it all in India but that can happen only with strong government support."

For now, the industry is counting its losses and hoping for a quick turnaround once the lockdown ends. But it will not be easy. Each day that factories remain shut, the production loss is estimated at ₹2,300 crore. For three weeks and more, since factories were shut from March 21 itself, the figure balloons to close to ₹50,000 crore. It does not end there. Picking up the pieces and restarting, an exercise that has never been done before, will be even more challenging.

"There are chances the lockdown could be extended. In China, it took nearly three months to bring the virus under control," says a senior executive at a Gurgaon-based auto firm. "Even if operations were to start from mid-April, the ramp-up will be slow. It will be like building from scratch after a tsunami has ravaged a city. Consumers are not likely to return to showrooms anytime soon, so demand will be weak. We are preparing for the worst while hoping for the best."

For an industry that is already battling an unprecedented slowdown in demand — sales have fallen in the domestic market for more than 20 months now — early indicators suggest the virus has exacerbated matters. Till January this year, when the virus started spreading outside China, automobile sales in India were declining at an average of 13-14 per cent. In February, this worsened to over 19 per cent. Hero MotoCorp and TVS said the virus impacted 10 per cent sales during the month.

PHOTOGRAPH BY YASIR IQBAL

"IN INDIA, WE ARE WEAK AS FAR AS ELECTRONICS ARE CONCERNED. DEPENDING ON THE PRODUCT, THERE IS ALWAYS A PIECE OF CHINA"

Guenter Butschek
MD and CEO, Tata Motors

$4.6 BILLION
Value of auto components India imported from China in FY19

With its origin in China, the world's second-largest economy and the largest automobile market, the first impact for the industry was on supply of parts from across the border. India has a fledgling $57 billion domestic automobile component industry but it is not completely insulated and depends on China for many critical components like printed circuit boards. In fact, import of components from China has been on the rise. In FY19, India imported auto components worth $4.6 billion from China. In the first six months of FY20, imports from China were worth $2 billion.

"There is not a single country in the world that produces everything. It's the same with the automotive industry. (In India) we are weak as far as electronics are concerned. Depending on the product, there's always a piece of China," says Guenter Butschek, Managing Director and CEO of Tata Motors.

It also comes at a crucial time for the industry which is in the process of leapfrogging into the more stringent BSVI emission regime starting April. "The epidemic comes at a time when the auto industry was already grappling with lower volumes and transition to BSVI norms, which were already impacting pricing. While governments around the world have taken effective steps to contain the spread of the virus, the approach to normalcy might still take some time. This may impact the cost situation," says Gurpratap Boparai, Managing Director, Skoda Auto Volkswagen India. "We had in place a situation team from early January and while it can have some cost implication with respect to certain critical components, we will not pass on the same to the customer."

According to a recent report by Fitch Solutions, vehicle production in India is likely to contract 8.3 per cent in 2020 following an estimated 13.2 per cent decline in 2019. Supply constraints due to the spread of the virus are cited as one of the reasons for the contraction. Another Crisil report said while the domestic industry has inventories for up to 30-60 days, which could help them tide over the crisis for the short term, any shortage of critical components such as printed circuit boards could impair ability of manufacturers to produce vehicles.

"THE EPIDEMIC COMES AT A TIME WHEN THE AUTO INDUSTRY WAS ALREADY GRAPPLING WITH LOWER VOLUMES AND TRANSITION TO BS-VI NORMS, WHICH WERE ALREADY IMPACTING PRICING"

Gurpratap Boparai
MD, Skoda Auto Volkswagen India

"Till January, it was a crisis of consumer confidence. Fixing that is in our hands with new products or aggressive marketing strategies. In a pandemic like this when you are forced to lock down, what can one do?" says a senior executive with a Gurgaon-based auto firm. "Frankly, it looks quite dark from here. We do not know how long this will last but hope things begin to normalise early April onwards. Even then, it will take months for the economy to get back on track."

While big companies that have deeper pockets would be able to ride the storm, the virus could sound the death knell for many component makers. The component industry accounts for 2.3 per cent of the country's GDP and employs over five million people. Like the industry at large, is also witnessing its worst-ever performance in almost two decades. In the first half of 2019/20, overall revenues contracted 10.1 per cent to ₹1.79 lakh crore, which resulted in around 100,000 people losing their jobs and an estimated investment loss of about $2 billion that would have happened had the industry continued to grow.

"This was quite unexpected and is unprecedented. It all depends on the situation now. The epidemic has to be controlled. Business is secondary," says Nirmal Minda, Chairman and Managing Director, Minda Industries. "Factories can be restarted in the near future but the impact on consumers will be far-reaching. In such a scenario of uncertainty, consumers tend to conserve money and buying a vehicle is low on priority."

The third arm of the industry that is currently bearing the brunt of the lockdown is the 15,000-odd car dealer community. Footfalls at showrooms had already started falling since the start of the month. The lockdown has brought it to a standstill. This puts these dealers at a grave risk as they are yet to liquidate all BS-IV vehicles, which will become unsaleable from April.

Estimates with the Federation of Automobile Dealers Association indicate the 26,000 dealerships in the country are left with BS-IV stocks worth ₹6,340 crore. Of this, around seven lakh units are two-wheelers worth ₹3,850 crore. Passenger vehicles account for 15,000 units worth ₹1,050 crore. Another 12,000 units are slow moving trucks and buses worth ₹1,440 crore. As all dealers in the country will remain closed till April 14, this inventory will be reduced to junk on the morning of April 1.

"It is our worst nightmare come true. I do not wish to be critical of the government as the virus was unforeseen and the lockdown was a necessity but they have to make an exception for us and extend the deadline," says a sales officer who works at a Hero MotoCorp showroom. "The losses either at a dealer or cumulative level will be huge. I am not sure how many will be able to survive this blow. I don't know if I will have a job next month." BT

@sumantbanerji

BEING INDIAN

AIRLINES ARE EVALUATING THEIR EXPAT PILOTS STRATEGY TO PARE COSTS AND RATIONALISING ROUTE PLANNING

BY MANU KAUSHIK
ILLUSTRATION BY RAJ VERMA

J **ust last month, at an event** in New Delhi, Aviation Minister Hardeep Singh Puri was fairly confident about selling 100 per cent stake in Air India. While distributing the "letters of appreciation" issued by Prime Minister Narendra Modi to Air India staff for evacuation of Indians from China's Wuhan city, the minister said there would be no problem in Air India's disinvestment this time. In January, the government had floated a sale document for the national carrier, its second such attempt in less than two years, as the last effort had failed to receive any response. Little did the minister know that a country-specific disease (at that time) would grow so big to not just potentially derail Air India's disinvestment but also put the domestic and international aviation sector on a ventilator.

The government's decision to suspend all commercial and chartered flights for 21 days till April 14 due to coronavirus threat has led to grounding of nearly 1,040 aircraft (including helicopters) and cancellation of thousands of flights within India and overseas. While airlines are not sure if the suspension will extend beyond April 14, they are bracing for tough times ahead. The cost of groundings is expected to be up to $3.6 billion (₹27,090 crore) in just one quarter, as per aviation industry consultancy CAPA. This includes $1.75 billion losses for airlines, up to $1.75 billion for airports and concessionaires, and up to $90 million for ground handlers. If the shutdown continues for three months, IndiGo and SpiceJet alone may report combined losses of up to $1.5 billion (₹11,288 crore) in March and June quarters, says CAPA.

"The April-June quarter, one of the stronger quarters of the year for Indian airlines, is increasingly looking like a washout. This will have consequent implications for second quarter of 2020/21 (usually the weakest quarter) and for the rest of 2020/21," says a CAPA report. "Historically, airlines in India (even globally) have been vulnerable to rise in crude oil prices. Whenever ATF (aviation turbine fuel) prices go up, airlines start bleeding. It's hard to imagine their plight in a situation like this," says an aviation analyst.

Even as CAPA's projections are based on analysis for three months, some believe the crisis will last for a longer period. "It will take at least nine months to recover from this. We don't know the bottom yet," says Mark Martin, Founder, Martin Consulting.

Losses of such magnitude could not just wipe out cash reserves of domestic airlines, they could create existential crisis for them. IndiGo, for instance, had free cash reserves of ₹9,412.8 crore as on December 2019, which most experts are expecting will get wiped out in a matter of months since a huge chunk of the airline's costs are fixed, including payroll expenses and aircraft leases.

IndiGo has a fleet of 261 planes, most of them on lease. "For some airlines, paying monthly lease rentals will become challenging. It's not clear yet if airlines have force majeure clause in their lease contracts, which can give them some relief from making these payments," says Kinjal Shah, Vice President and Co-head, Corporate Sector Ratings, ICRA.

To control costs when there are no revenues, three domestic airlines – Air India, IndiGo and GoAir – have announced salary cuts of late. Others may follow. "With great deal of reluctance and deep sense of regret, we are instituting pay cuts for all employees... starting April 1, 2020. I am personally taking a 25 per cent pay cut... vice presidents and pilots are to take a pay cut of 15 per cent, while salaries of cabin crew, AVPs and Band D employees will be reduced by 10 per cent with effect from April 1," IndiGo CEO Ronojoy Dutta reportedly said in an e-mail to employees in the fourth week of March. GoAir CEO Vinay Dube, too, wrote to employees about salary cuts in March."They cannot lay off staff because, when the situation improves, they are going to need them. Airlines have to do trade-off deals with employees, which is to pay them partial salaries for a few months and keep them on rolls," says Martin.

Losing Height

The huge magnitude of the impact will result in a series of changes in the times to come. CAPA says a total shutdown will result in deferment of aircraft deliveries from Boeing and Airbus, shutdown of small carriers, exit of Tata Group from one of its two airlines (AirAsia India and Vistara), 30-50 per cent drop in domestic and international traffic in 2020/21 over previous

WHAT FUTURE HOLDS

$1.5 billion

Combined losses for IndiGo and SpiceJet together in March and June quarters if the shutdown continues for three more months

₹9,412.8 crore

IndiGo's free cash reserves – as of December 2019 – might be wiped out. And small and regional carriers may cease to exist

Aircraft orders with Boeing and Airbus would be deferred or even cancelled. Some aircraft would be returned to lessors

Tata Sons might be compelled to operate just one of its two airlines (AirAsia India or Vistara)

Air India's privatisation is likely to be pushed to next year. The national carrier will require financial assistance of about $1.5 billion to survive

Domestic and international traffic could fall 30-50 per cent year-on-year in 2020/21 subject to restart of operations from July

Delhi and Mumbai airports would likely consolidate operations in a single terminal

HOW TO REVIVE THE SECTOR

- Order moratorium on outstanding payments such as airport charges and aviation turbine fuel and GST dues
- Waive airport charges when services resume
- Bring ATF under GST
- Reschedule interest and principal payments on working capital loans
- Inject cash for partial payment of salaries

year and consolidation of operations in a single terminal by Delhi and Mumbai airports when air services resume. "Although it is too early to come to a firm conclusion, what emerges on the other side may be a smaller, consolidated industry," says the CAPA report

Things are not going to be the same as they were in the past when this outbreak gets over. Airlines have a lot to learn from this unprecedented situation. First, they would need to reduce their dependence on expat pilots. In the fourth week of March, GoAir announced termination of expat pilots' contracts due to curtailed operations. At the moment, over 30 per cent of the commanders in India are expats. The large dependency on foreign pilots is due to lack of talent available in India at senior pilots' level, and stringent promotion norms to the commander level. Though airlines like IndiGo have been pushing hard to create a large base of locally-trained pilots, the whole industry needs to focus on this. "The other way to handle this is to increase the industry-wide fleet size, so there are more avenues for pilots to increase their flying hours. But that's a time-taking process," says an analyst. Unlike the US where there's a robust general aviation sector (private jet services) that feeds a large number of trained pilots into the commercial aviation industry, general aviation in India is small.

Also, once the restrictions are lifted, the revival of aviation sector is going to be gradual. As the entire economy has been hit severely due to pandemic, travel – business and leisure – will be restricted for the first few months. The airlines would incrementally add planes to their fleet based on the demand scenario at that point.

"I AM PERSONALLY TAKING A 25 PER CENT PAY CUT... VPs AND PILOTS ARE TO TAKE A PAY CUT OF 15 PER CENT"

Ronojoy Dutta
CEO, IndiGo

IN THE FOURTH WEEK OF MARCH, GOAIR ANNOUNCED TERMINATION OF EXPAT PILOTS' CONTRACTS DUE TO CURTAILED OPERATIONS

Vinay Dube
CEO, GoAir

The bigger worry is being faced by Air India. The national carrier has already postponed the deadline to submit proposals from potential buyers to April 30 from March 17 earlier. There are strong chances that the stake sale plan will be shelved; it may not be picked up before 2021. In the meantime, the loss-making national carrier will need a large assistance from the government – estimates suggest over ₹11,000 crore – to continue operations given its strained financial condition.

Call for Help

The sector is asking for a relief package from the government to tide over the crisis and pay salaries. Some of their demands are moratorium on outstanding payments such as airport charges, ATF and GST bills, rescheduling of interest and principal payments on working capital loans, bringing ATF under GST and cash infusion for partial payment of salaries.

In a letter to the aviation secretary dated March 13, the board of airline representatives in India asked for relief measures in the form of 30 per cent reduction in aeronautical charges for six months. "Passenger uplifts have dipped considerably, which has badly affected cash flows of airlines... The airlines are facing the brunt of a recessionary situation with decreased travel demand and lower yields," the letter said.

