RANKED AMONG INDIA'S TOP 50 UNIVERSITIES IN THE NIRF RANKING

FOR THE 5th CONSECUTIVE YEAR

SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY

(DEEMED TO BE UNIVERSITY)

(Established under section 3 of the UGC Act 1956)
Accredited with "A" Grade by NAAC | Approved by AICTE

- RANKED 39th POSITION
- AMONG UNIVERSITIES IN INDIA
- NIRF RANKING 2020

B.E. | B.Tech. | B.Arch. | B.Des. | B.Pharm.

Aeronautical | Automobile | Biomedical | Biotechnology | Chemical | Civil | Computer Science | Electronics and Communication | Electrical and Electronics | Electronics and Instrumentation | Information Technology | Mechatronics | Mechanical | Architecture | Interior Design | B.Pharmacy

NIRF Ranking 2020

Ranked Among India's Top 50 Universities for Five Consecutive Years

ARTS AND SCIENCE

- B.B.A
- B.Com
- B.A - ENGLISH
- B.Sc. - VISUAL COMMUNICATION
- B.Sc - PHYSICS
- B.Sc - CHEMISTRY
- B.S - MATHEMATICS
- B.Sc - COMPUTER SCIENCE
- B.Sc. - PSYCHOLOGY
- B.Sc. - FASHION DESIGN
- B.Sc. - BIOCHEMISTRY
- B.Sc. - BIOTECHNOLOGY
- B.Sc. - BIO-INFORMATICS AND DATA SCIENCE
- B.Sc - MICROBIOLOGY
- M.A. - ENGLISH
- M.Sc - PHYSICS
- M.Sc - MATHEMATICS
- M.Sc - VISUAL COMMUNICATION
- M.Sc. - CHEMISTRY
- M.Sc. - BIO-INFORMATICS AND DATA SCIENCE
- M.Sc. - MEDICAL BIOTECHNOLOGY AND CLINICAL RESEARCH

PG Courses

- APPLIED ELECTRONICS
- POWER ELECTRONICS & INDUSTRIAL DRIVES
- EMBEDDED SYSTEMS & IOT
- COMPUTER SCIENCE AND ENGINEERING
- COMPUTER AIDED DESIGN
- STRUCTURAL ENGINEERING
- MEDICAL INSTRUMENTATION
- BIOTECHNOLOGY
- BIOPHARMACEUTICAL TECHNOLOGY
- MASTER OF BUSINESS ADMINISTRATION
- BUILDING MANAGEMENT
- SUSTAINABLE ARCHITECTURE

LAW

- L.L.B
- B.A. LL.B. (HONS)
- B.COM.LL.B (HONS.)
- B.B.A.LL.B (HONS.)

PHARMACY

- B. PHARMACY (4 YEARS)
- D. PHARMACY (2 YEARS)

NURSING

- B.SC NURSING

B.D.S / M.D.S

NEET - 2020 Qualified Candidates apply on www.mcc.nic.in

Ph.D (Full/Part Time)

Applications are Invited

Admissions Open for Lateral Entry Candidates

Jeppiaar Nagar, Rajiv Gandhi Salai, Chennai - 600 119, Tamilnadu, India

TOLL FREE NUMBER: 1800 425 1770

Admission Office : 99400 58263 99401 68007

www.sathyabama.ac.in

businesstoday.in

Highly Leveraged Corporates

Govt Debt on The Rise

Business Today

July 12, 2020 ₹100

STOCK MARKETS

A LOT OF BULL

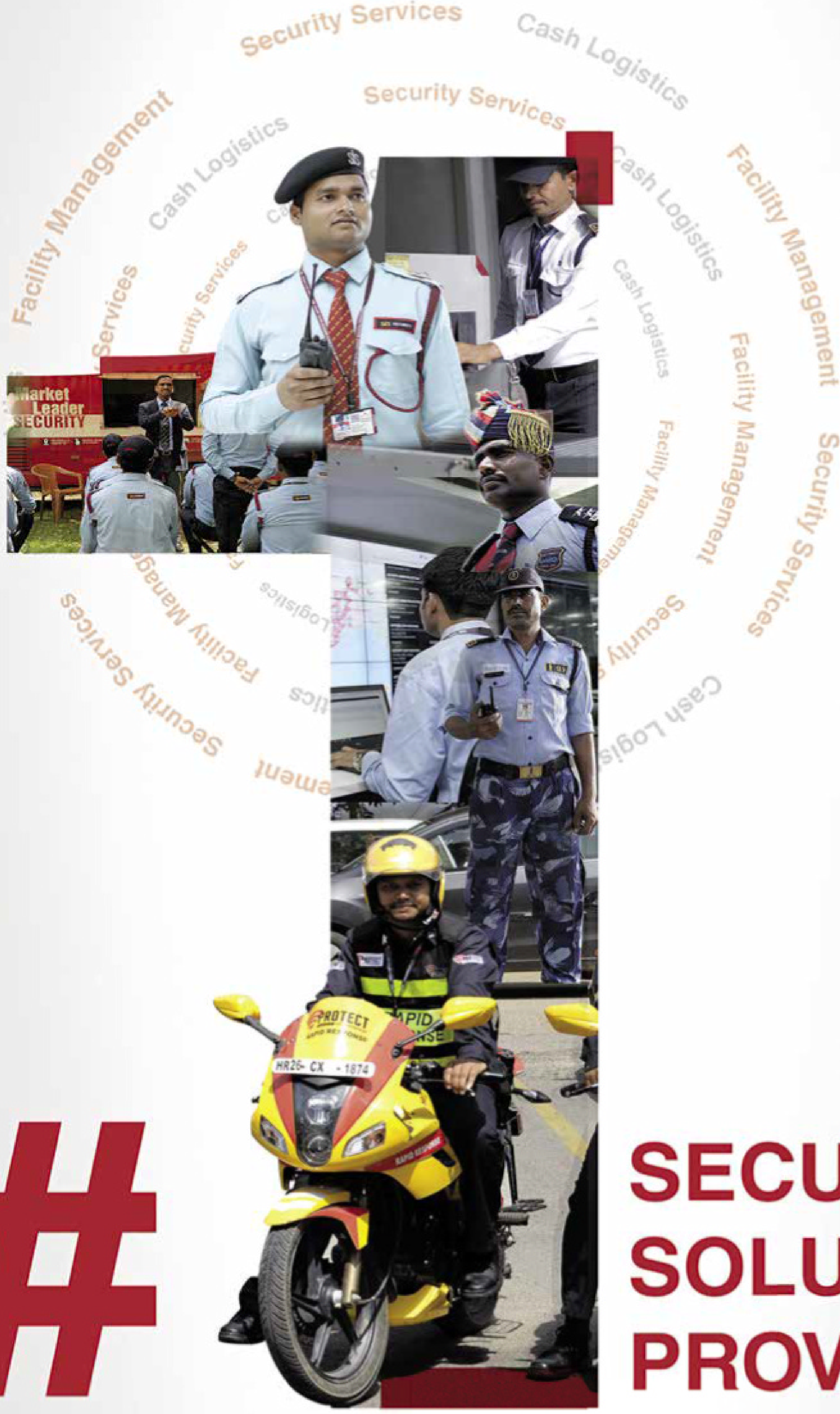
WHY THE SHARP RECOVERY AND SUSTAINED RUN IN THE STOCK MARKETS IS BUILT ON WEAK FUNDAMENTALS

#ProudToBeAnIndianMNC

www.sisindia.com

SIS Group Enterprises

A Market Leader in Security, Cash Logistics & Facility Management



#1 SECURITY SOLUTIONS PROVIDER

A BILLION DOLLAR ENTERPRISE

2,25,000+ EMPLOYEES | COVERING 630+ DISTRICTS | 312+ BRANCHES

Security Solutions (India) | Security Solutions (International) | Facility Management | Cash Logistics

#ProudToBeAnIndianMNC
INDIA | SINGAPORE | AUSTRALIA | NEW ZEALAND

#1 SECURITY SOLUTIONS PROVIDER

From the Editor

Stock Markets Break Free

It's up. It's down. It's up, but down. Down, but up. Huh! If you've been trying to make sense of the stock markets, then you aren't alone. Millions get exasperated deciphering every move of the markets. Especially today. Whether it's the unflinching faith in the power of the Indian economy and corporates or just irrational exuberance, despite the fall the markets are trading at double the valuation of the Lehman crisis in 2008. The December, 2019 peak was, in fact, higher than the Lehman peak.

But bare facts would tell you, the sharp recovery after a precipitous 39.4 per cent cent fall since January and a sustained run in the stock markets is built on pretty weak fundamentals. Corporate earnings are on a slippery wicket, and will continue to be on the edge for at least a year. Lockdown has dealt a punishing blow to firms and individuals whose delinquencies will unfold over the next few quarters; it will worsen the already high NPAs in the banking sector. Indian economy is projected to shrink up to a half in Q1FY21 and possibly 6-7 per cent in the entire fiscal, India's macroeconomic fundamentals have never been more shaky. The spat with China on the border and its economic consequences have added yet another unknown. Foreign portfolio investors are on the run withdrawing as much as ₹20,375 crore since the beginning of the year. And market valuations, it seems, have broken free of fundamentals. The rally in the markets since the fall has been driven by a narrow band of barely 10 stocks, which account for over 75 per cent of the entire gain in marketcap. Dive deep into the fundamentals in our cover story this issue.

Meanwhile, the debt-spurred revival of the Indian economy following the Lehman crisis has come home to roost. India's 20 most leveraged firms have a combined debt of ₹15.4 lakh crore – which is half of the nation's budgeted expenditure for FY21. The top five companies – Reliance Industries, Vodafone Idea, Bharti Airtel, Larsen & Toubro and Tata Steel – alone accounted for more than half of that amount. But with both top line and bottom line likely to be hurt due to the lockdown and its fallout, servicing such huge debt is getting tougher for the best of the lot. It's a scramble to reduce the debt burden in corporate India, though not everybody is succeeding. Read Nevin John's account of how the most debt-laden firms are faring. An accompanying piece by Marti G. Subrahmanyam, the Charles E. Merrill Professor of Finance, Economics and International Business at the Stern School of Business in New York University, explains how external capital raised by India Inc. is beginning to extract a higher cost from the firms.

If corporate debt is in the spotlight, so is burgeoning national debt which threatens to weaken India's credit profile. In the past decade, India's debt has remained range-bound in the 66-68 per cent range. But with the Centre committed to raise more resources to fight coronavirus and to provide a stimulus to the economy, rating agencies say India's debt to GDP ratio will likely jump to as high as 84 per cent in FY21, the highest in nearly two decades. Global rating agencies Moody's and S&P have forecast 83.7 per cent and 82.7 per cent, respectively, for FY22. That would be nudging India's record of 84.24 per cent in 2003. Anand Adhikari explains the consequences.

rajeev.dubey@intoday.com
@rajeevdubey

Business Today
http://www.businesstoday.in

Vol. 29, No. 14, for the fortnight June 29 to July 12, 2020.
Released on June 29, 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

Contents

July 12, 2020
Volume 29, Number 14

Cover by
NILANJAN DAS

The Point

THE IBC REPORT CARD

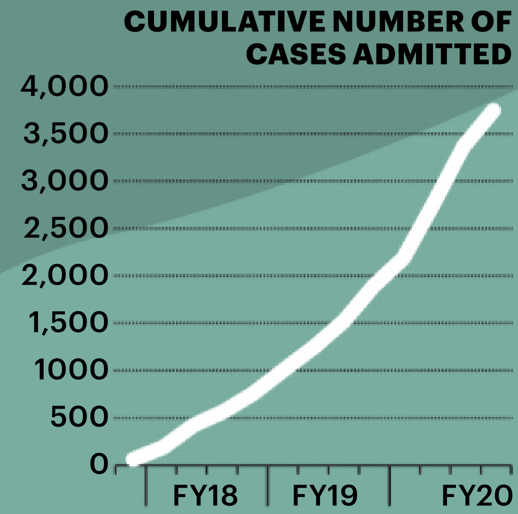
The insolvency and bankruptcy law has been suspended for the time being to give relief to corporates. It gave mixed results during the years it was functional

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

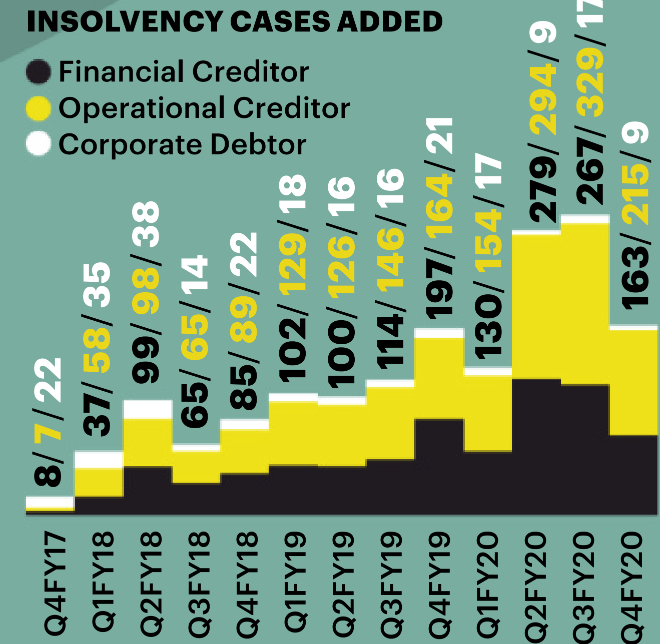
3,774
Cases admitted at the end of March 2020

63.8%
Growth in insolvency applications in FY20

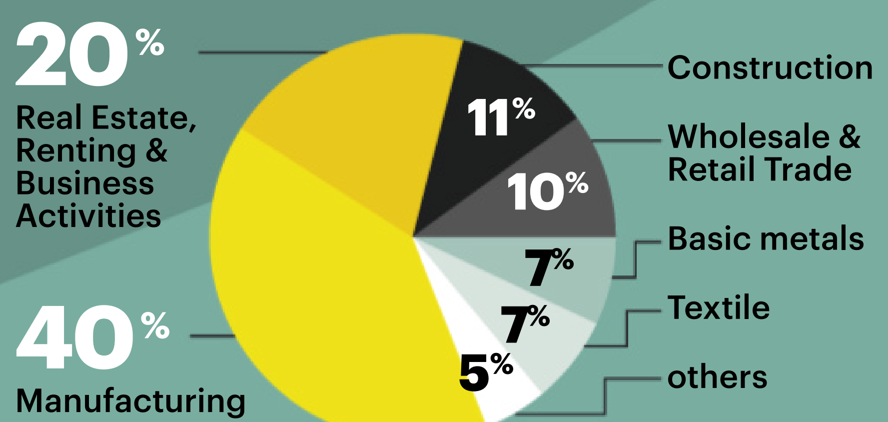
Steady Rise in Insolvency Applications Since IBC Launch



Financial Creditors Play 2nd Fiddle to Operational Creditors

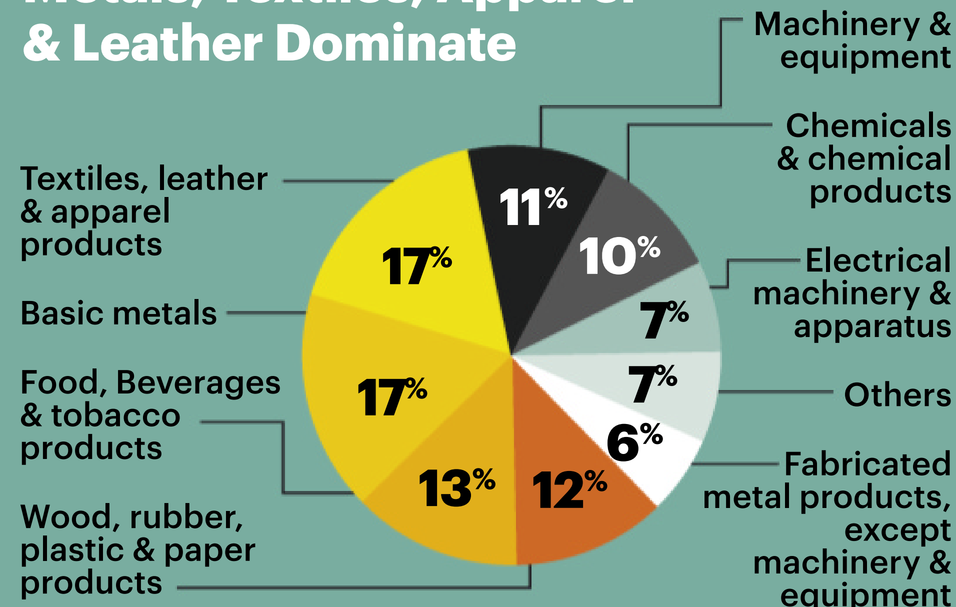


Manufacturing Accounts for Biggest Chunk of Cases...