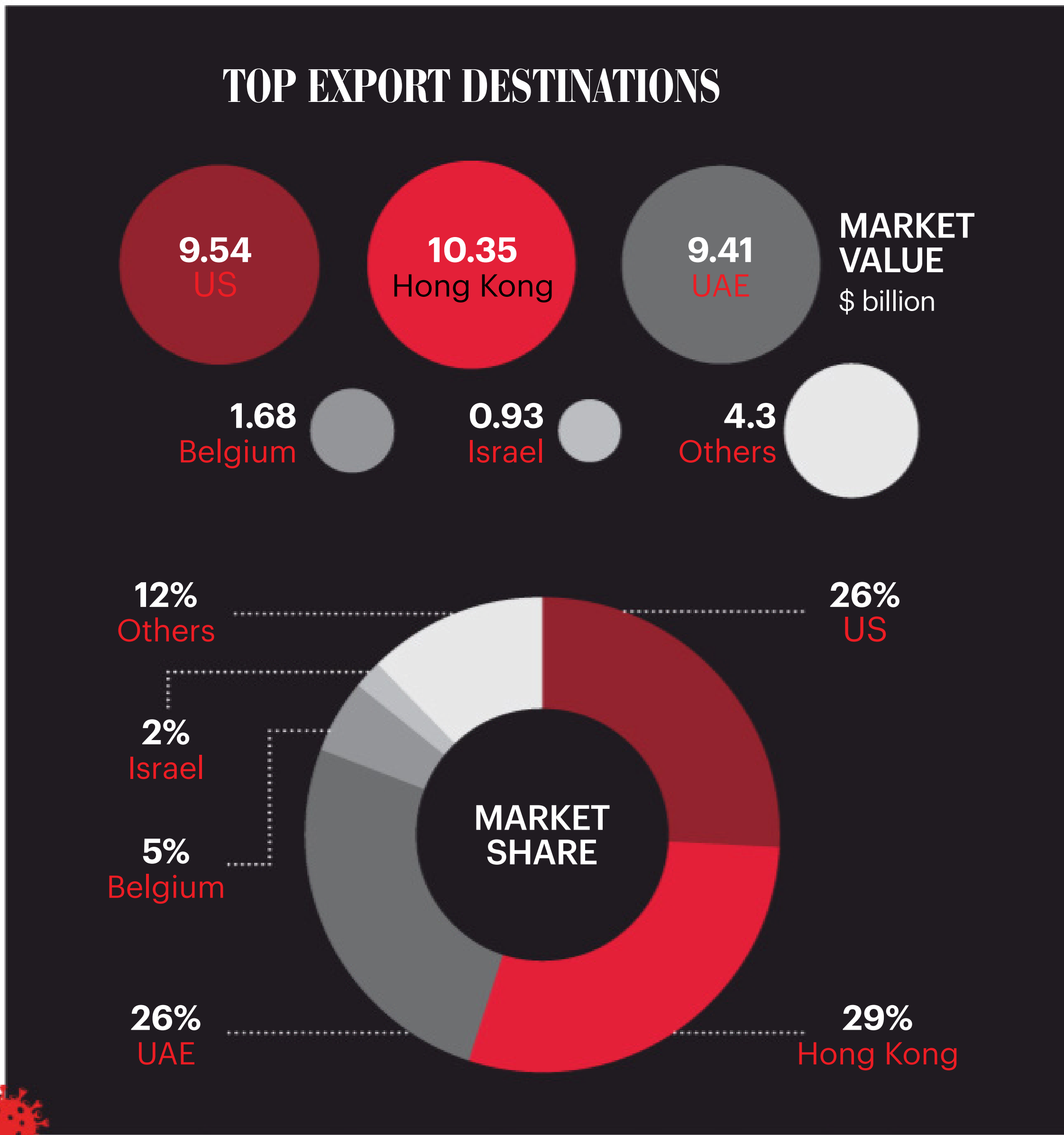
The coronavirus outbreak has wrecked havoc on global aviation too. Global body IATA, which represents some 290 airlines or 82 per cent of air traffic, has estimated $113 billion losses for the industry in 2020 (as on March 9), significantly higher than its previous estimates (in February) of $29.3 billion. As per IATA, the air transport sector in India employed 6.2 million in 2019, and contributed $35 billion to GDP. With the spread of coronavirus, such a large industry has come to a grinding halt. When will it take off is difficult to tell. BT

@manukaushik

DESIGNS FOR A COMEBACK

GEMS AND JEWELLERY EXPORTERS WILL LOOK AT ALTERNATIVE OPTIONS LIKE VALUE-ADDED PRODUCTS, LOCAL SALES AND NEW EMERGING MARKETS

BY P.B. JAYAKUMAR



Mining as well as stores closed, expos cancelled and transportation stopped. The gems and jewellery sector in India is facing a bleak future. "We lost 50 per cent of our business even before the full lockdown was announced," says Colin Shah, Vice Chairman, Gems and Jewellery Export Promotion Council (GJEPC).

A lot will depend of what the global behemoth – Diamond Producers Association – does. It is an alliance of the seven largest diamond companies, which control over 75 per cent of the world's diamond production, and prices.

India accounts for only 7 per cent of global diamond consumption, so its influence is minimal. Indian businesses are, however, looking at the option of competing with value-added products like coloured gemstones, which have better margins.

Getting more aggressive in the domestic market is another avenue that companies are looking at. This may also help reduce their dependence on a few geographies. At present, India's two main export destinations are the US (26 per cent; worth $9.54 billion) and Hong Kong (29 per cent; $10.35 billion). Pankaj Khanna, MD, Khanna Gems, notes that gems or jewellery is a luxury item and revival can happen only after life returns to normal. "That will take time. And now people are keeping cash to meet the crisis," he says.

Normally, gems and jewellery exporters keep an inventory of finished products for about 30-45 days. Even if the coronavirus scare recedes in three weeks and production restarts at Surat and other centres like Bhavnagar, the production cycle revival will depend on when the major markets return to normalcy. "If there is no demand, what is the point in producing? Globally, prices had fallen 12 per cent, and my estimate is that it could fall further by 25 per cent. It will take three to six months for the cycle to get back on track, depending on how fast countries return to normal," says Saurabh Khandelwal, owner of Delhi-based Dhanvi Diamonds.

The diamond cutting and polishing industry, based mainly in Surat, employs more than five million people. "GJEPC, from our own reserves, has decided to contribute ₹50 crore towards several welfare initiatives for daily wage workers, and has appointed a task force to decide on modalities of utilisation," says Pramod Agrawal, Chairman, GJEPC. Shah adds that exporters have also asked the government to include the sector in the list of work covered under MNREGA so that workers are able to sustain during this difficult period.

Gold is in a similar situation. Though prices have fallen globally for asset classes, gold – normally considered a safe haven – has no takers during this global crisis. The World Gold Council reasons massive liquidation in all asset classes as the reason for fall in gold prices, though it has historically given over 9 per cent returns in the past 10 years in India. BT

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PHOTOGRAPH BY SHEKHAR GHOSH

A LEANER BIZ MODEL

HOSPITALITY AND TOURISM SECTORS ARE GOING BACK TO THE DRAWING BOARD TO TRIM FIXED COSTS, AND OPTING FOR CENTRALISED PROCUREMENT & SHARING OF BACK-END SERVICES

BY MANU KAUSHIK

Soon after the coronavirus pandemic began to cause substantial damage in Europe and the US, Arne Sorenson, the CEO of the world's largest hotel chain, Marriott International, posted a short video on social media talking about the impact on the business. The video became viral. Overwhelmed by the damage to the hospitality sector, Marriott in particular, Sorenson, coming close to breaking down, said this was the most difficult video message he had ever pulled together. "In terms of business, Covid-19 is like nothing we have ever seen before. For a company that's 92 years old, that's borne witness to Great Depression, World War-II and many other economic and global crises, that's saying something," he said.

Nearly every CEO and promoter of a hotel chain or a travel company is echoing Sorenson's anguish as coronavirus continues to cause massive damage to the travel and tourism sector. In India alone, the hotel industry is likely to lose business of up to $14.7 billion (₹1.1 lakh crore), in addition to slashing about 20 million jobs – mostly in the informal sector which, ex-

THE NEED OF THE HOUR

- Moratorium on working capital loans of six-nine months
- Short-term interest-free loans for rebuilding business and immediate transmission to all segments such as hotels, travel agents and tour operators
- Deferment of statutory dues, GST and advance tax payments. Waiver of fee for upcoming licences or permits
- GST holiday for hotels, tour packages in line with the tax holiday requested for civil aviation

perts say, will suffer more compared to the organised segment due to its sheer size.

While the government's directive allows hotels to remain operational during the lockdown, near zero occupancy and large-scale cancellations have forced operators to shut their hotels. Sarovar Hotels & Resorts, for instance, has shut 70 of its hotels. Just 16 are operational, as the chain serves some long-term contracts and stranded guests. "That has been the situation with the entire sector. Over 90 per cent hotels in the country are under temporary closure. Our March top line is down almost 50 per cent and the hit in April could be 90-100 per cent," says Ajay Bakaya, Managing Director of Sarovar Hotels.

"The travel sector has come to a standstill. We have taken a decision to go back to the drawing board, and look at the fixed costs that we can reduce, including the IT infrastructure. The management has taken a lead in taking salary cuts. We have seen bigger crises in the past, be it 9/11, SARS, and the closure of some airlines, but the magnitude of this pandemic is really large. The biggest learning for us is to not panic in this situation, and focus on what's important," says Rajesh Magow, co-founder and group CEO of the largest online travel aggregator firm, MakeMyTrip.

No Takers

Restrictions on travel, gathering of people and social distancing had started affecting room demand from the middle of February, and March turned out to be a whitewash. The scenario is equally devastating in ancillary services such as tour and travel operators (online and offline) and MICE (meetings, incentives, conferences and exhibitions) segments. Vendors and suppliers are also under pressure. "We expect the next two to three months to remain grim with thousands of companies adopting 'work from home' and 'no travel' policies," says Achin Khanna, Managing Partner (Strategic Advisory) at Hotelivate.

Even though it's hard to predict when the sector will rebound, things are going to be pretty different on the other side of these temporary closures. The sector will have to take some hard decisions in terms of controlling costs, in addition to finding new ways of maximising revenues. Nearly 35 per cent hotel costs such as payroll, raw material, power and fuel are fixed. At present, 15-25 per cent employees in branded hotel chains are either casual or on contract. These people will be first ones to be laid off. However, retrenchment will be a short-term measure to tide over the situation. The hotel companies will have to look for ways to minimise costs, including focussing on centralised procurement and sharing of some back-end services.

For now, all eyes are on the government for immediate relief. Some are hoping for a support package but given the low priority the sector gets in the government's scheme of things, only diehard optimists are hoping for large financial support.

Nevertheless, the industry has sent a long list of demands to the government. These are moratorium on working capital loans for six-nine months, short-term interest free loans for rebuilding businesses, deferment of statutory dues and GST, and removal of fees for upcoming licences. "India's branded hotel market may completely go under in months unless several dramatic, atypical steps are taken immediately," says Hotelivate's Khanna.

Hotels is a capital intensive business. The cash-flow strapped domestic hotel industry believes it cannot sustain an onslaught of this scale, and it will take a while before travel and tourism resume. "Travel and tourism will be among the last to go back to its previous state because a large part of it is based on discretionary spending. In terms of rebound, there's an indication that domestic travel will pick up first, and inbound travel is likely to remain weak through 2020," says an OTA executive. Considering that tourism contributes nearly 10 per cent to the country's GDP, it is imperative for the sector to rise from the ashes. BT

@manukaushik

"OVER 90% HOTELS IN THE COUNTRY ARE UNDER TEMPORARY CLOSURE. OUR MARCH TOP LINE IS DOWN ALMOST 50 PER CENT"

Ajay Bakaya, Managing Director, Sarovar Hotels & Resorts

"WE HAVE TAKEN A DECISION TO GO BACK TO THE DRAWING BOARD, AND LOOK AT THE FIXED COSTS THAT WE CAN REDUCE"

Rajesh Magow
CEO, MakeMyTrip

COVER STORY

IT

ON TO NEW DOMAINS

INDIAN IT TO FOCUS ON COVID-RAVAGED SECTORS AND NEW GEOGRAPHIES FOR QUICK RAMP-UP

BY E. KUMAR SHARMA
ILLUSTRATION BY RAJ VERMA

C.P. Gurnani, CEO and MD, Tech Mahindra, travels for about 200 days a year meeting customers, employees and partners. But with the 21-day lockdown, he is confined to his home in Noida, and work seems to have only multiplied. In just 10 days, he has "signed up five new clients across the US and Europe for workplace as a service solution." He says, "My aim is to keep the lights on within Tech Mahindra and within my client's location." The solution he is talking of is their home package, Workplace as a Service (WaaS), which provides a unified enterprise workspace that allows a user to work from anywhere on any browser-based device.

READY OPTIONS

- Invest more in **client relationships** during trying times
- In the short term, bail out clients and **offer solutions** that address current pain points
- Build domain **expertise in sectors** such as supply chain, hospitality, manufacturing, utility
- Broaden **geographical spread** to Japan, Asia-Pacific and India

The coronavirus scenario has thrown up new demands for the IT company, such as delivering solutions to police on curfew management or to municipalities to track and trace patients, and providing doctor connect. The company is also working with Mahindra Group chairman Anand Mahindra on his ventilator-making project.

Investing in Expertise

Echoing Gurnani's point, Infosys co-founder and industry veteran Kris Gopalakrishnan says this may be the time for Indian IT companies to cement their bonds with customers. "Customers and their revenues are impacted. So you can work with clients and help them. This is not just the right thing to do but will also ensure customer loyalty," he says.

Every leader and his team member in Indian IT is adjusting to the new normal. Debjani Ghosh, President, Nasscom, in between her 10-15 video conferences a day, says, the immediate priority is safety of employees, and ensuring that critical work can continue so that "our clients can continue to depend on us. We will figure out the costs involved later."

While details will emerge in due course, the overall IT pie will expand. "Not immediately but in the long run because the one thing that the current developments have shown us all is the importance of digital technology even for basic survival - from keeping in touch with people to ordering your essentials," adds Ghosh.

For too long, the sector has focused on deepening skills in select domains only and not so much on businesses across the spectrum that are today feeling the heat. It is therefore time for the IT sector to equip itself for delivering solutions in wider domain areas.

Apart from clients, in an era of domain dons, IT companies need to urgently invest in building expertise in more domains and go beyond the traditional areas like BFSI and retail. Kiran Karnik, former president of Nasscom, says, "IT companies could focus on building on domain knowledge across a much wider range of sectors much like what it has accomplished in banking and retail." He says the industry should deepen knowledge in supply chain and healthcare. Also, at a time when there is more bench strength, companies could get to work on shadow projects and build expertise in segments such as cutting edge areas of science.

Maintaining that there is no sector that the IT industry does not touch, Nasscom's Ghosh says, "We will see a lot more of technology in health and education and they will see models getting reinvented." Others also point to supply chain, hospitality, travel, manufacturing, telecom, energy and utilities.

Foraying into newer geographies has been on the IT sector's to-do list; to look at locations apart from the US and Europe, such as Japan, Asia-Pacific region and even India now.

Operational changes, too, are expected. Indian IT is learning from the disruption caused by the coronavirus pandemic and it may never go back to its pre-corona days. "One big learning is the need to include work-from-home in every disaster recovery plan and perhaps on an ongoing basis get 20 to 30 per cent work done from home, which may have the positive impact of lowering commutes for employees," says Gopalakrishnan. "Also, in many homes, IT connectivity infrastructure, internet bandwidth, cyber security and privacy is not adequate to handle this surge. Over time, investing in mainstreaming this coupled with reinforcing remote work would be the way forward for the IT sector."

For the IT sector, transition to work from home also meant getting regulatory permissions. A learning is also on how contracts are to be structured and the kind of indemnification that may be needed to work in the post-corona scenario.

Bracing for Impact

In the near future, however, IT com-

"ONE BIG LEARNING IS THE NEED TO INCLUDE WORK-FROM-HOME IN EVERY DISASTER RECOVERY PLAN"

Kris Gopalakrishna
Co-founder, Infosys

"WE WILL SEE A LOT MORE OF TECHNOLOGY IN HEALTH AND EDUCATION SECTORS"

Debjani Ghosh
President, Nasscom

$191 billion

Size of IT sector in India, up 7.7 per cent from $177 billion in FY19. But March 2020 and FY21 may see lower revenue forecasts

AREAS OF CONCERN

Geography

Almost 90% of IT companies' total revenues are from the US and Europe, regions badly affected by Covid-19

Domains

BFSI, which accounts for around 30% of revenues, will be impacted. Rate cuts in the US and the UK also a factor

panies are bracing for business and revenue impact. The $191 billion behemoth sector, which grew 7.7 per cent from $177 billion in the previous financial year, gets almost 90 per cent of its total revenues from the US (62 per cent) and Europe (including the UK). These regions have been hit hard by coronavirus.

Though no one is able to put a figure on the quantum of business impact and for how long the current situation will last, the first set of numbers on business expectations show reason for concern. The first real indicator was in the financial results of global consulting and technology major Accenture. Despite closing its second quarter (Accenture follows a September-August financial year) with revenues of $11.1 billion, an increase of 7 per cent, the company lowered its revenue growth forecast. For fiscal 2020, it now expects revenue growth to be in the range of 3-6 per cent in local currency, lower than 6-8 per cent previously. In the earnings call on March 19, CFO K.C. McClure, said, "The coronavirus crisis is rapidly evolving and has created a significant amount of uncertainty. Our third-quarter and full-year guidance reflects our assumptions, as of today, based on the best information we have regarding the potential effect of the coronavirus on our business."