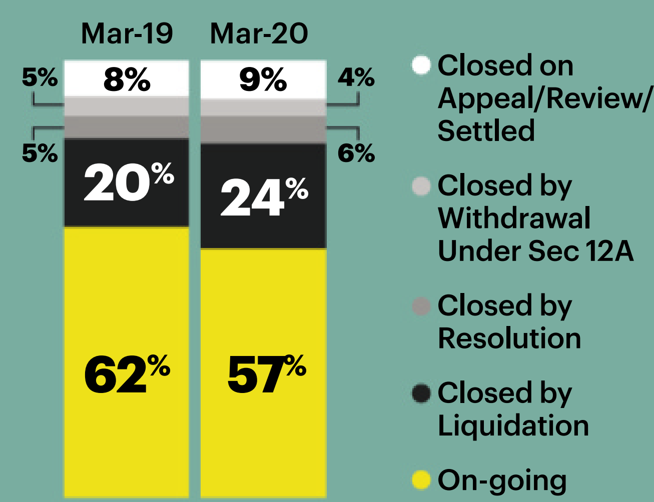


Source: IBBI

... in Manufacturing, Metals, Textiles, Apparel & Leather Dominate



Few Resolutions, Rise in Number of Cases Closed by Liquidation



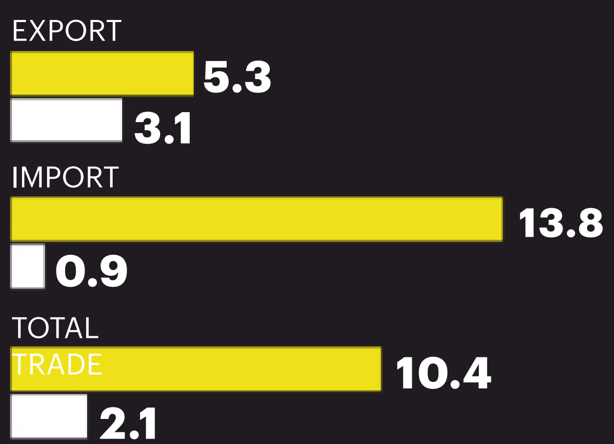
CAN WE BOYCOTT CHINA?

THERE HAVE BEEN CALLS FOR BOYCOTT OF CHINESE PRODUCTS/SERVICES AFTER 20 INDIAN SOLDIERS DIED IN A BORDER CLASH. IS A BAN ON EVERYTHING CHINESE POSSIBLE?

By **Niti Kiran**
Graphics by **Tanmoy Chakraborty**

THE BIG TRADEOFF

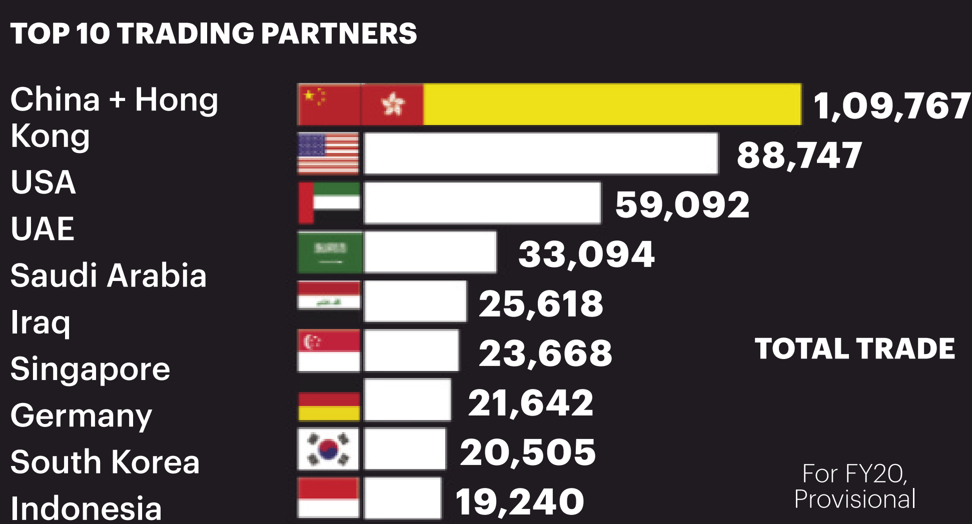
China dominates bilateral trade. India has a very small share of China's imports. China, on the other hand, accounts for 13.8% of India's imports



for FY20; * for calendar year 2018
Source: Ministry of commerce; General Administration of Customs of the People's Republic of China

TOP TRADING PARTNER

China & Hong Kong together are India's largest trading partners, followed by the USA



DRAGON BEHIND WIDE TRADE GAP

KEY ITEMS

TOP 5 EXPORTS TO CHINA & HONG KONG

Natural or cultured pearls, precious or semi-precious stones, imitation jewellery, coinS	9,524
Organic chemicals	2,702
Ores, slag and ash	2,357
Mineral fuels, mineral oils & products	2,220
Fish and crustaceans, molluscs	1,337

TOP IMPORT ITEMS INCLUDE ELECTRICAL MACHINERY AND ORGANIC CHEMICALS

TOP 5 IMPORTS FROM CHINA & HONG KONG

Electrical machinery and equipment	27,806
Reactors, boilers & machinery	14,677
Organic chemicals	7,970
Natural or cultured pearls, precious or semi-precious stones, imitation jewellery, coins	4,796
Plastic and articles	2,965

Figures in $ million; provisional data Apr-Mar 2020

INDIA HAS TIGHTENED NORMS FOR CHINESE FDI

- Greater scrutiny of companies from China looking to invest directly in India
- Start-ups like Paytm, Bigbasket, with big Chinese holdings, will find it tough to raise funds
- Investors looking to exit from companies will face greater due diligence
- Throttling investments from China is another blow to start-up funding in India
- Companies with existing Chinese investors may find it difficult to raise fresh funds
- Will impact foreign entities with subsidiaries that are looking to raise funds

ARE INVESTORS IN MAJOR INDIAN START-UPS

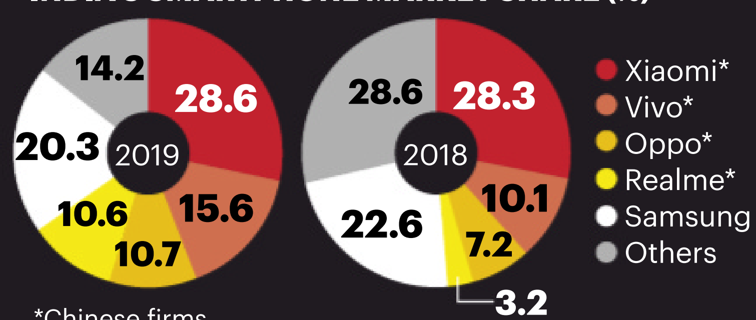
FUNDING ($BN)	**INVESTORS**
PAYTM **3.53**	Ant Financial, Alibaba, Alibaba Group, Softbank Vision Fund, T. Rowe Price, Gojek and others
OLA **3.28**	Tencent, Didi Chuxing, China-Eurasia Economic Cooperation Fund, Mirae Asset, Softbank Group and others
OYO ROOMS **3.2**	Didi, Huazhuhui, Softbank Vision Fund, Airbnb, A91 Partners and others
SNAPDEAL **1.8**	Alibaba Group, Blackrock, Nexus Venture Partners, Temasek, Foxconn Electronics and others
BYJU'S **1.47**	Tencent, General Atlantic, Aarin Capital, CPP Investment Board, Prosus and others