More such announcements from other companies are expected and Indian IT is understandably worried.

Ready for More

The other dampener is expected on account of sharp interest rate cuts in the US and the UK, which will put pressure on the BFSI (banking, financial services and insurance) sector. Many see BFSI as a shadow of the real economy and already under pressure. Lower spending budgets in this direction will have an impact on what companies decide to spend on their IT budgets.

4-5
per cent
Growth projections for major IT companies in India. This is lower than the current level of 6-9 per cent

$100-200
million
Decline in dollar terms for leading Indian IT companies for roughly one percentage fall in revenue growth

BFSI has the biggest revenue share - around 30 per cent - for most IT companies. Analysts say that for bigger IT companies, growth is currently in high single digits – about 6-9 per cent – and there is a chance of this sliding to lower single digits – 4-5 per cent growth. In dollar terms, for leading Indian IT companies, roughly every percentage fall in revenue growth means a decline of $100-200 million, depending on the size of the company.

Analysts, however, see reason for hope. A recent report by Motilal Oswal states, "Despite the near-term Covid-19 uncertainties, we continue to like Infosys/HCLT/TCS among Tier I, and LTI/Mindtree/Hexaware among mid-caps." It says these companies have robust business models, high return ratios, strong management teams and attractive valuations after the recent sharp correction. "These companies have a legacy of overcoming multiple business challenges and technology change cycles. Accordingly, we believe they will be able to adapt and overcome any transient challenges posed by Covid-19."

The coming few weeks will surely put these theories to test. BT

@EKumarSharma

BANK BUFFER

BANKS ARE PASSING ON REPO CUT BENEFIT TO BORROWERS AND TYING UP WORKING CAPITAL LIMITS TO KICKSTART BUSINESSES

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

As **many as five** banks' capital adequacy could slip below the minimum 9 per cent level mandated by the Reserve Bank of India. Similarly, three banks' asset quality could get severely impacted if their top three large borrowers fail. That was the scenario painted by the RBI's extreme stress test in Indian banks in its financial stability report released three months ago.

Covid-19 has suddenly put the ₹166 lakh crore industry in one such extreme stress test scenario. And the industry is not in the best of health. Two-thirds of the banks are in the midst of consolidation. Private sector banking, which has one-third market share in deposits and advances, is recovering from the failure of Yes Bank. Half a dozen banks have been tagged as weak and have restricted operations. With a low capital base and gross NPAs close to 10 per cent, banking had just turned around its operations this year.

The 21-days lockdown has opened up a new war front for banking. Not only does it have to do all the heavy lifting to support the Covid-19-impacted economy, it has to protect its own vulnerable balance sheet.

More Liquidity But Low Demand

Among the measures that RBI recently announced is additional liquidity of ₹3.74 lakh crore to counter possible risks to the organised sector. “That should help financial institutions and flow of funds to the real economy,” says Shanti Ekambaram, Group President (Consumer Banking), Kotak Mahindra Bank. Easier said than done. For quite a few years, credit off-take has been in single digits despite adequate liquidity. In a low demand scenario, banks have to devise new ways to improve credit off-take. For the past 6-7 years, retail credit, especially personal loans and credit cards, has been fuelling growth. So the 21-day lockdown and supply chain disruptions could play spoilsport.

Another lurking issue is of inflationary pressure. RBI measures will create a surfeit of liquidity, which would be in addition to global liquidity. Many central banks are pumping in trillions of dollars, which will find their way into emerging markets like India. Excess liquidity will fuel inflation and push up interest rates, thereby impacting growth. The massive 75 basis point-cut by RBI, bringing the repo rate down to 4.4 per cent, comes at a time when retail inflation is elevated at 6.58 per cent.

While the economy needs lower interest rates and adequate liquidity to avoid falling into recession, RBI has to find the right balance and use all tools available to absorb excess liquidity, contain inflation and avoid any depreciation in the currency.

Capital Challenge

The central bank’s moratorium announcement on term loans will certainly halt a likely increase in NPAs from term as well as working capital loans because of the lockdown. A three-month moratorium on payment of term loan instalments has been announced. Interest payment on working capital loans have also been deferred.

Rajnish Kumar, Chairman, State Bank of India, has said that these moratorium measures will not have any impact on the bank’s profitability, though experts say it will impact banks in the short run.

The RBI’s three-month moratorium and the government’s recent announcement of increasing the minimum default limit that triggers bankruptcy from ₹1 lakh to ₹1 crore will go a long way in helping the industry. The pain for many companies is not going to get resolved in the next 3-6 months. Manish Aggarwal, Partner at KPMG, says there is also an urgent need to facilitate large-scale restructuring and to avoid insolvencies. “Stopping the insolvency process is necessary but not a sufficient condition to address the fundamental issue,” he adds. It may be time to revisit some of the old loan restructuring schemes like converting a part of unsustainable debt into equity.

A point that needs immediate attention is that Indian banks, especially public sector banks (PSBs), are undercapitalised. Any lending by a bank has to be backed by a minimum capital ratio of 9 per cent. So, the government has to pump in more capital into banks if lending has to go up. The RBI could help by relaxing some of the risk weights for different assets, which will save

RBI GIVES MORE FIREPOWER TO BANKS

₹1 lakh crore
Durable liquidity from RBI up to this amount for a three-year tenor

₹1.37 lakh crore
Amount that will free up as RBI has reduced Cash Reserve Ratio to 3%

₹1.37 lakh crore
Increase in standby marginal liquidity facility from the central bank

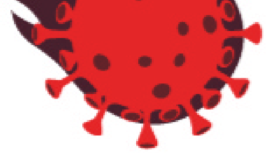
No NPA classification on term and working capital corporate and retail loans for three months

75 basis point-cut in interest rate; lower borrowing cost for home, auto and other loans

Last tranche of capital conservation buffer **deferred by six months**

WHAT MORE IS NEEDED

More capital infusion in public sector banks



some capital allocation. For example, the risk weight for consumer credit, including personal loans, is currently 100 per cent. This mean banks have to keep aside ₹9 (minimum capital adequacy) from capital for every ₹100 given as personal loan.

Similarly, SBI, ICICI Bank and HDFC Bank are identified as important banks, which means they need to keep higher levels of capital and capital buffers. Any relaxation in these ratios would provide more ammunition to banks in terms of capital to support the industry.

Ball in Banks' Court

Without delay, the banking sector should hit the ground running on framing board policies, as directed by the RBI, to provide relief to companies as well as individuals. The immediate need of the corporate sector would be working capital to restart business. Banks should start recalculating the drawing powers of each company in stressed sectors. The benefit of lower interest rate should be transmitted faster to companies as their top line would be under stress for at least 3-6 months. Many banks are not keen to announce repo linked MSME loans, as RBI had advised. But it is in their interest to immediately offer the benefit of lower rates on working capital because if businesses fail, it will have a cascading effect on banks.

While RBI guidelines says the accumulated interest should be recovered immediately after the three-month moratorium period, but in reality, this would be difficult. The accumulated burden should be shifted to the remaining nine months of the fiscal to reduce burden on the corporate sector.

Learning from the Crisis

The biggest lesson from the financial crisis caused by the pandemic is that the country needs a strong balance sheet to withstand such events. India's fiscal deficit has been 3.3 per cent-plus level in the last six years despite having an oil advantage. As a result, today, the government's ability to pump in more money into the economy, without impacting its credit rating, currency and inflation, is highly constrained. The fiscal deficit was 2.5 per cent of GDP in FY08, a year before the global financial meltdown. India was able to pump in a big stimulus, which eventually pushed the fiscal deficit to 6 per cent in FY09 and 6.5 per cent in FY10.

Second, the government and RBI should have calibrated their policies or structural changes. Bunching together things like asset quality review, bankruptcy code, consolidation has left banks with no breathing space.

Third, the government needs to act swiftly by pumping in capital to protect the banking sector. No lessons have been learnt from the IL&FS crisis – the institution was left to collapse despite having LIC and SBI as key shareholders. Action on the Yes Bank issue was also belated.

Lastly, RBI has to be vigilant about developments in the financial market. The stock market crashed over 40 per cent in just a few days. Rupee's value against the US dollar has depreciated by over 5 per cent in just three months. Foreign investors have withdrawn over ₹85,000 crore from equity and debt markets in three months. Events unfolding due to Covid-19 could disrupt India's financial stability. It is time to be quick on the feet because Covid-19's damage will be huge – on the economy in general and the industry in particular. **BT**

@anandadhikari

THE VULNERABLE BANKING INDUSTRY

Two-thirds of banking universe is consolidating

Half a dozen weak banks are being monitored by RBI and have restricted lending capacity

Retail loan growth to suffer; new risk of defaults, especially in unsecured segment

Banks' gross NPAs still high at 9 per cent

Massive erosion in market cap of banks, impacting their ability to raise capital

More delays likely in bad loan resolution through IBC, lack of buyer interest in a likely recession

Revisiting earlier loan restructuring schemes for stressed sectors such as hospitality, tourism, airlines, etc

Lowering risk weights in consumer loans to push consumption

COVER STORY

CONSUMER DURABLES

OPPORTUNITY TO REPOSITION MAKE IN INDIA

INDIA'S CONSUMER DURABLES BUSINESSES ARE WORKING TO REDUCE SINGLE-COUNTRY SOURCING OF PARTS

BY NIDHI SINGAL

Sonia Singh, a 25-year-old, Delhi-based executive had been saving money to buy the latest double-door refrigerator She was set to visit the shop when the government clamped a 21-day lockdown. She has postponed the purchase. She is not alone. Many Indians are postponing purchase of consumer durables and electronic items.

The ₹76,400 crore Indian appliance and consumer electronics market grew in 2019 after almost two flat years on rising disposable incomes and easy access to credit. However, the Covid-19 outbreak has dampened growth projections. The lockdown in March-April will impact around 27 per cent annual sales, say industry watchers. March's usual contribution of 12 per cent has been close to nothing this year.

Contingency Plan

That is for later. The bigger problem is that India imports about 45 per cent of completely built units and nearly 70 per cent of components for TVs, air conditioners, refrigerators, washing machines and more from China. However, contingency plans are in the works. The companies have learnt their lesson and are working to reduce dependence on China and streamline supply as well as distribution. "The coronavirus has exposed fault lines in the global supply chain. In future, the focus of consumer durables enterprises will be on avoiding over-dependence on one country," says Prabhu Ram, Head- Industry Intelligence Group (IIG), CMR.

₹76,400 crore
Size of India's consumer durables business in 2019

Consumer durables companies will look to build resilience in the supply chain, with capabilities to detect and act proactively against potential disruptions. While some will focus on having a diversified supply base, others will aim to rapidly localise in India. "For India, the current pandemic provides a clear opportunity to reposition 'Make in India' and provide a conducive policy framework to enable manufacturing with incentives. Over the long term, the over-reliance on China will come down," adds Ram. Once things start moving towards normalcy, OEMs will focus on manufacturing fast moving models. Also, they will explore low cost and no cost EMIs.

Industry insiders say a month's inventory is stuck in channel, across OEMs and retail. The industry is hoping that once the situation improves, the extended summer and demand for air conditioners, refrigerators, coolers and fans will help it revive sooner than later. The inventory in the channel will

THE PROBLEM AREAS...

45%
of completely built units, 70% components for TVs and durables imported from China

• • • •

Jan-Mar accounts for 27% of sales; March alone is 12%

• • • •

One month's inventory stuck in channel

...POSSIBLE SOLUTIONS

Avoid dependence on one country for imports; focus on Make in India

• • • •

The April-June period accounts for 36% demand, hopefully summers will be better

• • • •

Inventory in channel will help OEMs revive production

help OEMs revive production.

With no sales happening, the focus is on after sales service. "In such times, it is important to strengthen trust in after-sales service. We will further strengthen our processes to ensure consumers continue to trust us," says Manish Sharma, President and CEO, Panasonic India and South Asia. According to Ficci, the focus of "Make in India" should shift from reducing dependence on China to utilising Taiwan/ Japan/Korea to create partnerships.

The COVID-19 outbreak could also lead to consumers looking for products focused on health. "Our refrigerators come with Hygiene Fresh+ feature which removes bacteria up to 99.99 per cent, air conditioners with double filtration system that removes harmful substances from air and washing machines with unique steam features to remove 99.9 per cent germs," says Vijay Babu, VP-Home Appliances, LG India. He expects a prolonged summer and is sure of recovering the business lost due to the lockdown.

Much would depend upon how fast the situation can come under control. The optimistic scenario would be that containment and subsequent sentiment restoration happens a few weeks from now. In this scenario, it is estimated that the ongoing negative impact will get diluted over the next few quarters. On the optimistic side, it is expected that the demand in the coming months will compensate for the ongoing deficit. "Due to lockdown, customers are delaying their purchases but we expect sales to rise post recovery from the current crisis. Even demand in areas with high ambient temperature and high humidity will pick up in May and June," avers Mike Chen, Managing Director, TCL India.

Once the situation improves, OEMs expect the industry to bounce back. "The industry should have components and stocks for a month's demand. And that should be a good time for us to get back to our suppliers, to get stocks and resume normal production from the month after," says Kamal Nandi, President-CEAMA & Business Head & EVP, Godrej Appliances.

So, will employees be handed the pink slip? Sachin Gupta, Senior Director, CRISIL Ratings, says, "As of now, the companies are not looking at this as more than a quarter disruption. Much work in consumer durables is being done by channel partners and we don't expect OEMs to lay off their engineering, design or other staff." There is uncertainty around wage workers in channel and retail. Kumar Rajagopalan, CEO, Retailers Association of India, says, "The government should give a three-month job support subsidy at 50 per cent of minimum wages as cash support to encourage retailers to continue employment of staff during the lockdown and the later recovery period."

The industry is optimistic that while the growth will be impacted in the immediate future, it won't push the industry towards the negative curve. **BT**

@nidhisingal

BEYOND CHINA

CHEMICAL AND SPECIALTY CHEMICAL COMPANIES ARE REVISING THEIR SOURCING STRATEGIES

BY P.B. JAYAKUMAR

It **was a month ago.** In a conversation on phone with a senior manager of a medium-scale chemical company on people returning from China and being tested at the airports for coronavirus, he said in hushed tones: "I am one of them who returned from Wuhan two weeks ago. Now I am in isolation and do not have to go to office for another two-three days." He explained that since most of the company's raw materials are long-term contracts with manufacturers in Hubei province, the management had sent him to renegotiate contracts and explore other options.

"Then life was normal there. There was no other option and I had to go," he reasoned.

But, one thing is abundantly clear. Once the Covid-19 virus storm passes, the Indian chemical and specialty chemical manufacturers could rethink their sourcing strategy. That's because till the crisis struck, these companies were relying heavily on two countries – China and the US – for sourcing raw materials. Continuing with the same strategy will push their business into the doldrums, say experts.

Over the past two months, chemical manufacturers have been working hard to change their source from China to other destinations. Wuhan, the epicentre of corona virus pandemic, happens to be a global hub for chemical production. China, in fact, dominated global chemical supply for almost two decades. But now, India's trade data shows a shift in imports.

"In carbon black, while trade with China decreased 8 per cent, it increased 13 per cent to South Korea. In phenol, trade with China (-8 per cent) and Taiwan (-10 per cent) fell, while with Korea it increased 28 per cent. Terephthalic acid trade with Korea fell 4 per cent, but gained 4 per cent to the US," notes Rohit Sinha, specialty chemicals analyst, Emkay Research. For chlorine, water treatment chemicals, melamine and chloroform, imports were down 25-50 per cent in recent months. The depen-

IMPORT FROM HIGH COVID-AFFECTED COUNTRIES

CHEMICAL	Volume (YTD)*	CHINA	US	KOREA	TAIWAN	TOTAL
Saturated Acyclic Hydrocarbons	14,34,696		95%	1%		96%
Sulphuric acid	15,81,912	35%		36%		71%
Terephthalic acid and its salts	8,21,444	4%		42%	19%	65%
Petroleum coke	87,57,319	3%	55%			58%
Acetic acid	7,58,086	42%	3%		5%	50%
Styrene	7,09,629	1%	29%	19%		49%
Other poly (vinyl chloride)	8,06,041	4%	3%	15%	24%	46%

* YTD: year to date, Volume in '000 Kg; Source: Emkay Research

dence on China remains for chemicals such as citric acid, dicyandiamide and para aminophenol.

However, chemical companies are paying a price for quickly ensuring continuity in supplies. An analysis of top 20 chemicals imported into India reveals that prices per kg have increased for 18 products in the year to date data for FY20 (up to end-February) versus FY19. Of this, prices of two products – acetic acid and ethylene glycol – went up over 30 per cent, for six chemicals the rise was 20-29 per cent and for 10 chemicals, up to 20 per cent.

Lost Opportunity

The coronavirus pandemic in China had thrown up an opportunity, but with the fast spread of the disease locally and the resultant lockdown in the country means chemical companies in India are now not in a position to leverage. "Fall in crude prices and ailing China should have helped the Indian chemical and specialty companies. Crude prices fell by half; they could have procured raw material cheaper by up to 80 per cent. But most companies are not in a position to translate that advantage of cheaper production due to the stalemate in the country caused by Covid-19," says Sudeep Maheshwari, Principal lead-Chemicals, Kearney India.

"We export to over 75 countries and shipments were going smoothly over the last two months despite slight delays. That may not be the case in the weeks ahead as many countries are in a full lockdown," says Unnathan Shekhar, MD, Galaxy Surfactants – a leading manufacturer of performance surfactants and specialty care products with annual revenue over ₹2,700 crore.

"The Indian chemical sector needs to be future-ready... there is a need to strengthen domestic chemical production base. The industry needs improvement in feedstock allocation policy, government investments in chemical clusters, and simpler pollution compliance laws," says H.S. Karangle, Director General, Indian Chemical Council.

India has been working in this direction. There has been an attempt to establish petroleum, chemical and petrochemical investment regions (PCPIRs) at an investment of over ₹8 lakh crore and with potential to employ 34 lakh people. But barring some investments in Dahej (Gujarat), the other planned PCPIRs have not even taken off from the blue-print stage, say industry experts.

Another measure announced has been the promotion of common infrastructure facilities in three bulk drug parks with investment of ₹3,000 crore over the next five years. There is a plan to create a Production-linked Incentive Scheme for promotion of domestic manufacturing of critical key-starting materials, drug intermediates and active pharmaceutical ingredients (APIs) in India with financial implications of ₹6,940 crore for the next eight years.

₹3,000 crore
Investment announced for promotion of common infrastructure facilities in three bulk drug parks over five years

This will be a step forward because despite advantages in chemistry skills which helped the country become the generic pharmaceutical maker for the world (almost one-third of drugs consumed globally are made in India and 20 per cent in terms of volumes), India was dependent on China for over 70 per cent of basic raw materials and intermediates needed to make those drugs.

"This announcement will help revive India's API industry and help the sector regain the dominance lost over the years," says Satish Reddy, President, Indian Pharmaceutical Alliance; and Chairman, Dr. Reddy's Laboratories.

Pankaj Patel, Chairman, Zydus Cadila, says China has gained importance in fermentation-based APIs like antibiotics and vitamins and policy changes in India could help the country achieve self-reliance in this segment.

Meanwhile, experts are predicting a gloomy few quarters. It could take months for companies with exposure to severely affected countries to get their business back on track. "Although it is too early to evaluate the quantum of Covid-19 impact, some companies could face challenges," says Sinha of Emkay Research. BT

@pb_pbjayan

STOCKING UP

CENTRE IS USING THE BREATHER TO TANK UP FUEL STORAGE AS WELL AS INDIA'S STRATEGIC OIL RESERVES

BY NEVIN JOHN

The collapse in oil prices on March 9 after Saudi Arabia started a price war with Russia has crashed crude oil prices to their lowest since 2003. That is a double blessing for India, the world's third-largest crude oil importer which meets over 80 per cent of its oil needs from abroad. One, it reduces India's crude import bill drastically, a big relief when rupee has been weakening against the dollar.

More importantly, the government is using this opportunity to tank up fuel storage facilities to meet the demand surge when the lockdown is lifted. In the post-COVID situation, availability of adequate fuel is critical to restart the economy.

The Centre is also using this opportunity to top up the 5.33 million tonne capacity strategic crude oil reserves at Visakhapatnam, Mangalore and Padur. This is enough to meet the country's fuel needs for 10 days. But at a time when economic activity will come on board slowly, this stock will last longer.

According to the Petroleum Planning & Analysis Cell of the government, in the first 11 months of FY2020, India imported 207 million tonnes crude spending \$95.5 billion (₹6.73 lakh crore). In FY2019, India had imported the same amount of crude during the period spending \$103 billion (₹7.83 lakh crore). With global demand plummeting, it is unlikely that crude prices will rise anytime soon. That could mean a much lower fuel import bill in FY2021. It would also provide a hedge for a government that has rolled-out a ₹1.7 lakh crore relief plan for the poor.

As things stand, there are no plans to shut down refineries; they would be running at much lower capacity. Refining majors Indian Oil and Bharat Petroleum plan to cut production by 30 per cent. Reliance Industries has increased petrochemicals production, reducing fuel output to deal with the situation. It will decide on production cut based on market demand for transportation fuel, said sources in the company. Indian Oil sources claimed that they are supplying 30 lakh LPG cylinders daily. That number could start to rise over the next few days as cooking at home has increased sharply. Cheaper crude usually reduces India's foreign currency outflow and helps strengthen the rupee through higher economic activity. However, the sharp fall of the rupee against the US dollar, when more cases of the coronavirus were reported in the country, could play spoilsport by increasing import costs.

These are tough days, but it is important to ensure that there is adequate supply of fuel for defence, air cargo services, hospitals, ambulance and the government. BT

\$95.5 billion
India's crude oil import bill (₹6.73 lakh crore) in FY20

@nevinjl

Air Conditioning Systems
The Cool Choice

An IMPACT Presentation

INDIAN AIR CONDITION MEANS COOL LIVING!

Aggressive infrastructure development, increasing disposable incomes and rising summer heat is ensuring a thriving business for the air condition industry. Until April last year, more than 20 companies were reportedly catering to the Indian room AC industry market which was projected to be around 4.5 million units and this year too the market is poised to witness some interesting trends. It is reported that the Indian air conditioners market is projected to cross $ 11 billion by 2023.

The summer sun of 2020 is gradually spreading its warmth in the Indian sub-continent. Before the hot season peaks to record breaking mercury levels, people are gearing up to face the notorious weather head-on by purchasing energy efficient smart aircons saving on inflated bills, besides are highly technology driven and easy to operate.

The market is flooded with various brands of aircons bearing different price tags to choose from to fit one's budget. Every year, the companies vie to come up with unique features for that special leverage to become the customers favourite buy. But before that a little homework would do no harm on the popular trends, features of latest technologies that aircons come with, ease of installation etc. Some of the most popular and leading brands in India are names such as **LG, Mitsubishi, Hitachi, Bluestar, Daikin, Godrej, Voltas, Panasonic and Lloyd.** They come in a wide array of classy looks, shades and textures making aircons alluring to the customers, is worth the money and a lot more.

Energy efficiency scores high on the ratings because people not only want to save on costs towards bills but have also become very environment conscious giving them a feel-good factor to have contributed by buying smart. Most air condition brands meet both these requisites, a preference that is here to stay. Energy efficient aircons cool homes faster while saving on power consumption and money.

This is possible with evolving new HVAC technologies such as interior zoning system where variant temperatures can be maintained in different rooms of the same building. Smart HVAC with Internet of Things has also done away with people's presence in the room to switch on or off the aircon button, instead it can be operated even when away from home. This is a boon for working couples. HVAC is also enabled with technology that can power the air conditions with solar energy. Its features are many and easily adaptable in the increasing demand and growing challenges for environment friendly and sustainable buildings.

Undergoing constant upgradation, HVAC technology has been a game changer in this industry gaining more preference among customers. The new HVAC technology comes with dual-stage compressors that can operate on lower capacity depending if its required. There's also Variable Refrigerant Flow (VRF) technology that runs at the precise capacity needed for the current conditions. VRF is extremely efficient, great at controlling humidity, and operates without a murmur. Most importantly such tech-laden aircons make homes mimic with ease the natural environs of a cool clime!

A highly competitive space, the air condition companies are luring the burgeoning middle-class population in purchasing aircons allying their apprehensions about rising prices by offering them various kinds of schemes, attractive seasonal discounts and easy EMI payments. This has definitely impacted the overall India sales figures, particularly in the residential segment where 1 to 2-ton capacity room air conditioners have netted maximum market revenue share. It is more pronounced in north India where mercury levels soar in summers.

Market players in the air condition industry align their current and future strategies after thorough study and analysis of market types, by capacity, by applications and by regions besides key factors such as opportunities for high growth areas, market drivers etc., all of which help them to offer a dynamic experience for the customer and their respective businesses.

Customers are exploring aircons with minimum fuss such as ductless aircons with variable speeds which is a new variant, whereas geo thermal cooling solutions in aircons is trendy. High pollution levels are also compelling customers to look for aircons equipped with sensors that can monitor pollutants and have filter systems that can purify the air of germs and toxic gases to improve the air quality and keep the house fresh so that the residents get to breathe clean and healthy air!

WE INNOVATE, WE RESONATE WITH MITSUBISHI ELECTRIC AIR CONDITIONERS

Mr. Yozo Ito,
Director and Business Head,
Mitsubishi Electric India Pvt. Ltd.

In pursuance of 'Creating your Comfort', we have touched a mark of 60 years of Innovation in our Air Conditioner series. Our perseverance for efficient solutions and eco-consciousness is focused in providing reliable, high-quality products and contributing towards technology, Mitsubishi Electric has made new benchmarks for the HVAC Industry. Being a premium player, we understand "Comfort" in real sense in the way the world sees it, with factors like noise control, air flow quality and efficiency which are key factors for a customer who want to buy the best. With invention of World's first crossflow fan air-conditioner popularly known as the smaller or lighter air conditioner to conceiving the idea of Spilt air-conditioners, we now stand at creating a comfortable environment with our wide range of products. A legacy of technology, a proven benchmark for the HVAC industry.

Mitsubishi Electric has been a prominent player in air conditioner technology in Japan. We have well- defined and sturdy '4 Pillars of Durability' for our Air Conditioning products. Since 1954, we have gained '60 years of innovation' expertise. The years of existence carries pride, passion and high standard of craftsmanship, processing our products under 'Quality Control for the Real World' through stringent quality checking and attaining a hallmark of MEQ (Mitsubishi Electric Quality). A symbol of assurance and quality standards on the Mitsubishi Electric Air Conditioning Product. We are enhancing the life of the products by 'Manufacturing our own key-parts' like Semi-conductors, Motor/fan and Compressor. To ensure less breakdowns and maintain trust we 'test our products for harsh conditions' such as Saltwater test, Flame Retardant Test, Rainfall test and High-Voltage test.

We offer wide product range of Room air-conditioners (RAC), Packaged air-conditioners (PAC), City Multi Variable Refrigerant Flow Systems, Air Curtains and Jet Towels. Our vision is to help young India in providing a comfortable start to their dreams, to partner in India's Dream to reach the top and become No.1 in innovations and sustainability. We consistently improve our technologies for changing society needs. In purview of Indian summers, we have launched MSY-GRT series (RAC), PLY & PEY (PAC) series which has tropical inverter technology and it keeps you cool even at 52 degrees of temperature. We at Mitsubishi Electric, believe in creating long term association and trust with our customers and dealers through our product & services. Our Technologies ensures a better customer experience and enhances living standards through quality & innovation.

UPGRADE YOUR HOME WITH PANASONIC'S CONNECTED AIR CONDITIONERS

Gaurav Sah, Business Head, Air Conditioners Group, Panasonic India

Mr Gaurav Sah,
Business Head, Air Conditioners Group,
Panasonic India

Imagine that it is a hot day, a couple of degrees over 40 degrees, you are 10 minute away from your home and you get a prompt on your smartphone, "Do you wish to turn on your AC?" And what if you could control the AC remotely from anywhere in the world from your smartphone? This and many more such experiences is no more a dream but a reality.

With a vision to provide convenience, comfort and connectivity, at Panasonic we have forayed into the Connected Living Solutions space with the launch of our IoT & AI-enabled platform – Miraie; conceptualized and developed at Panasonic's India Innovation Centre based out of Bangalore. With the literal meaning of Miraie being 'future home' in Japanese, the platform presently hosts India's largest range of Connected ACs, Smart Doorbells, and Smart Plugs & Switches.

With technology becoming an integral part whilst designing a dream house, consumers are now looking towards IoT & AI enabled solutions to enhance quality of life through connected ecosystems. As per our research over 75% of consumers are looking for specific requirements related to ease of use, safety, monitoring misuse, service reminders and personalize usage pattern.

Panasonic's new range of connected ACs provide convenience with the AI-enabled Miraie App; comfort with better cooling via our unique JetStream and aero-wings technology, and health with its Nanoe-G technology that removes bacteria and PM 2.5*. With intelligent and unique features such as the customized sleep mode, the AC enables enhanced flexibility as it allows users to pre-set temperatures profiles through the night for comfort. Users can also create different temperature profiles for weekdays and weekends. Featuring an intuitive auto-diagnosis feature, the new connected range is equipped to detect issues in advance and alert users. Offering complete control to users to access these AC's anytime, anywhere via a single mobile app interface - Miraie, it also extends features such as e-Warranty and AMC management, OneTouch-service request, proactive maintenance notifications among others to consumers. The range features in-built intelligent diagnostics that detect issues in advance ensuring safety for the consumers and maximizing performance and operational lifespan of the product. It also leverages Google's Voice Assistant and Amazon's Alexa technology to offer seamless and hands-free operations to control devices with voice commands. All these features combine to offer a much-needed requirement of saving up on the electricity bills. With ACs attached to the Miraie app on the smartphone, consumers have a total control on the usage directly leading to power saving.

In line with our strategy to democratise technology, we are offering the connected range at the same price point as the conventional split ACs starting at INR 35,990 that are available at all Panasonic brand shops, large format retail outlets, online platforms such as Amazon and Flipkart, as well as small electronic stores across the country.