Source: Tracxn

DOMINATE SOLAR, PHONE MARKETS

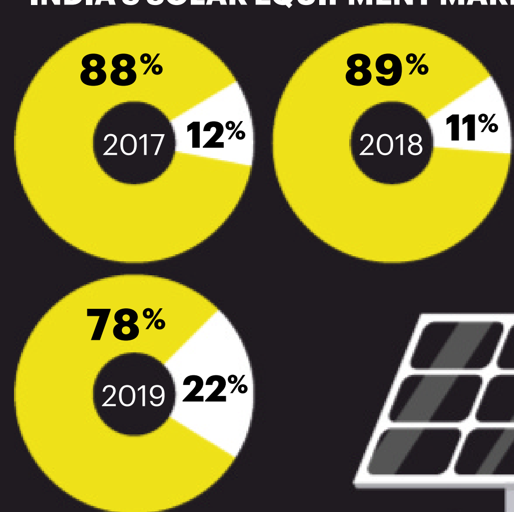
Chinese dominate our smartphone and solar equipment markets

INDIA'S SMARTPHONE MARKET SHARE (%)



*Chinese firms
Source: IDC Quarterly Mobile Phone Tracker, February 2020

CHINA HAS A HUGE SHARE (%) OF INDIA'S SOLAR EQUIPMENT MARKET



- China
- Others

Others include Thailand, Vietnam, Singapore, Taiwan and Malaysia

Source : Commerce Ministry

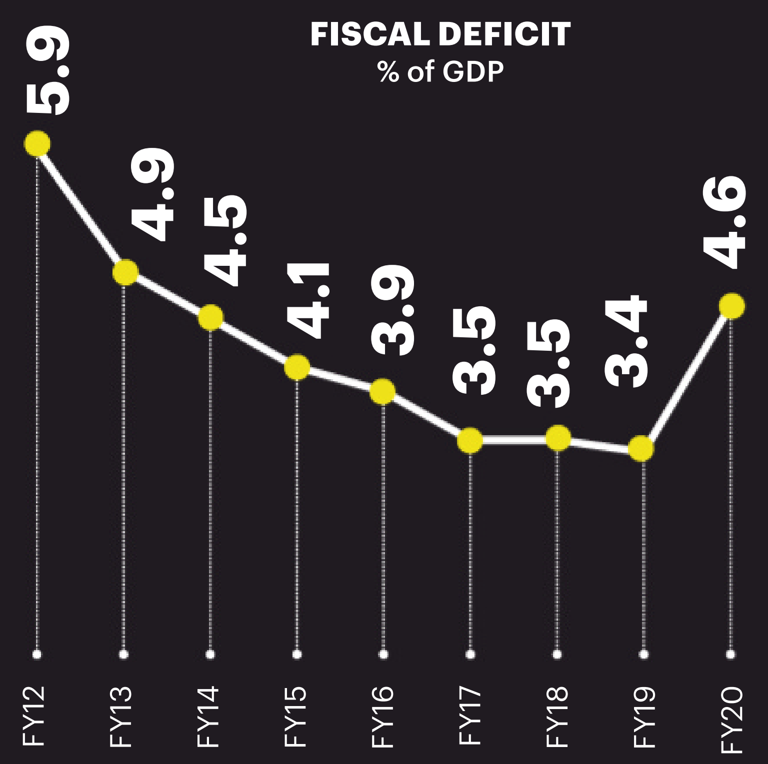
UNION FINANCES UNDER STRAIN

- The Union government earned only ₹50,304 crore from disinvestment in FY20, against the Budget target of ₹1.05 lakh crore. This was later revised downwards to ₹65,000 crore. The government failed to push asset sales due to poor market conditions
- Tax revenues were 90 per cent of revised estimates for the year
- Capital expenditure was 97 per cent of revised estimates. The government held back on capital spending to bring fiscal deficit under control
- Fiscal deficit hit a seven-year high of 4.6 per cent of GDP (as against the revised target of 3.8 per cent of GDP)
- The reason was shortfall in revenues in the wake of slowing GDP growth. Excluding agriculture and community services, real gross value added grew 1.1 per cent in fourth quarter of FY20, the lowest since 1998, when quarterly data started becoming available

in ₹ lakh crore

	Revised EstimateFY20	FY20 (Provisional)	Actuals to Revised Estimates
Revenue Receipts	18.50	16.82	90.9%
Tax Revenue	15.05	13.56	90.1%
GST	6.12	5.99	97.8%
Non-debt Capital Receipts	0.82	0.69	84.1%
Disinvestment	0.65	0.50	77%
Revenue Expenditure	23.50	23.50	100%
Interest Payments	6.25	6.11	97.7%
Major Subsidies	2.27	2.23	98%
Capital Expenditure	3.48	3.37	96.7%
Total Expenditure	26.99	26.86	99.5%
Fiscal Deficit	7.67	9.36	122%