A NEW NORMAL

FMCG, ONLINE RETAIL, TELECOM AND PHARMA SEEM TO BE THE OBVIOUS GAINERS OF THE COVID-19 PANDEMIC

BY AJITA SHASHIDHAR & E. KUMAR SHARMA
ILLUSTRATION BY RAJ VERMA

Alcoholic beverage-maker Diageo India has announced that it would be making hand sanitisers as part of its pledge to fight the deadly Covid-19 virus. The company's Chief Strategy and Corporate Officer, Abanti Sankaranarayanan, in a LinkedIn post, says, "Five days ago, we at Diageo India didn't know anything about producing hand sanitisers.

Between yesterday and today, thanks to the tireless efforts of about 50 people in Diageo India, we produced the first batch of hand sanitiser packs at our Goa, Assam, Aurangabad and Hyderabad manufacturing units, as part of our pledge to produce over 300,000 litres of bulk hand sanitisers for public healthcare workers on the frontline." While one isn't sure whether Diageo would be looking at the hand-wash category as a long-term business proposition, hand sanitisers and handwash products have emerged as FMCG's new hero categories.

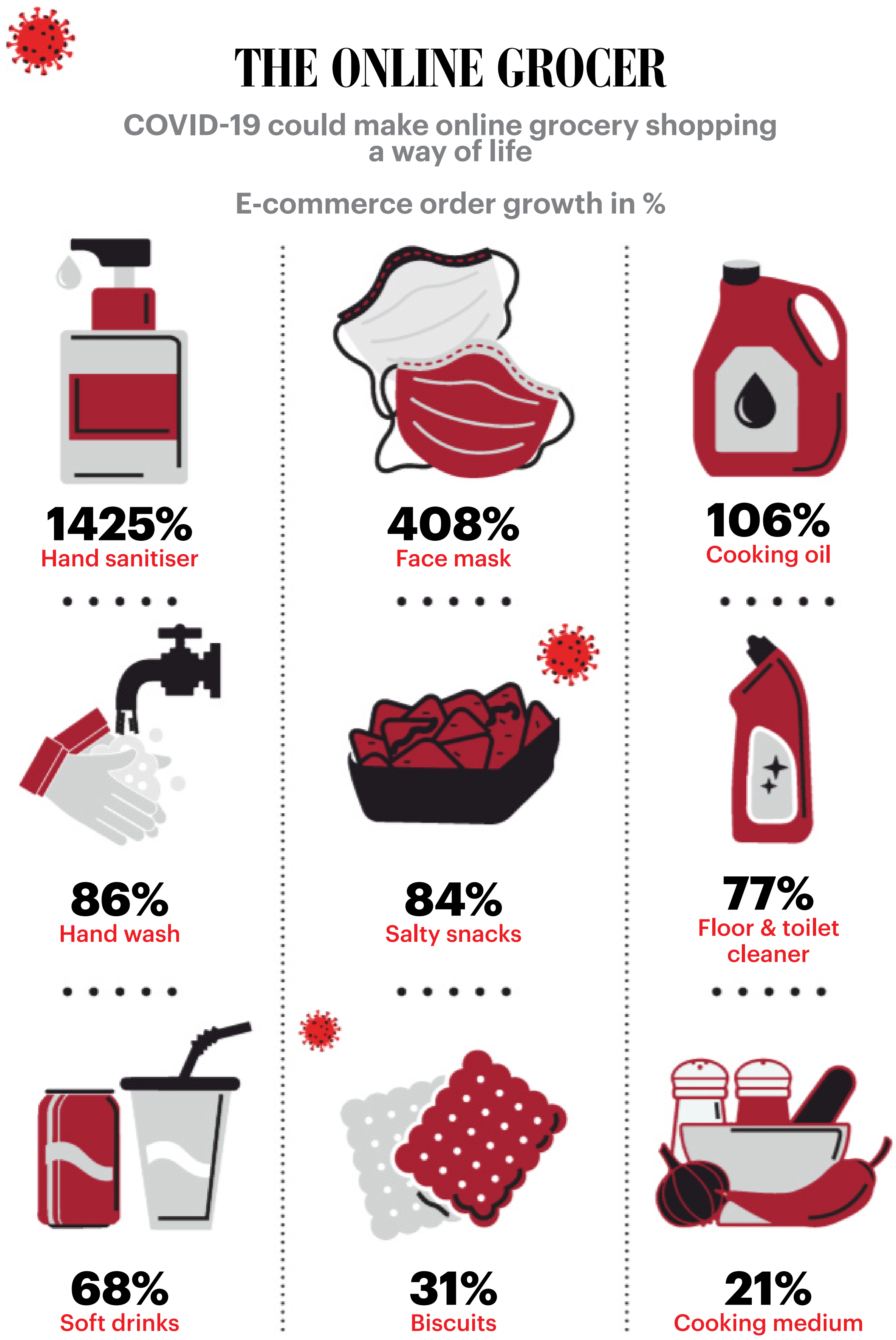
Once considered elitist and modern-trade categories, in the past month, hand sanitisers have become an essential part of a consumer's grocery basket. A recent Nielsen report says that the demand for handwash and sanitisers between February and March has gone up by an enormous 1,425 per cent.

The overall FMCG industry, which had been reeling under the effect of an acute slowdown, with growth rates as low as 6 per cent (according to Nielsen), experienced a 2 per cent jump in February, when the outbreak of COVID-19 happened in India.

Consumers started stockpiling not just sanitisers and handwashes, but also generously bought food and other essential items fearing a lockdown. Companies such as Amul saw a 20 per cent increase in demand.

In fact, there has been a sea change in consumption behaviour. Not only have consumers been hoarding essentials, they have taken to shopping online. Similarly, with malls and multiplexes shutting down, there has been an over 100 per cent growth in paid OTT subscriptions. TV viewership has also gone up by 8 per cent in March. With majority of entertainment consumption happening on the Internet, data consumption volumes of telecom operators have gone up 5-15 per cent.

The other obvious gainer of the COVID-19 outbreak is the pharmaceutical sector, which has seen a spike in sales of testing kits and some medicines, apart from of course masks and hand sanitisers.



Weekly average two weeks of Mar 2020 vs four weeks of Feb 2020: Source: Nielsen

FMCG Sees a Surge

While Diageo India may be the new kid on the block, stalwarts such as Hindustan Unilever (HUL), ITC and Godrej Consumer Products have left no stone unturned to rise to the new reality. All of them have ramped up their hygiene portfolio production by 15-20 per cent in the past few weeks. Sanjiv Mehta, Chairman and Manag-

"PEOPLE WHO ARE ALREADY SPENDING MONEY ON ONLINE ARE INCREASING SPENDS BUT FOR IT TO BECOME A HABIT, A LOT OF INVESTMENT IS NEEDED"

Arvind Singhal
Chairman, Technopak Advisors

ing Director, HUL, says, "In a crisis like this, companies have a big role to play. We are working closely with the governments and our partners to ensure that we overcome this global health crisis together."

According to Sunil Kataria, CEO (India & SAARC), Godrej Consumer Products, "We have ramped up production of our soaps, Godrej Protekt handwash and sanitisers in our units as well as through our vendor partner units. We are working closely with raw material and packaging material suppliers to facilitate uninterrupted supplies. Our teams are also working round-the-clock to ensure that adequate stocks are available across channels." Despite the country-wide lockdown, which has forced companies to shut several manufacturing facilities, these majors are working to meet the increased demand.

Experts see the contribution of the hygiene category increasing from just 1-2 per cent of an FMCG company's SKUs to 15-16 per cent of its portfolio. "Hygiene will get a new dimension post-COVID," says Raghu Vishwanath, MD of brand valuation company, Vertebrand.

Even food major Amul has ramped up its production by over 20 per cent in the last one month. "Consumers are not only hoarding out of panic, they are also buying more milk-based products because there is an advisory against consuming eggs and meat. People are substituting it with milk-based protein," says R.S. Sodhi, MD and Chairman, Amul. (Most FMCG companies, however, are finding it difficult to transport their products to the retailers.)

Apart from hygiene, industry experts also expect health food to become a category leader. "Eating healthy will gain further momentum as there is concern over building immunity," points out Kannan Sitaram, former Dabur COO and currently, Venture Partner, Fireside Ventures. He says that while some companies like ITC Foods already have 'better for you products' such as multigrain atta, other FMCG majors need to pull up their socks or they will lose business to start-ups.

Though FMCG sector gains seem imminent, industry experts don't expect a huge value growth as the increase is to a large extent coming from low-margin essential products.

NEW HEROES

What were premium products — hand sanitiser, handwash and other hygiene products — are set to become new mass products

WHAT WOULD YOU STOCK UP IN CASE OF A LOCKDOWN?

91%
Personal hygiene (handwash, toilet soaps, hand sanitisers)

74%
Cleaning products (disinfectant liquids, surface & toilet cleaners)

67%
Grocery essentials (atta, rice, lentils, pulses, oil, ghee)

BASE: 898 respondents in an online consumer survey conducted during 17-19 March in 15 large metros
Source: Nielsen

Online Boom

While the COVID lockdown has led to supply chain and manpower challenges for most e-commerce platforms, during the early days, online grocery platforms such as BigBasket and Grofers saw close to 60 per cent surge in traffic, of which over 20 per cent were new users. But the current supply-chain clog (closed warehouses, little transport and delivery personnel being stopped) has put life in a disarray and all platforms have lakhs of pending orders. Ask Albinder Dhindsa, Co-Founder, Grofers, if online grocery will be part of the new normal, and he says, "I don't have the time to think about what the new norm will be in future. My priority now is to keep the supply chain alive and deliver to my consumers. Having said that, people are indeed seeing value in ordering online." Grofers has over two lakh pending orders ever since the COVID lockdown has begun.

Market experts agree that there is immense potential for online retail in the coming months, especially since the idea of social distancing is getting deeply ingrained in the minds of consumers. The next few months, according to angel investor and business strategist Lloyd Mathias, will see people revaluating their consumption. "People will revaluate alternative lifestyles. They will try to find out that instead of going to the mall or the neighbourhood store, how much they can make do by ordering online." Social distancing will also have an impact on the way business is done, he adds.

Easwaran P.S., Lead, Supply Chain Solutions, Deloitte India, agrees that there is a lot of opportunity for e-commerce retailers, but they have to keep up the quality and the delivery promise. "If they are able to hold on to delivery and quality promise, it's a great opportunity for them to captivate those customers. Many who were not in their ambit of influence, are there today. If they are able to captivate these people, the channel shift of customers will be more permanent."

However, one needs to keep in mind that over 70 per cent of Indian consumers live in rural India, where most e-commerce platforms don't have reach. Arvind Singhal, Chairman, Technopak Advisors, doesn't expect a significant change in consumer behaviour. He says many consumers are forced to use online platforms because they don't have a choice. "People who are already spending money on online are increasing spend but for it to become a habit it needs lot of investment. Moreover, online companies have to offer an assortment which is not available in local stores."

Sameer Shukla, West Market Leader, Nielsen South Asia, argues it is a question of what extent online will grow. "With mobile penetration really deep into the country, the internet infrastructure is quite decent. When the need and ask goes up, new players and new investment will come in." So, how are the good old neighbourhood kirana stores going to reinvent themselves to be part of the new normal? "The kiranas are the most efficient last-mile delivery points and they are not going to go anywhere," says Singhal. In fact, at a time when last-mile delivery is becoming an issue, online platforms such as Grofers are asking their kirana partners to deploy more manpower to deliver. All major retail companies, be it Reliance, Amazon or Flipkart, have ambitious kirana partnership programmes. While a large segment of the kiranas were skeptical about joining the biggies' networks, in the 'new normal' that may change.

Singhal expects the axe to fall more on the modern retail companies than kirana stores. "Modern retailers are more vulnerable. A traditional retailer's cost is low and he can bounce back. The big chains have high employee cost, real estate costs and supply chain right up to the warehouses. A prolonged lockdown will impact them immensely."

Vishwanath of Vertebrand says that post-COVID door deliveries are going to rise significantly as consumers would want to stay away from infection, and kirana stores are the fastest to deliver.

"WE HAVE RAMPED UP PRODUCTION OF OUR SOAPS, HANDWASH AND SANITISERS. WE ARE ALSO WORKING CLOSELY WITH RAW MATERIAL AND PACKAGING SUPPLIERS"

SUNIL KATARIA
CEO (India & SAARC), Godrej Consumer Products

5-15%
Gain that telecom operators are seeing in consumption of data volumes

8%
Increase in TV viewership in March (Nielsen)

Eyes on Media

Consumers are not just shopping online, they are also watching content online. Prior to the COVID lockdown, the outliers of the media and entertainment industry were multiplexes, while platforms such as TV were losing out because of regulatory disadvantages and dwindling advertising revenues. With people forced to be inbound and multiplexes shutting down, the biggest gainers have been OTT platforms. Tarun Katial, CEO, ZEE5, claims subscription revenues have seen an over 100 per cent jump. “Our paid subscribers have increased dramatically. Demonetisation led to the surge of digital payments and COVID has led to the growth of digital videos.”

The lockdown has also resulted in higher TV viewership. But this may not necessarily lead to incremental revenues, points out Jehil Thakkar, Partner (Media & Entertainment), Deloitte India. “Whether the increase in viewership will translate into higher revenue for broadcasters will depend on the economic health of the country. The mood currently is to conserve cash. Apart from basic brand-building advertising, I don’t expect companies to spend much on advertising. Of course, the TV industry has a buffer due to subscription revenues.”

Advantage Pharma

Experts have told us time and again that lockdown is crucial to contain the spread of the virus. But with increasing cases of infection, testing has become critical. This directly puts the spotlight on the key product in demand – testing kits.

Kit-makers are struggling to meet the demand and most private testing laboratories say their stock of testing kit will last for just a few days more. The options before the kit-makers today is either to ramp up production or supply kits in larger pack sizes. The Indian Council of Medical Research (ICMR) has approved four kits. These include three imported kits and one domestic. Mylab, the only domestic kit-maker, has been talking of an ability to ramp up capacity. It has said that their supplies will be in place from the week starting March 30. One lab in Hyderabad says it has been assured supplies by March 31.

German kit-maker Altona, for instance, is working on supplying pack sizes that can handle 4,800 tests as against 384 or 96 tests per kit. This could sharply improve the testing ability of labs even with fewer kits. Even 10 such kits would mean close to 50,000 tests. “We are in a hand to mouth situation right now and hoping for supplies of kits and PPEs (personal protection equipment) to increase,” says Dr Arvind Lal, Chairman and MD of Delhi-based Dr Lal Pathlabs.

While there is a global hunt on to find the right medicine that is effective against COVID-19, research efforts, including those by the World Health Organisation (WHO) under its ‘Solidarity project’ as also by other research institutions and global innovator companies, are today largely around re-purposing of anti-malaria, anti-rheumatoid arthritis and anti-HIV medicines. Demand for some of these medicines has seen a sudden spurt in India. There are leading Indian companies such as like IPCA and Zydus Cadila that are making anti-rheumatoid arthritis drugs like hydroxychloroquine and anti-malaria medicine like chloroquine while companies like Cipla and Aurobindo are making anti-HIV medicines. However, in the recent past, perhaps driven by rumours, there have been reports of sudden spike in demand for some of these medicines even though these require proper prescription in case of any prophylactic use (to prevent the ailment). Despite this, demand for chloroquine, for instance, as one supplier pointed out, saw a 10-fold increase in February and double the demand for hydroxychloroquine.