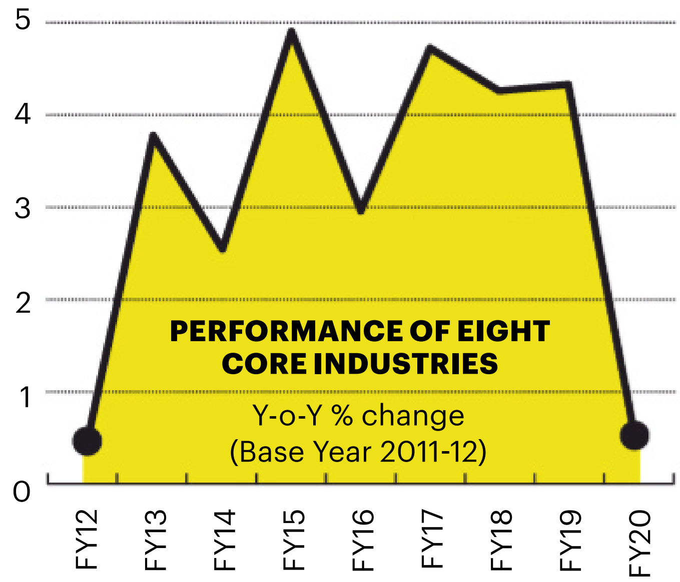
Source: RBI

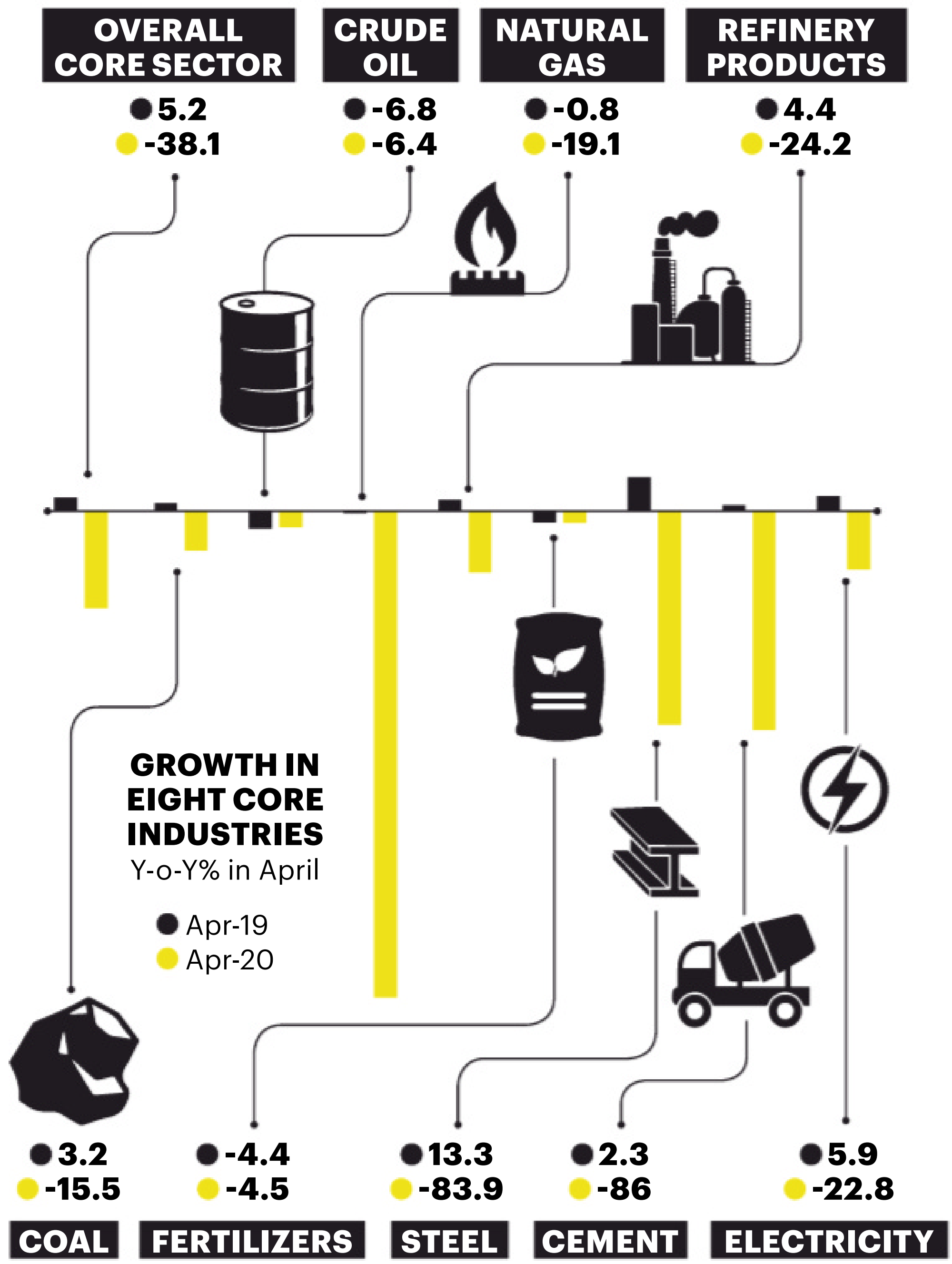


Source: MOSPI

CORE SECTOR REPORTS WORST PERFORMANCE IN EIGHT YEARS

- Eight core industries contracted 38.1 per cent in April compared with 5.2 per cent rise in the corresponding month a year ago
- The FY20 growth has been the lowest since FY12
- All eight industries reported negative growth in April 20

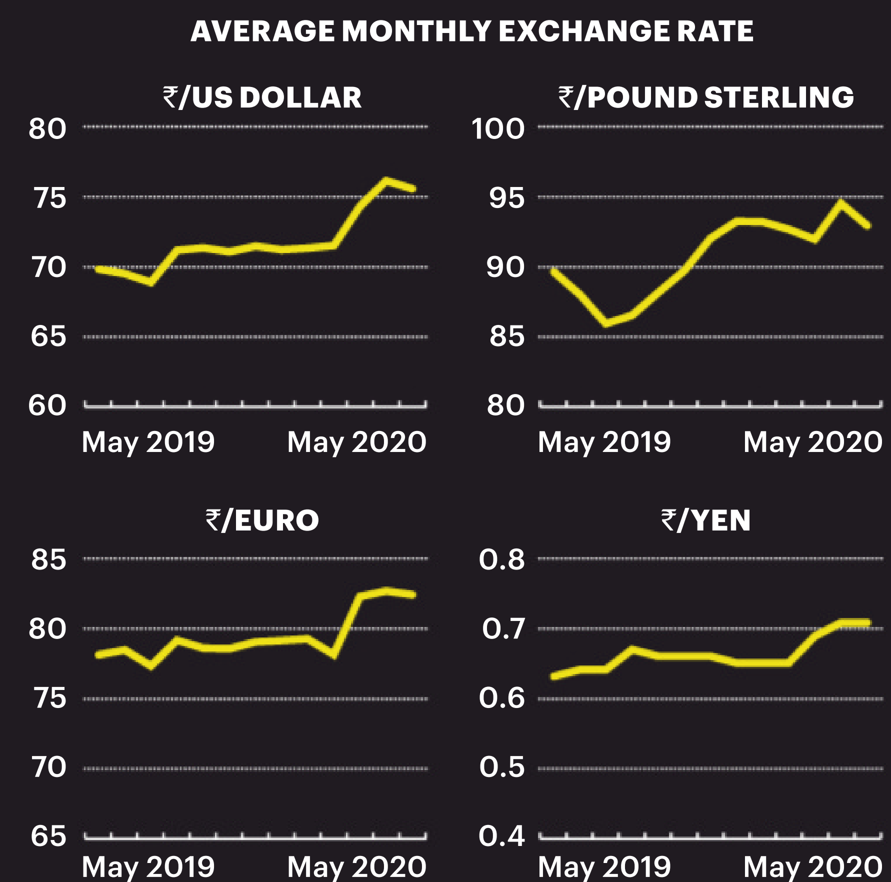




Source: CARE Ratings

RUPEE RECOVERS FROM ALL-TIME LOWS

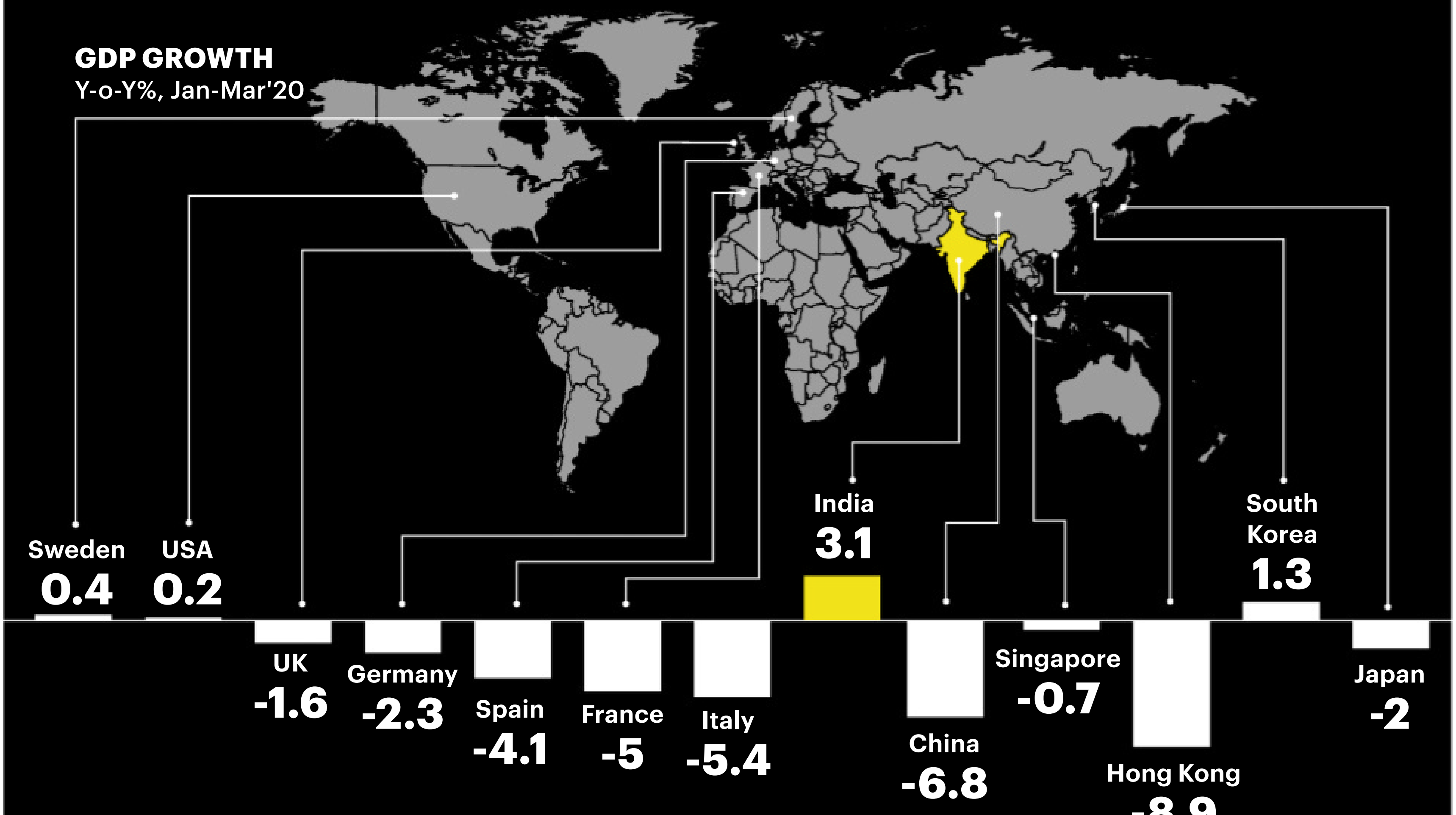
- The Indian rupee averaged ₹75.7 per dollar in May, appreciating from the all-time low of ₹76 in April 2020
- One reason could be improvement in balance of payments. India's merchandise trade deficit shrank to $6.8 billion in April from $9.8 billion in March
- Foreign exchange outgo on account of FII outflows halved to $972 million in May from April. Forex reserves rose $8.2 billion to cross $500 billion in week ended June 12



Source: CMIE Economic Outlook

INDIA STANDS OUT IN GDP GROWTH

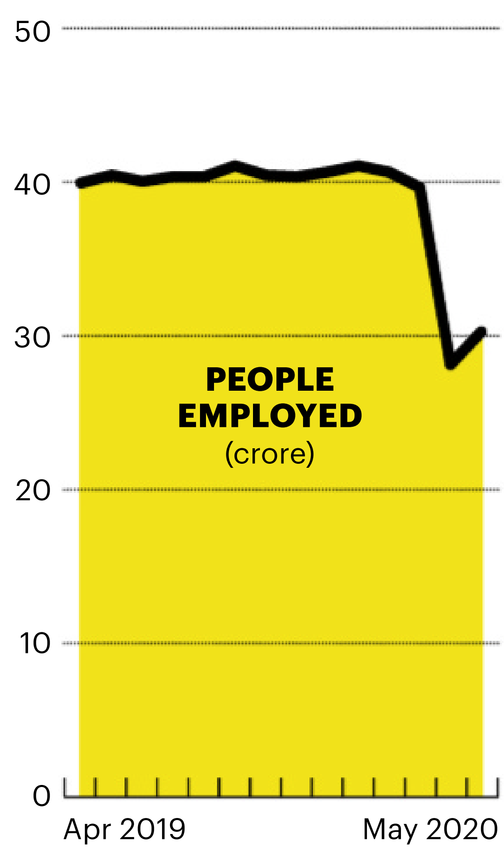
- Fourth quarter GDP growth has been muted in most countries due to lockdown
- India's 3.1 per cent growth was the highest among the major nations
- Many leading economies saw contraction in GDP



Source: CARE Ratings

2.1 CRORE JOBS ADDED AS LOCKDOWN OPENS

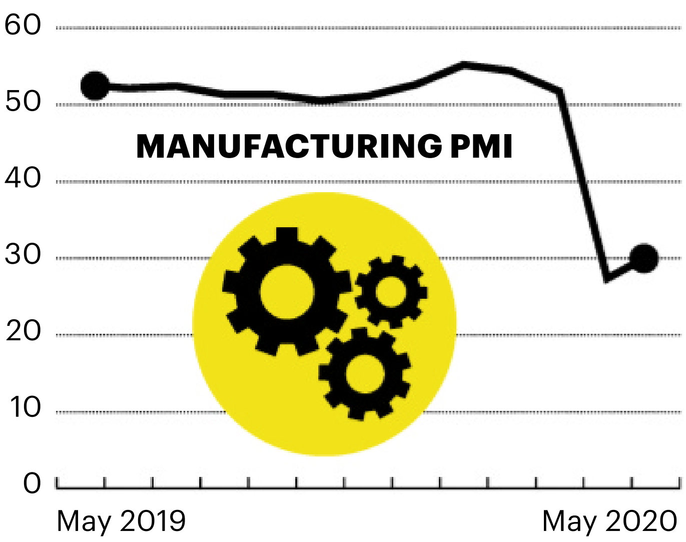
- Although the unemployment rate remained high at 23.5 per cent in May, India added around 2.1 crore jobs during the month, a 7.5 per cent rise over April
- Of these, 1.44 crore were small traders and wage labourers. They were the worst-hit due to the lockdown



Source: CMIE

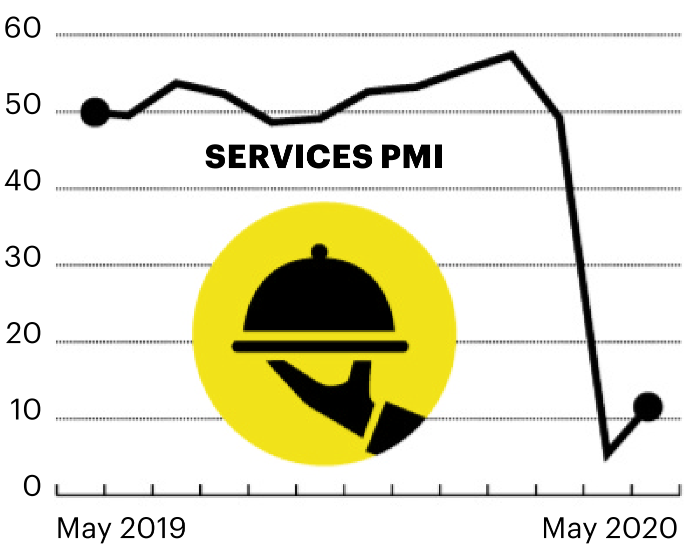
MANUFACTURING CONTINUES TO CONTRACT...

- India's manufacturing sector contracted for the second straight month in May
- There has been some improvement, though. The India Manufacturing Purchasing Managers' Index, compiled by IHS Markit, stood at 30.8 in May against 27.4 in April



...SO DOES SERVICES

- Services PMI stood at 12.6 in May. A reading below 50 suggests contraction. It had fallen to an all-time low to 5.4 in April
- According to IHS Markit, output shrunk sharply due to extended business shutdowns and weak demand conditions.

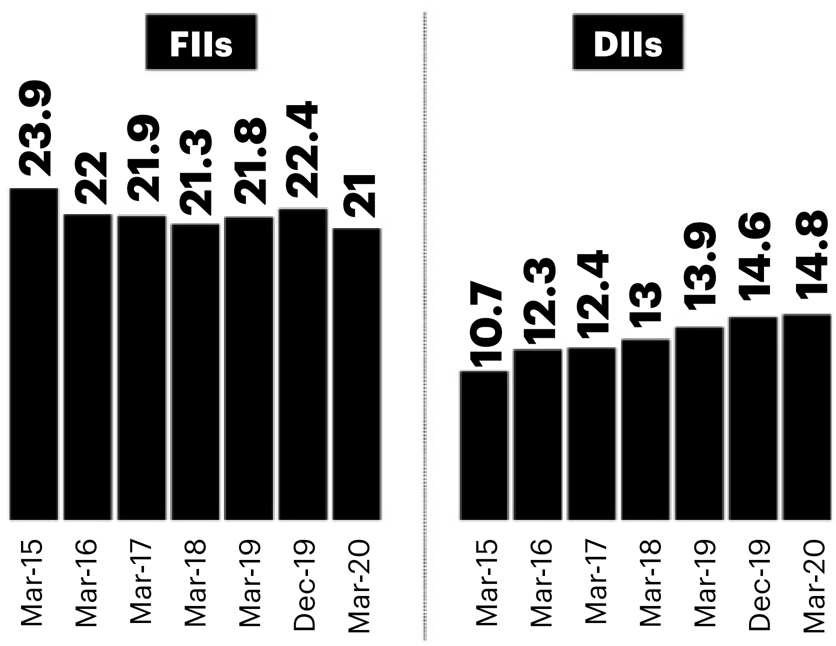


Source: IHS Markit

FII SHARE OF NIFTY PIE SHRINKS

- FII holdings in Nifty 500 fell 140 basis points QoQ and 80 basis points YoY to 21 per cent in fourth quarter of FY20
- They reduced ownership in 67 per cent Nifty 500 and 90 per cent Nifty 50 companies QoQ
- On the other hand, DII holdings of Nifty 500 rose 20 basis points QoQ and 90 basis points YoY to 14.8 per cent
- DIIs increased stake in 61 per cent Nifty 500 and 78 per cent Nifty 50 companies QoQ
- Promoters took advantage of market crash and increased holdings in Nifty 500 by 130 basis points QoQ and 150 basis points YoY to 50.5 per cent

NIFTY 500 INSTITUTIONAL OWNERSHIP (%)