The post-COVID ‘new normal’ is likely to bring in tectonic shifts which neither consumers nor consumer goods companies would have imagined. It’s a wait and watch situation. BT

Inputs by Manu Kaushik

@AjitaShashidhar, @EKumarSharma

PHARMA SEES SUDDEN INCREASE

Pharma companies will ramp up immediate production of certain products

• • • •

Testing kits: There are 49 approved private testing labs, 129 government labs and four kit-makers (as on March 30). Most labs have testing stocks for a few more days. Makers will either ramp up production or increase pack sizes to handle more tests per kit

• • • •

PPEs: Supplied typically by small manufacturers, personal protective equipment (PPEs) such as medical gloves, face masks, and suits are seeing a spurt in demand. Supplies are much lower. Manufacturers are increasing production. Textile companies also roped in

• • • •

Medicines to combat Covid-19: Some medicines touted to help combat the virus are seeing double the demand. These are usually supplied by big companies, which say they have enough production capacities and are constrained only by supply chain bottlenecks

OVERHAULING CROP INSURANCE

The problems with the Fasal Bima Yojana and how the scheme can be fixed

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

Four years ago, when the government unveiled the Pradhan Mantri Fasal Bima Yojana (PMFBY), the crop insurance scheme, general insurance companies saw it as a big opportunity. Bulk of the premium was to come directly from the Centre as well as states. Customer acquisition costs were almost nil as states along with banks were sharing data of farmers. The farmers loved the scheme as their contribution was just 1.5-5 per cent of the sum assured. The Centre received kudos for using the insurance model to compensate farmers in distress. But today, all three stakeholders are dejected.

At present, the five state-owned insurers together account for over half the premium mobilised under PMFBY – close to ₹30,000 crore. One of the five, National Insurance Company underwrote a premium of ₹234 crore in the very first year, 2016, as against claims of ₹70 crore at the end of the year. The first year's profits encouraged the Kolkata-based company to take bigger bets next year. In FY18, the company underwrote a massive premium of ₹1,542 crore, but unlike the previous year, claims surged to ₹1,741 crore. The claim ratio was a staggering 112 per cent. The story was no different in subsequent years.

The entire industry has been suffering from very high claim ratios in the last three years. For FY19, total claims have already touched ₹20,000 crore, and the kharif claims haven't even been reported yet. Insurers' gains are not just the difference between the premium collected and claims paid, but include additional costs like reinsurance and administrative, which are over 12 per cent of gross premiums.

Blame Game

Initially, it was being said that insurance companies are making windfall gains. But those accusations have stopped. Four private insurers – ICICI Lombard, Tata AIG, Cholamandalam MS and Shriram General Insurance – have bid goodbye to the scheme. "Crop performance revolves. There will be, say, three good years and one bad year. But you cannot make money every year and you just cannot afford to lose money every year," says Anurag Rastogi, Chief Actuary and Chief Underwriting Officer, HDFC ERGO General Insurance Company. At an aggregate level, the industry is losing money in crop insurance due to intense pricing pressures, he adds.

The private players that have exited may join back later, but not till the scheme remains in its current form.

While the aggressive pricing that insurers adopted is partly responsible for their losses, there are other rea-

Why the scheme is not working and what can be done to improve it

Aggressive pricing by insurers to get volumes, resulting in losses
Insurers have to do proper risk analysis with extensive fleet at ground level

States do not follow operational guidelines
They should adhere to the guidelines without any influence of farmers and local politicians

4
Private insurers have exited crop insurance altogether

Risky crops/clusters put up for coverage
States should realise that it is insurance and not a scheme for giving doles

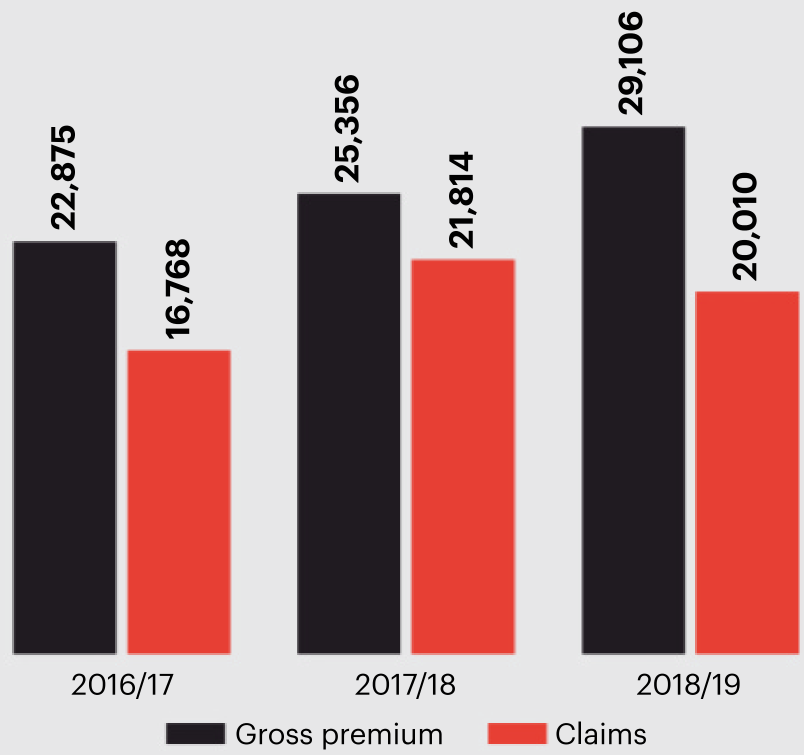
States not contributing their share of premium on time
State budgets should earmark money for this

Yield-related disputes between insurers and states; instances of fraud
Technology should be used to calculate the correct yield to decide claims

Losses are pushing up reinsurance rates
Good underwriting by insurers and timely payments by states can create a healthy reinsurance market

A Losing Proposition

High claims ratio makes crop insurance an unviable business



Figures are in ₹ crore; Kharif 2019 claims not fully reported
Source: Irdai, government

Insuring the Insurers

Reinsurance giant GIC Re is neck-deep in losses

Year	Premium Collection (₹ crore)	Claim Ratio	Combined Ratio (including expenses & reinsurance cost)
2016/17	**9,951**	**77.64%**	102.78%
2017/18	**12,948**	**90.18%**	113.53%
2018/19	**13.438**	**97.74%**	116.69%
2019/20	**13,300**	**NA**	NA

Source: Company

sons too. West Bengal recently decided to withdraw from the scheme. Punjab never participated. The onus of the implementation lies entirely with state governments. Experts say the operational guidelines set by the Centre are not being followed. Recently, the Central government admitted in Parliament that settlement of claims in some states is getting delayed due to reasons such as late transmission of yield data, delay in release of the state's share in premium subsidy, yield-related disputes, non-availability of account details of some farmers, etc.

The farming community, too, is to be blamed. There have been instances of fraud or collusion between state representatives and farmers. Many farmers look at the scheme as a dole and show lower yield so that they can file a claim for a higher amount.

The government has now revamped the flagship scheme for the second time since inception. The changes have made the scheme voluntary, there is a larger mandate of three years for insurance companies, reduction of Central government subsidy from 50 per cent to 30 per cent and penal action on states delaying their premium contribution. But the scheme needs a much bigger overhaul.

State, Cluster, Crop

The first step would be for insurance companies to set up infrastructure to get premium on time from states, get closer to the area to see crop-cutting experiments and build relationships with people.

"You have to manage the entire ecosystem," says Mahesh Balasubramanian, MD and CEO, Kotak Mahindra General Insurance. The new general insurance arm of Kotak Mahindra Bank will get into crop insurance only after it has attained a critical size by being in at least half a dozen states and not just one or two, he adds.

Insurers also need to build a knowledge base of the covered crops, which include food crops (cereals, millets and pulses), oilseeds and horticulture. "You need expert skill sets within the company which are mobile geographically. Crop insurance is like a caravan which keeps moving depending upon the success of the company's bids in different states," says Balasubramanian. The allocation of crop fields for three years will encourage companies to set up base in a state or a district, but the decision to make the scheme voluntary for farmers will reduce volumes for the business to be sustainable at the current premium rates.

Apart from region-specific crop know-how, insurers also need expertise in covering risk such as drought, flood, pestilence and diseases. For instance, Maharashtra has seen a perennial drought-like situation in many districts, while Kerala and Odisha often face floods.

Since the entire responsibility of implementing the operational guidelines of crop insurance lies with respective states, insurers must assess the situation of the state before bidding. "The cluster selection (a state is divided into clusters for insurance) is done by statistically proven methods," says Bisheshwari Singh, Chief Marketing Officer, Universal Sompo General Insurance. Many states, however, pick high-risk areas for coverage and keep low-risk areas out. There are also issues with state government data on yield. This data, say insurers, though comprehensive, needs a lot of tweaking to arrive at the yield because different crops are grown in the same field over a period of time.

Globally, agricultural plots are scientifically marked for insurance and not by covering district, cluster or village. One can cover plots of various sizes. Apart from this, in India, many of the land holdings are small and fragmented. "We could have a farm-level approach for insurance if land records are digitised," says Singh of Universal Sompo. Digitisation of land records is also something that states need to start at the earliest.

PMFBY is yet to develop scale. As per the available figures, insurance coverage has increased from 23 per cent to 30 per cent of the gross cropped area in four years. "Currently, only about 30 per cent of the sowing area is getting insured," says Rastogi of HDFC Ergo. A large part of the crops that are insured is that with high loss potential, while crops that are less prone to loss are left uninsured.

Crop-cutting Experiments

The scheme operates on a sample approach to discover the yield of the entire insured area. The sample yield results are extrapolated to see whether the actual yield is higher or lower than the agreed threshold yield. So a sample data decides the entire insurance claim. Experts argue that the sample yield exercise doesn't provide the real picture. In fact, a sample approach increases the risk as against other general insurance products like motor or health insurance where the actual event (accident or hospitalisation) is insured for claims. One way to go about this is to include parameters like weather, rainfall, etc., to measure farm yield.

Apart from that, the sample yield exercise is undertaken by state government officials and the local farming community; the insurers come in only for crop-cutting experiments. It is also in the interest of the local farmers or state to show lower yield to get insurance money. "It is important for insurers to have ears to the ground and be present to make sure that the process to calculate yield is done correctly and transparently, since payment of claims is dependent upon correct estimation of crop yield, based on the output of the crop-cutting experiments," says Rastogi.

30%
Gross cropped area under insurance coverage

80%
Share of crop insurance business that insurers are ceding to reinsurers

Companies, too, need to strengthen their systems. At present, many outsource this activity or hire both own and outside employees as they don't want to increase their fixed costs. If companies are present on the ground and participate in crop-cutting experiments, they can raise issues and ensure that correct yield data is reported. "You also have to remain in contact with state governments to ensure that crop-cutting experiments are done timely and in accordance with PMFBY's guidelines," says Rastogi.

Focus on using new technological tools like satellite images to cover entire fields will also help. "The yield data should be correlated with *mandi* arrivals. There can be a mixture of parametric variables and sample yield data," says an industry insider.

The Fear Factor

The farming sector sees high political interference. In November last year, an office of IFFCO Tokio General Insurance in Pune was ransacked by activists of Shiv Sena, because farmers were unhappy with the delay in insurance claims. What's surprising is that the insurer was not covering any cluster or village of Maharashtra for kharif 2019. Similarly, an FIR has been filed against an insurance executive of a Pune-based general insurance company for not paying farmers' claims under PMFBY.

"We, as insurance companies, are scared. We cannot fight against the government or local politicians," says an executive. In fact, insurance companies are now keeping away from some states after their own bad experience or those of others. This is probably the reason why insurers didn't show any interest in covering eight districts of Maharashtra during the rabi season in the current fiscal. There was no interest last year in Manipur, Andaman and Nicobar Islands, Daman and Diu. Insurers also stayed away from some districts of Chhattisgarh.

Reinsurance Trouble

Given the nature and volatility in losses, crop insurance requires a high level of reinsurance. Currently, insurers are ceding more than 80 per cent of the business to reinsurance companies like GIC Re, Hannover Re and others. In fact, domestic reinsurer GIC Re came in a big way to support government-backed initiatives. But after three years of losses, they, too, are finding it difficult to continue. For instance, GIC Re hasn't made any profit in crop insurance in four years. The combined ratio, which includes claims, expenses and reinsurance cost, has been over 100 per cent.

The losses are forcing reinsurers to separate the good players from the bad ones. "They are now charging higher premiums from the bad players," says a general insurer senior executive. They are taking yield data from *mandis* to put a check on underreporting.

It is in the interest of states and farmers to report correct yield data. Showing lower yield only increases the premium for the next year and ultimately farmers and the state suffer if they are not covered by insurance or have to pay higher premium.

Recently, many states drew a blank when they opened bids for crop insurance. Such a situation will not do any good to the flagship crop insurance scheme. This practically means it is now the baby of state governments. **BT**

@anandadhikari

TELECOM's LOST CAUSE

Why companies are caught between a rock and a hard place

BY MANU KAUSHIK
ILLUSTRATION BY RAJ VERMA

India's telecom operators were hoping against hope. But the March 18 order of the Supreme Court gave them no route for escaping AGR (adjusted gross revenues) liabilities. The court even came down heavily on them for self-assessing the dues instead of straightaway paying the amounts it had fixed in an earlier order. It was the second time the court had rapped telcos and the DoT (Department of Telecommunications) for not obeying its orders. It said telcos had done serious violations and were liable to pay the entire amount they owed to the government. "We see that attempt has been made to scuttle the effect of order of this court and that is a gross violation of the order of this court by entering into a process of self-assessment/reassessment that is virtually reopening of entire dues, that kind of exercise is not at all permissible and is tantamount to sitting over the order of the court," said the three-judge bench, headed by Justice Arun Mishra.

Vodafone Idea, Bharti Airtel and Tata Teleservices had done their own assessments of AGR dues and submitted the amount to the DoT. Vodafone Idea deposited ₹6,854 crore in three tranches based on the self-assessed liability of ₹21,533 crore, way short of the DoT's provisional estimates of ₹58,254 crore. After the court order, it is clear Vodafone Idea will have to deposit the entire amount (that is ₹58,254 crore), which would potentially jeopardise its future. So is the case with Airtel, which has been asked to pay ₹43,980 crore against its own assessment of ₹13,004 crore (see *Duel Over Dues*).

"After this decision, incumbents continue to face headwinds and stand at the same posi-

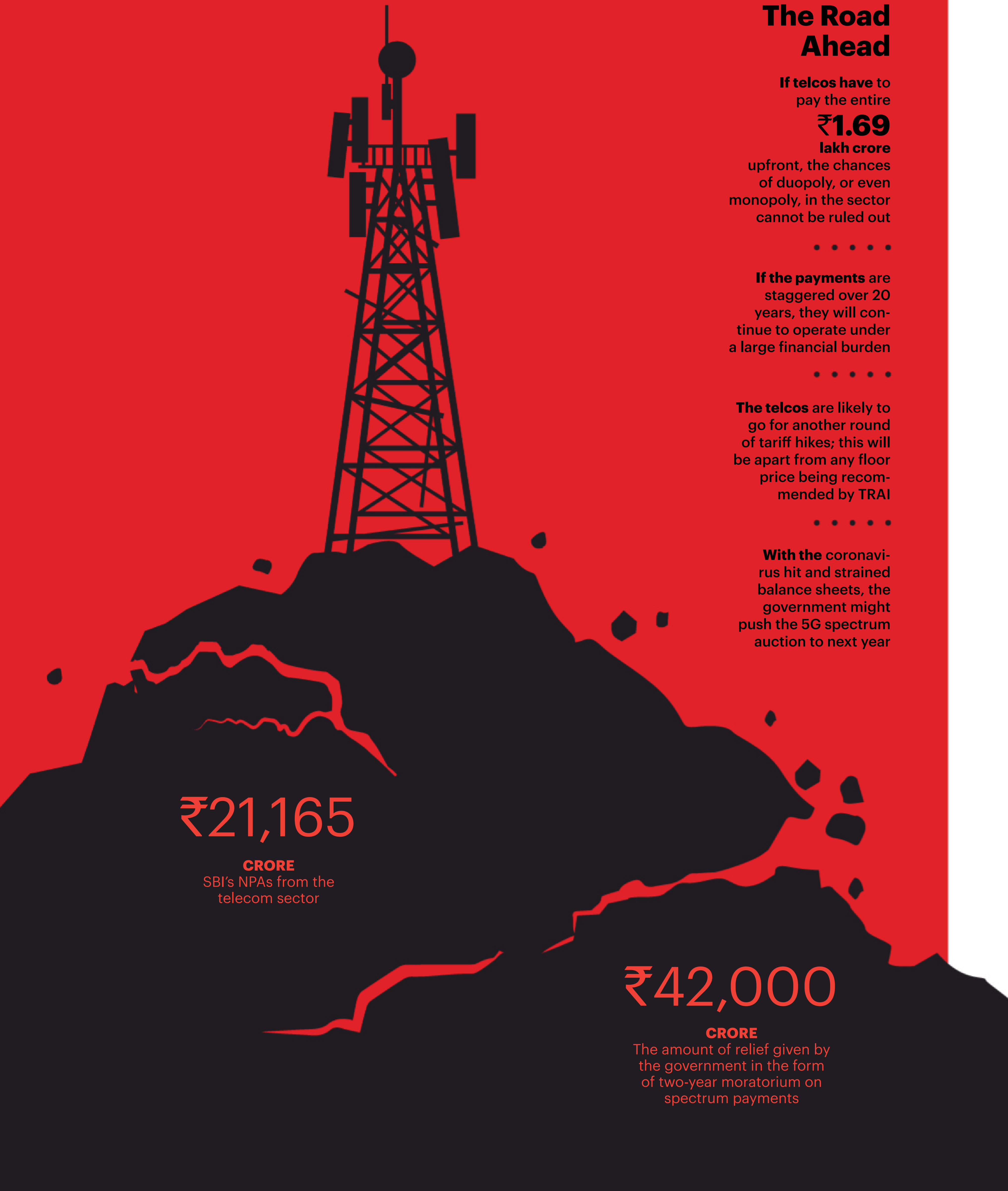
The Road Ahead

If telcos have to pay the entire **₹1.69 lakh crore** upfront, the chances of duopoly, or even monopoly, in the sector cannot be ruled out

If the payments are staggered over 20 years, they will continue to operate under a large financial burden

The telcos are likely to go for another round of tariff hikes; this will be apart from any floor price being recommended by TRAI

With the coronavirus hit and strained balance sheets, the government might push the 5G spectrum auction to next year

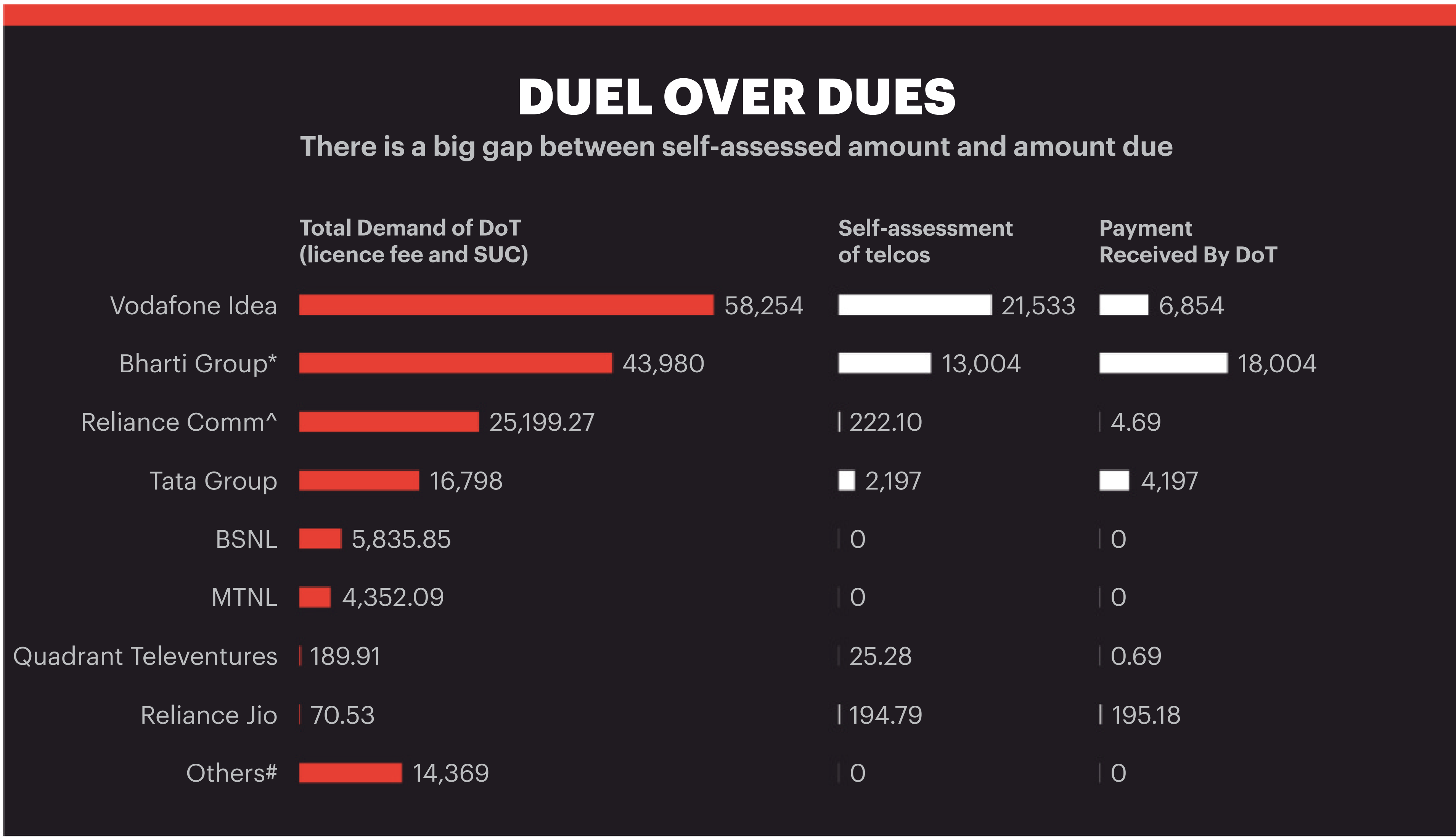


₹21,165

CRORE
SBI's NPAs from the telecom sector

₹42,000

CRORE
The amount of relief given by the government in the form of two-year moratorium on spectrum payments



How AGR Saga Unfolded

In October 2019, telcos lost a 14-year-old case to the DoT. The Supreme Court asked them to pay ₹1.69 lakh crore AGR dues by January 23

Telcos filed a review petition; it was rejected

Vodafone Idea reported ₹50,922 crore net loss in 3rd quarter of FY20 – the highest ever in Indian corporate history – due to provisioning for AGR dues

As a small relief, the government gave telcos a two-year moratorium for FY 21 and FY 22 spectrum payments

tion as they were when the new definition of AGR was accepted," says a March 23 report by CARE Ratings.

Although the court told the government that it will consider giving relief to telcos in the next hearing (which was fixed for two weeks from March 18), telcos have to pay the dues as per the DoT's calculations – either lump-sum or in annual instalments over 20 years. If telcos are supposed to pay the entire amount – ₹1.69 lakh crore – upfront, in all likelihood, it would lead to duopoly, and in the worst case scenario, monopoly in the sector, with depleted state-run BSNL-MTNL combine. Besides, there will be serious repercussions for consumers, banking and ancillary telecom businesses in addition to government's revenues and India's image as an investment destination. "The difference between the DoT's demand and telcos' self-assessed amount is huge. I don't think any of them have the appetite to pay upfront. It's going to be pretty bad situation for Vodafone Idea particularly," says Harsh Walia, partner at law firm Khaitan & Co.

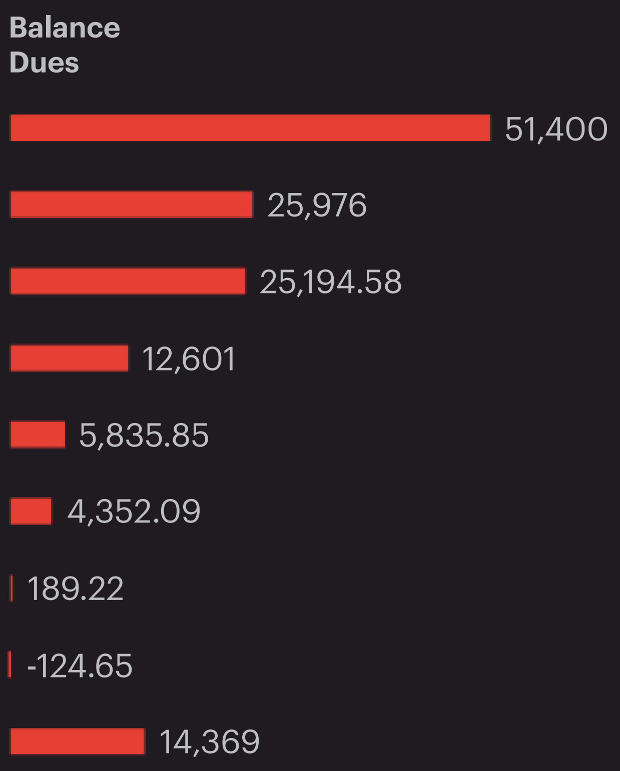
How the Telcos Messed Up

Soon after losing the AGR judgment, telecom companies approached the DoT seeking a relief package from the government. The government did listen to them and formed a committee of secretaries (CoS) in late October to come up with measures to prevent a collapse of the sector following the AGR judgment. The committee, reportedly headed by the Cabinet Secretary, suggested a half-hearted step, and based on it, the government announced a two-year moratorium on spectrum payment due for 2020/21 and 2021/22. This ₹42,000-crore relief would ensure easing of telcos' liquidity for the immediate future.

Meanwhile, telcos kept hoping that they would get some relief from the court. But that didn't happen. On three different occasions, the court has taken a strict view against them. In January, the SC rejected the review petition, which was followed by the apex court's rap on their modification plea in February. This was followed by the March 18 order.

In a conversation with *Business Today*, Rajan S. Mathews, Director General of COAI (Cellular Operators Association of India) said that the telcos' demands were in line with the DoT's 12-point application filed with the Supreme Court. Experts say that the current approach of telcos seems to be wrong. They should have taken

*Includes dues for Telenor India
^Includes Reliance Telecom and Sistema Shyam
#Includes five entities such as Aircel, Loop Telecom, Videocon Telecommunications, Etisalat DB Telecom and S Tel
Figures in ₹crore, as on March 16
Source: DoT, companies



Telcos filed modification plea for easier payment terms. SC rapped telcos and DoT

The government files a petition for staggering AGR payments over 20 years; SC says self-assessment of AGR dues by telcos is not permissible

AIRTEL HAS RAISED $2 BILLION AND IS AMONG THE BEST PLACED TO PAY THE AGR DUES AND SURVIVE THE CURRENT CRISIS

Sunil Bharti Mittal
Chairman, Bharti Airtel

their own path rather than aligning with the DoT on this issue.

"Instead of combining forces with the DoT, telcos should have challenged the DoT demand in court. Our demands were in line with the 12-point application filed by the DoT in the Supreme Court recently. Instead, they deposited the amount, and approached the court for succour. Remember these entities fought fiercely tooth and nail against each other for 14 years. Suddenly they are on the same side. This would seem like a waste of time and resources that could have annoyed the court," says a large equipment maker executive.

It's Complicated

So while the DoT seems to have realised that upfront AGR payments could result in a high level of distress in the sector, the way it is handling things is likely to create confusion going forward. The DoT's application in court said all licensees be allowed to pay the "unpaid amount" (total dues minus amount already paid) in annual instalments over 20 years at an interest of 8 per cent. "Interest on the unpaid amount, penalty and interest on penalty to the past dues ...will not be levied beyond the date of the said judgment [October 24]," the DoT application said.

It seems the idea to stagger the dues over 20-year instalments hasn't been thought through. Why? In India, there are 22 telecom circles, and telcos like Airtel and Vodafone Idea hold licences (and spectrum) with different validities across these circles. If the DoT is proposing a staggered payment option for telcos, these annual instalments will be paid circle-wise. What will happen to dues if a licence is expiring before 20 years? According to brokerage Motilal Oswal, 57 megahertz (MHz) of Airtel's spectrum in eight circles, including Tamil Nadu, is expiring in September 2021. It will cost Airtel about ₹12,000 crore to renew this spectrum at previous auction rates.

"If the staggered payment plan is approved, telcos will get a lifeline but will continue to operate under financial duress. Their balance sheets would be stretched, and telcos might be constantly evaluating all options on the table, including exiting some less-profitable circles. What would happen if a telco fails to clear dues in a particular circle, and exit? Can the DoT take action against it by revoking licences in other circles? All these modalities would have to be worked out," says a sector analyst.

Losing Hope

While the DoT's AGR demand is applicable to 15 operators, 70.4 per cent has to come from just three operators - Vodafone Idea, Airtel and Tata Teleservices. Some penalised operators have already shut shop, including Loop Telecom, S Tel and Etisalat DB Telecom, while others like Reliance Communications, Aircel and Videocon Telecom are going through insolvency proceedings.

It seems Airtel is the best placed among the lot to repay dues whereas Vodafone Idea is in the worst situation with highest AGR dues and losses piling up for over three years. Recently, some reports suggested that promoters of Vodafone Idea could infuse $1.5 billion into the company if the self-assessments (of AGR dues) are accepted and repayments are allowed over several years. But after the recent order, there's no room for telcos to negotiate dues; it's just a question of how and when they have to pay up.

In January, Airtel raised \$2 billion in QIP (qualified institutional placement) and another \$1 billion by issuing FCCBs (foreign currency convertible bonds) to pay the dues. Marquee investors like GIC, Temasek and Warburg reportedly subscribed to Airtel's QIP highlighting their long-term optimism for the telco. Vodafone Idea, on the other hand, suffered another setback in February when Bharti Inftratel (the tower arm of Airtel) announced extension of the date of its merger with Indus Towers, which is the largest towerco in the country with 125,649 towers. Bharti Infratel and Vodafone India hold 42 per cent each and Vodafone Idea holds 11.15 per cent in Indus. Vodafone Idea had plans to sell its stake after the merger to generate about ₹4,500 crore for its core mobile business. E-mail queries sent to Airtel and Vodafone Idea didn't elicit response.

It seems options for Vodafone Idea are limited. Unless promoters decide to bring in fresh capital, help from other quarters is highly unlikely. Banks, for instance, will unlikely lend to it as they are already saddled under huge non-performing assets (NPAs). State Bank of India alone had NPAs of ₹12,165 crore as on December 2019 in the telecom sector. Besides, the financial condition of Vodafone Idea is stressed, which will make it difficult for any investor/lender to justify fresh funding to the company. In the third quarter 2019/20, Vodafone Idea's gross debt, excluding deferred spectrum payment liabilities of ₹88,530 crore, stood at ₹27,320 crore, with cash and cash equivalents of just ₹12,530 crore.