Source: Motilal Oswal

A Lot of Bull

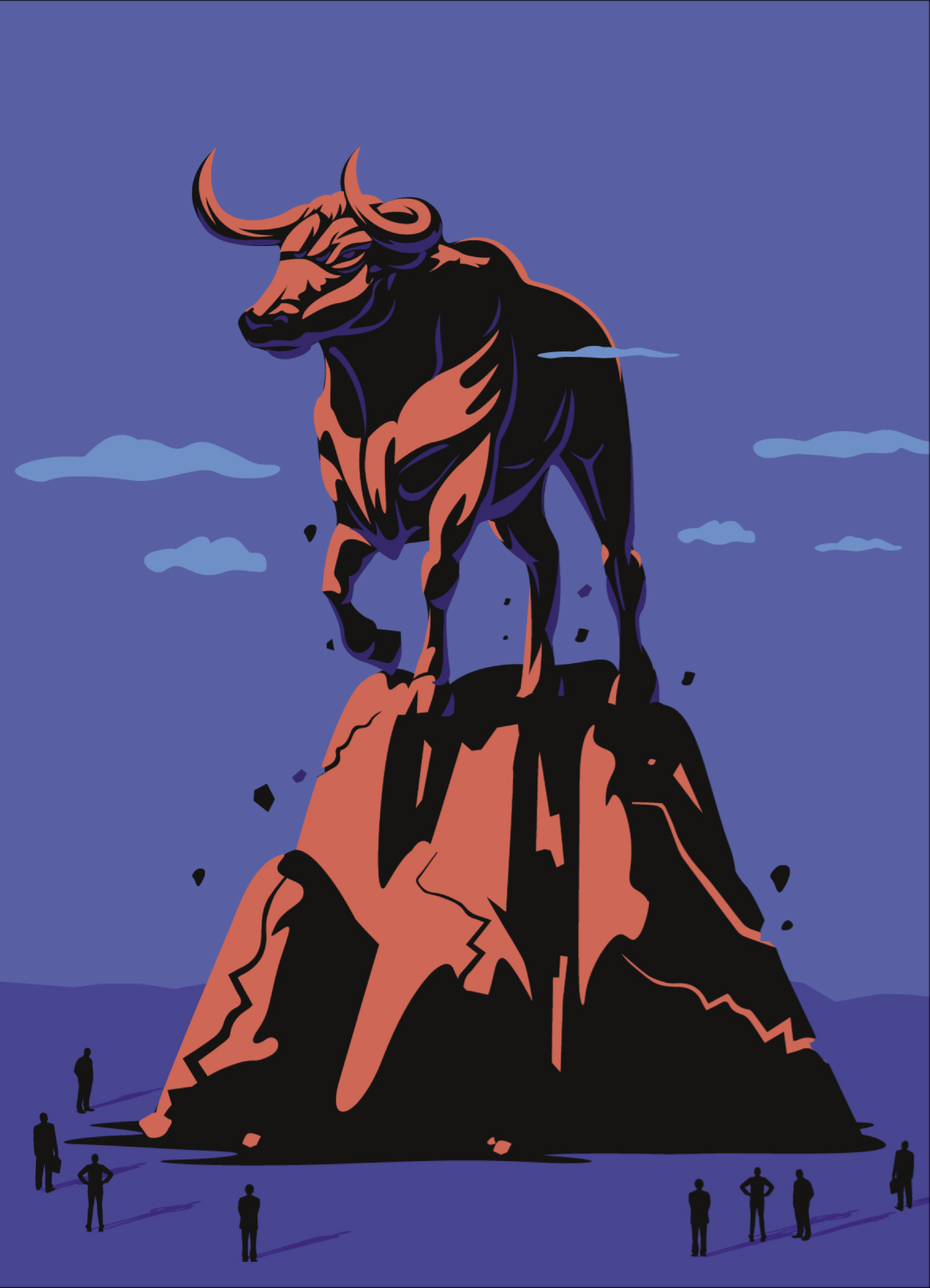
Why the sharp recovery and sustained run in stock markets is built on weak fundamentals. Despite the fall, they are trading at double the valuation of the 2008 Lehman crash

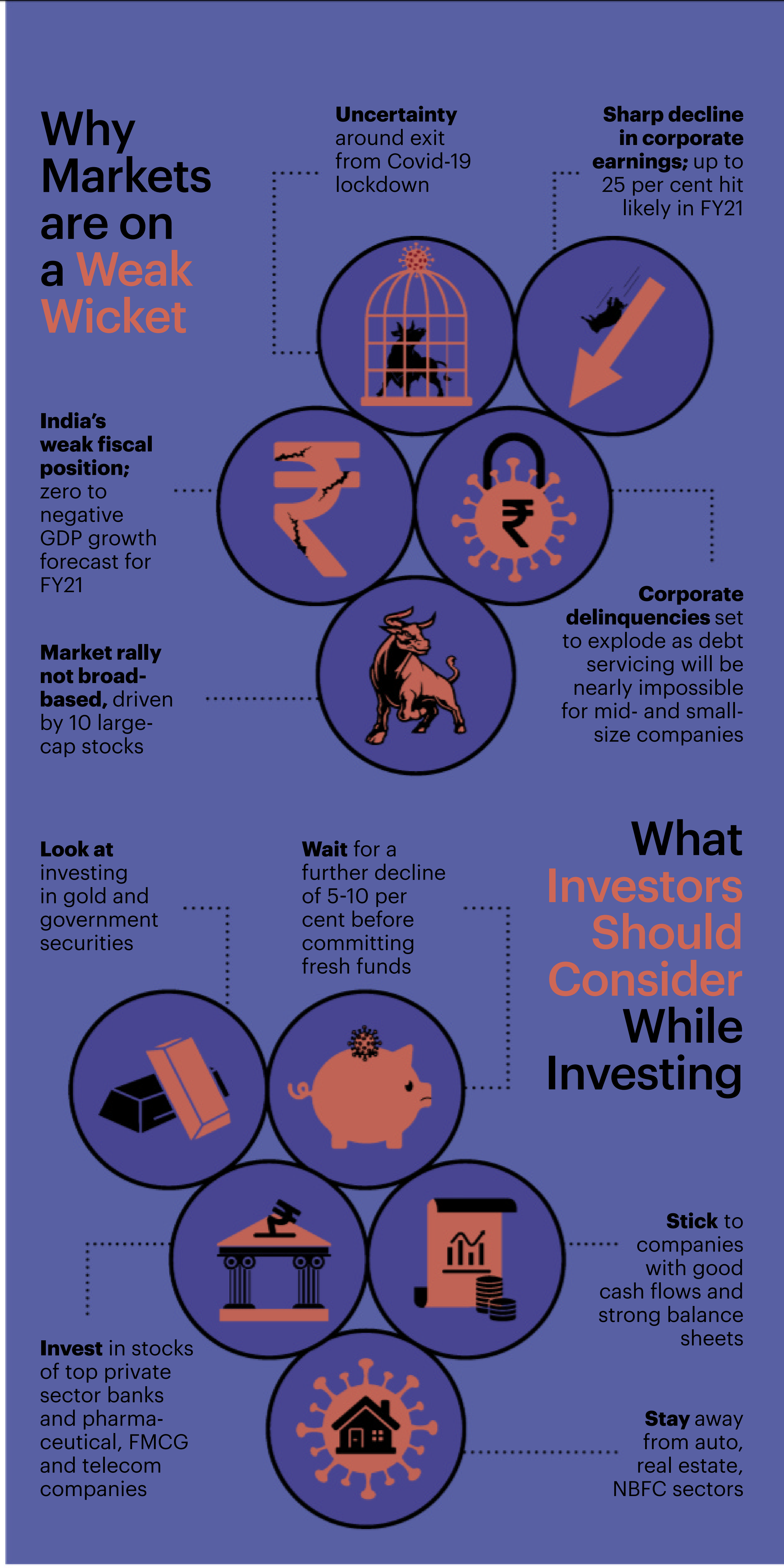
BY RASHMI PRATAP
ILLUSTRATION BY RAJ VERMA

Tight turns, steep slopes, sudden highs and inversions are characteristics of a roller coaster. Those have also been the hallmarks of the Indian stock markets for close to three months. From hitting a three-year low on March 23 with a 13 per cent fall to bouncing back just three days later, it has shown deep falls and sharp recoveries time and again.

But don't get fooled by that. There may be a storm brewing beneath the calm. After all, this sharp recovery is built on weak corporate and economic fundamentals and huge uncertainty in the immediate future.

With India's economy projected to shrink 6.8 per cent in FY21,





according to SBI Ecowrap (it grew slowest in 11 years at 3.1 per cent in the March quarter), early bird corporate results showing sharply shrinking top lines and bottom lines, stock markets are set to lose the only basis on which they have been rallying — the hope of a 'V' shaped recovery.