What DoT Told the Court

Telcos be allowed to pay the "unpaid" amount in annual instalments over 20 years, duly protecting the NPV (net present value) using a discount rate of 8 per cent.

To freeze payments for components like interest on the "unpaid" amount, penalty and interest on penalty after October 24, 2019

Allow change in due amount after reconciliation between telcos' self-assessment and the DoT's assessment.

Considering the huge amount to be paid by telcos, there will be certain inevitable consequences which may not be in anyone's interest

5G Goes for a Toss

Even as the world grapples with coronavirus and Indian telcos struggle with AGR dues, the biggest casualty is likely to be 5G auctions. The manufacturing units and supply chain of large equipment makers – Ericsson, Huawei, and Samsung – have been reportedly hit by the lockdown in various countries. The government has been delaying the 5G spectrum auction and trials dates for several months now. Last September, telecom minister Ravi Shankar Prasad had said 5G spectrum auctions would be conducted in end-2019 or early-2020. Recently, operators submitted their trial proposals to the DoT but the government is yet to take action.

China, which is expected to lead the market with mass-scale production of affordable 5G handset/equipment, has stopped production lines, which will push the 5G launch forward by a few quarters if not a year.

Even if the government decides to hold the auction this year to plug the revenue shortfall owing to coronavirus, the participation will be low. Already singed by the AGR crisis, telcos will find it unviable to buy exorbitantly-priced spectrum. For instance, the base price of the 5G spectrum (in 3300 megahertz to 3600 megahertz band) is highest in India. At telecom regulator TRAI's recommended reserve price of ₹492 crore per MHz, operators will have to pay around ₹50,000 crore for 100 MHz pan-India spectrum – that's the minimum spectrum required to deliver 5G services (in sub-6000 MHz bands) as per global body ITU.

The Last Resort

So, what's the way out for telcos? Analysts say that in the larger interest of the sector and consumers, telcos could be given a last option of paying the dues over a period of time. "Whenever there's a logjam between the government and the court, the government typically makes changes in existing laws to wriggle out of the situation. That could happen in telecom also – in what form is still unknown. But at the moment, the staggered payment option is the only way to save telcos," says Khaitan & Co's Walia. **BT**

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LOSSES HAVE BEEN PILING UP AT VODAFONE FOR THREE YEARS. UNLESS PROMOTERS BRING IN FRESH CAPITAL, HELP FROM OTHER QUARTERS IS HIGHLY UNLIKELY

Ravinder Takkar, CEO, Vodafone Idea

MAKING WORK FROM HOME WORK

How companies are keeping employees engaged and productive as they work from home due to the coronavirus lockdown

BY SONAL KHETARPAL
ILLUSTRATIONS BY RAJ VERMA

While on a video call with Kerry Singleton, the Singapore-based cybersecurity sales director for Asean at Cisco to discuss his work from home life, his three-year old son, holding a small toy, video-bombed the interview to say 'Hello' to the writer. The mother pulled him out as he kept saying, "Do I need to go?" Singleton says, "He likes seeing and talking to people. This happens at least once a day, so you are lucky. Sometimes it's difficult to manage him alongside work."

That's become the new normal for millions of employees across the world as companies mandate work from home due to the prevailing lockdown to check the spread of coronavirus. While many new-age and technology firms have always offered flexi-work options, the difference now is the sheer number of employees working from home for such a long period considering that the lockdown is likely to last for more than a few weeks.

However, it is not everybody's cup of tea. "Everyone's situation is different, and so are concerns," says Singleton. For people with families, it is kids playing around, dogs barking or grandparents talking loudly as they try to get their work done. For millennials, many of who live alone, it is isolation and boredom. As the reality of one of corporate India's biggest social experiments kicks in, companies are not only providing employees the right tools to be productive but ensuring they stay happy and productive too.

Working from home is nothing new. Over the years,

academic research has highlighted where work from home strategy works and where it does not. Research by Stanford University professor Nicholas Bloom shows remote workers were 13 per cent more productive than on-premises counterparts. Plus, they were sick less, took less time off and had lower attrition rates. But, work from home doesn't tick all boxes for productivity. IBM and Yahoo both called back employees to work after offering remote work for years. The answer lies in research by Judith Olson, who finds that remote work is good for solo work but not for work which requires collaboration.

Social Space

As many more individuals are working from home now, many are facing issues. It is for the first time they are working in pyjamas and that too completely unsupervised. Bharat Suvarna, Marketing Manager, Schindler India, says it was a bit disorienting in the beginning. It took him some time to align to the new way of work. Several companies have collaboration tools in place that allow them to work anywhere, anytime—Zoom, Yammer, Microsoft Teams, Cisco's Webex, Skype among others. But now, companies are leveraging those not just to get work done but also to ensure that interpersonal communication and camaraderie between team members is not lost.

One thing people miss while working from home is the personal touch, says Nathan S.V., Partner and Chief Talent Officer, Deloitte India. Offices for many have become social spaces where people eat, go to the gym, play video games and depend on colleagues for social interaction. Nathan says their routine calls, called Check Ins, which often related to work reviews, are today more about how they are managing working from home and dealing with the new life. "As other cues of conversation go missing in these uncertain times, one needs to be hyper-sensitive and read between the lines. It doesn't hurt to ask one extra question: Are you ok?", he says.

Firms like Publicis Sapient, Schindler, Microsoft Hexaware and Cisco are encouraging employees to do more of face time. Shubha Arora, Chief People Officer, India and South Asia, Schindler, says they are encouraging people to turn on video conferencing where managers are being asked to have a fixed time in their calendars to touch base with their teams. "At home, we are missing the *chai* breaks with colleagues, so we are doing no-agenda 'Coffee on VC' sessions where anyone can join for a tete-a-tete."

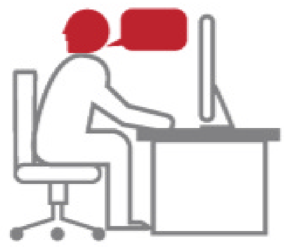
Teams at Cisco are being creative to add fun to video conference calls. Last Friday, upon a team member's suggestion, Singleton's team did the meeting wearing Superhero masks. "It changed the dynamics of what was a work review call. Everybody started laughing and having fun. It sort of broke the monotony." Hexaware is running many contests to continue with the fun spirit. It started with CEO R. Srikrishna sharing his selfie from an empty office that led to a deluge of photos being shared from employees on their #WFH life on their social media platform Yammer, says Vishwanath Joshi, Chief People Officer, Hexaware. That led to the start of the #selfie content, #workingwithpet video contest, among others.

Firms like Flipkart and Cisco are going beyond team members and getting families involved as work and home boundaries blur. As the writer speaks to Microsoft India's COO Rajiv Sodhi, his pet dog comes looking for attention. He says, "It is important to tell employees that it is ok and such disturbances will happen. People are

Tips to be Productive at Home

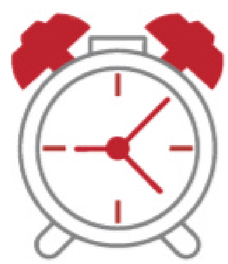
Create a private space for work, not necessarily an isolated room; even a quiet corner will do

Follow your office routine where you get up, work out and dress up



Communicate to family members on the need for uninterrupted work hours

Ensure good internet connectivity, stable power network and right gadgets for video calls. Don't underestimate the need for ergonomic table and chair



Define clear work hours so there is no burnout

"As other cues of conversation go missing in these uncertain times, one needs to be hyper-sensitive and read between the lines. It doesn't hurt to ask one extra question, are you ok?"

Nathan S.V. , Partner and Chief Talent Officer, Deloitte

"Self-management is a big area when employees work from home. They have to maintain discipline and define rules of when they will work and when they will not."

Kameshwari Rao, Group VP, People Strategy, Publicis Sapient

anyway stressed about what is happening and the last thing you want to be stressed about is the background noise of a dog barking or kids playing."

At Flipkart, parents are encouraged to bring young kids to greet colleagues during video meetings. "This way kids feel happy they are being involved and it creates a sense of togetherness," says the Flipkart spokesperson.

Virtual Etiquette

There are a unique set of challenges while working from home. It put individuals in a totally unprecedented situation where entire families are home. Plus, many might not have private spaces in their homes.

As work and personal times blur, where all is merged into one, building discipline is quite important. "Self-management is a big area when employees work from home for such prolonged period of time. They have to manage the social self by maintaining a daily schedule and setting clear boundaries of when they work and when they stop, says Kameshwari Rao, Group Vice President, People Strategy at Publicis Sapient. It has started doing webinars on working from home etiquette and a module on what employees owe the company.

Employees also have to be taught virtual teaming, says Nathan. As virtual teaming and virtual meetings become important, people have to learn to be inclusive where they hear everyone and also speak up. "Virtual meetings often end up being a cacophony of sounds and not speaking up is equivalent to being invisible, which can lead to gradual phasing out," he says.

To give everyone a fair chance to express, Microsoft's Rajiv Sodhi says they are practising inclusive meetings. They are telling everyone that even if they don't want to speak up, they can send inputs on a chat, or whiteboard on their collaboration tool teams. Also, unlike physical meetings that extend for hours, they plan shorter virtual connects with a pointed agenda. "We want to ensure meetings are purposeful, so we are sensitive to the fact that people today have to manage responsibilities at home too."

In these circumstances, Nathan says it is best to clearly communicate start and end time of work and break times. This will ensure consideration to others' routine and time zones. He shares how he had to miss his afternoon meal for two days in a row because his overseas colleagues went for lunch when it was his breakfast time. "Since there is no playbook for working at home, we need to be more emphatic," says Nathan.

Let Go

Managers too have to develop a mindset to give space to employees to work. Often managers start micromanaging when their team is not in front of them. In these cases, over-communication can turn to be a controlling strategy. A PolicyBazaar employee shares how one of their leaders wanted to copied in all final content pieces. Another employee shared how his boss asked him to share a screenshot of the work after every hour. "I am already working longer than I was in office," he says.

Rao says firms will have to change this attitude. One way to avoid intrusion at Publicis Sapient is to define goals clearly and have pre-determined standards to compare the work against. "Orientation of the entire firm has to be such that it rewards not the effort put in but the impact created," she says. What's abundantly clear is that the current trends will change the future of work. "Work from home is a reality for many companies but there is still this distinction on job roles which can work remotely and which can't," says Neharika Vohra, Professor of Organizational Behaviour at Indian Institute of Management, Ahmedabad. BT

@sonalkhetarpal7

Network

Humming Blues

There is no reason for Blues, rooted in African-American culture, to become popular in *aamchi* Mumbai. However, legendary Blues musicians such as Buddy Guy, Taj Mahal, Walter Trout and Robert Randolph have all come to the City of Dreams to play – all thanks to industrialist **Anand Mahindra**. The Chairman of Mahindra Group is the force behind the popular Mahindra Blues Festival that just concluded its tenth edition in early February at the iconic Mehboob Studio in Bandra, Mumbai.

For all official purposes, the festival is about giving the Mahindra brand a unique connect with consumers. However, those who know Mahindra well, also know that the Blues festival is not just a business endeavour for him.

While Blues make him hum and are the default choice on his playlists, Mahindra is a fan of soft rock and Indian Rap too. Sukhbir is one of his favourite singers. "I'm a fan of desi rap. I see it as a new voice of the next generation," he tweeted in October 2018.

The 64-year-old, whose undergraduate degree is in film-making, is a supporter of many art forms and festivals, including the Mahindra Kabira festival in Varanasi and the Sanatkada festival in Lucknow. He says that being a strong participant in cultural life is a way to drive positive change. – NEVIN JOHN

ORACLE SETS SAIL

Larry Ellison, Chairman and Chief Technology Officer of Oracle Corporation, is a man of many interests. He races sailboats, is a licenced aircraft pilot, plays tennis and the guitar. In 2000, he set up Oracle Team USA as an American yacht syndicate to compete in the 2003 America's Cup. In 2019, he set up SailGP, an annual global racing championship, along with Russell Coutts, five-time America's Cup champion. The series features identical cutting edge F50 foiling catamarans with 24-metre wingsails, and offers $1 million in prize money. Teams from Australia, Japan, the US, the UK, Spain, Denmark and France participate. It recently sold a minority stake to sports and entertainment group Endeavor in a deal that valued the sailing event at $200 million.

Keeping up with his love for sailing, Ellison reportedly owns a 288-foot yacht, Musashi. He previously owned the much larger 454-foot yacht, Rising Sun.

INVESTING IN WORDS

Samir Arora, Founder and Fund Manager at Helios Capital, recalls his favourite childhood memory – a mobile library that would make a stop at his locality once a week. Young Arora would borrow two-four books at a time. "I read all Tintins and Asterixs of the world from the library."

Arora grew up in a world of Hardy Boys and Billy Bunter, and with stories by Enid Blyton, P.G. Wodehouse and Alistair MacLean, before catapulting to tales narrated by the likes of Warren Buffett and Peter Lynch. In the 1990s, when Arora was new to fund management, books like *Making of an American Capitalist* and *Fooled by Randomness* influenced him greatly. "It is not easy becoming a fund manager and suddenly handling large amounts of other people's money. Reading gave me confidence – right or wrong – that I was prepared," he says. Now, he makes trainees read a book from his library everyday, and discusses it in the evening. "This way, they learn about finance, investing, companies and management. A book I always make them read is *The Halo Effect*. I indirectly use it almost every day in my work." He says books help him join the dots.

Will Arora turn author himself? "I have enough material but since this is India and I am still not retired, many interesting corporate episodes will have to remain within me." – APRAJITA SHARMA

Best Advice I Ever Got

"FINANCIAL PRUDENCE IS CRUCIAL TO SUCCESS AND SCALE IN BUSINESS"

DR. PRATHAP C. REDDY, FOUNDER & CHAIRMAN, APOLLO HOSPITALS GROUP

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

A: Back in the eighties, banks were not allowed to lend to hospitals. At that time, our hospital in Hyderabad was a separate company – Deccan Hospital Corporation. In the absence of funding from banks, we were struggling with escalating expenses, our capital was getting wiped out and technically, we were close to becoming a sick company.

Q: Who did you approach for advice?

A: It was then that we sought advice from N. Vaghul, former chairman of ICICI Bank, for his counsel to address the situation.

Q: What was the advice you got?

A: It was N. Vaghul who suggested the merger of Deccan Hospital Corporation with Apollo Hospitals and so a merger was done. He believed in the sector and its potential. He placed his trust in us and put in a "Right to Recompense" (clause), as he believed that we would turn around the situation. At Apollo, being a clinician, until then I was largely focused on doing whatever it took to deliver the best possible care to our patients. We understood then that to succeed and scale up a business, financial prudence is equally important.

Q: How effective was it in resolving the problem?

A: Banking reforms brought about a big change and Apollo Hospitals was the first hospital to be funded by a bank/financial institution. So, within three years, we were back on track and under the Right to Recompense clause, our organisation paid back the interest and loan. This was a good business case to encourage many more entrepreneurs to consider investing in healthcare. BT

– E. KUMAR SHARMA

PHOTOGRAPH BY NILOTPAL BARUAH

Vol. 29, No. 8, for the fortnight April 6-19, 2020. Released on April 6, 2020. Total number of pages 84 (including cover)

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