The optimism is dimmed further by rising coronavirus cases in India and fear of a second wave in the US, the world's largest economy, which has led to a selloff in S&P 500, the global barometer for equity markets, as well.

Add to this the lockdown-triggered defaults feared in housing, credit card, personal and corporate loans, their impact on non-performing assets (NPAs) of banks and non-banking finance companies (NBFCs), and the stock market rally appears to be on a very, very weak wicket. "The economy is in shock. All indicators are showing that the situation is very bad. Fundamentals of the stock market story are very weak," says Dhananjay Sinha, Head of Research and Equity Strategist, Systematix Group.

Analysts say markets go through three-four stages when hit by an unknown factor such as coronavirus. "Covid-19 hit us in January from a China perspective. India started reacting to it the last. The first stage is extreme over-reaction as nobody knows what is happening. So, markets tumbled in March," says Amit Shah, Head of India Equity Research, BNP Paribas. But, the government lockdown prompted markets to get out of the first phase of irrationality. Then, the second leg — recovery — began. "We remained in lockdown. This helped control spread of the virus and indicated, from the market's perspective, that the worst is behind us," Shah adds. But that was not to be. In June, the market is at stage three when people are beginning to look at fundamentals after stability has returned and are closely monitoring the spread of Covid in India, besides a potential second wave globally, he says. "The longer Covid stays, the slower will be the FY22 earnings recovery. The market is already looking at FY22 for cues."

Sensex shed 3,935 points with a 13 per cent fall to 25,981 on March 23 with all its 30 stocks in the red. Just three days later, it bounced to 29,947 points. It had hit an all-time high of 42,063 on January 17. On May 18, it hit a low of 30,029 again, touched 34,370 on June 8, and on June 15, was at 33,605, up 29 per cent from March lows.

The Sensex rose nearly 5,000 points from May lows in less than three weeks. It fell nearly 5 per cent in five days up to June 15 due to worries over worsening fundamentals.

On Weak Wicket

Corporate earnings, a big factor driving stock markets, will take a bigger hit in the first quarter of FY21 after being severely impacted in Q4 of FY20. Since the lockdown was imposed on March 24, manufacturing plants have been shut, and consumption, barring of staples, is down. Auto sales were nil in April and down 87 per cent in May. The June quarter is expected to be a washout due to very low economic activity in the first quarter so far.

Last month, government announced an economic package worth ₹21 lakh crore to battle the slowdown, including the Reserve Bank of India's ₹8.01 lakh crore liquidity measures. The package included ₹3.70 lakh crore support for MSMEs, ₹90,000 crore for power distribution companies, ₹75,000 crore for NBFCs and ₹15,000 crore for the healthcare sector. This, too, failed to enthuse markets. The reason is simple. Economists and brokerages believe that out of this package, the government's fiscal commitment is less than ₹2 lakh crore, or a measly 1 per cent of GDP, one-tenth of the headline figure.

This means no boost to purchasing power of workers and consumers that can affect demand for all kinds of products from soaps and garments to mobile phones and cars. This is exactly what is happening. In Q4 of FY20, the combined net profit of 532 companies that had declared results till June 11 fell 39.5 per cent, against growth of over 59 per cent in Q4 of the previous year. Their revenue performance was the worst in 12 quarters (4.7 per cent fall). "We have cut banks and NBFCs' earnings forecast by 40 per cent, oil and gas companies' by 25 per cent and that of automobile players from 10 to 100 per cent. We see a 15-25 per cent earnings hit for FY21 (overall). The math is that when you roll it over, you see a hit of at least 10 per cent on FY22 earnings also," says Shah.

"We don't know how badly affected the numbers will be. The market is overvalued because it is still not the bottom yet"

Shankar Sharma, -Co-Founder and Chief Global Strategist at First Global

The worst-hit are consumer discretionary, NBFC and real estate sectors where highly leveraged companies are likely to face sharp cuts in earnings estimates. "Our analysis reinforces the point that markets have priced in a mild recession, but not a severe one, which could take the Nifty further lower, depending on the prevailing risk aversion," he adds.

In FMCG, Hindustan Unilever, the biggest player in the sector, reported its lowest revenue in nine quarters, while Reliance Industries, (RIL) India's largest private sector company, reported its steepest drop (of 39 per cent) in quarterly profit in at least a decade at ₹6,348 crore as refining business took a hit due to collapse of crude oil prices. Its FY20 net profit was a flat ₹39,880 crore.

A fall in earnings will make Indian markets look even more overvalued. As it is, India's GDP produces considerably lower profits for India Inc. compared with other major economies. In CY2019, the combined net profit of listed companies in India was equivalent to 2.1 per cent of GDP as against 3.7 per cent in China, 2.3 per cent in Indonesia, nearly 5 per cent in Japan and 9.6 per cent in the UK. "Since future earnings scenario is not yet clear, we don't know how badly affected the numbers will be. The market is over-valued because it is still not the bottom yet," says Shankar Sharma, Co-Founder and Chief Global Strategist at First Global.

Shallow Rally

The rally as well as the recovery is driven by a handful of stocks. The top 10 stocks accounted for 75.3 per cent rise in indices between March 23 and June 12. Despite a relatively poor show in the March quarter, RIL and HDFC Bank, along with Infosys, made up nearly 43 per cent rise in the Sensex from its 52-week low on March 23. In all, these three entities have added around ₹6.3 lakh crore to market capitalisation since March 23 as against ₹14.5 lakh crore rise in value of all 30 Sensex companies. Hence, the rally is susceptible to reversal in case of negative news about any of these stocks.

Clearly, the equity market funnel has got narrower than in the pre-Covid-19 period. Add Hindustan Unilever and Bharti Airtel to the list, and the five stocks accounted for 55 per cent of incremental rise in the Sensex between the March 23 low and June 13. "There has been a rally in sectors that are projected to be least affected by lockdown – telecom, crude oil refining, banking, FMCG, pharmaceutical and technology, while others continue to languish," says G. Chokkalingam, Founder and Managing Director of Equinomics Research & Advisory Services.

"The April rally was based on large-caps, as in March. Correction in large-cap stocks was much steeper than in mid- and small-cap stocks. Mid-caps have not been doing well for the last two years. So, large-caps were squeezed out in March, and when they bounced back, they provided the returns," says Siddharth Sedani, Vice President, Equity Advisory, Anand Rathi Shares and Stock Brokers. Moreover, some big companies like RIL were in the news (the mega rights issue and stake sales in Jio Platforms), he adds.

Shankar Sharma of First Global says even as the lockdown is selectively lifted, there is no clarity on how economic activities will resume. "And if at all a large part of the economy will come back. That is the larger question."

"There has been a rally in sectors likely to be least affected by the lockdown, while others continue to languish."

G. Chokkalingam, Founder and Managing Director of Equinomics Research & Advisory Services

Debt and Delinquencies

The biggest unknown is corporate and individual delinquencies. Crisil's Srinivasan expects gross banking NPAs (GNPAs) to go up in FY21. They were 9.5 per cent at the end of March 2020. "If we see that scenario (of negative GDP growth), banking GNPAs can slip 350-400 basis points compared to FY20. In NBFCs, the situation could be worse, with GNPAs expected to rise sharply in wholesale finance, microfinance, MSME lending and personal loans," he adds.

Given the sharp slowdown in economic growth, Srinivasan sees a sharp rise in corporate sector defaults, with MSMEs being hit the most. "Industries like textiles, gems and jewellery, auto, infrastructure (power) and construction pose higher risks. In services, transport, tourism, hospitality, commercial real estate and trade are expected to feel the pinch of lockdown and sluggish economic activity," he says.

This slowdown will also impact personal debt. "In our base case scenario, we have not factored in large job losses and salary cuts. Personal loans are more likely to be impacted by the current scenario given that most are taken for emergency or discretionary spending under certain assumptions of income certainty and growth," says Srinivasan. Within the category, smaller personal loans (less than ₹1 lakh) are likely to see more delinquencies. "In home loans, too, we expect asset quality to deteriorate, with affordable loans, which cater to the self-employed, being hit more than others. Unsecured loans, which have seen sharp growth in past few years, are likely to be hit the worst," he adds.

3.4-4
PERCENTAGE POINTS
Likely rise in gross NPAs of banks in FY21, from 9.5 per cent in FY20

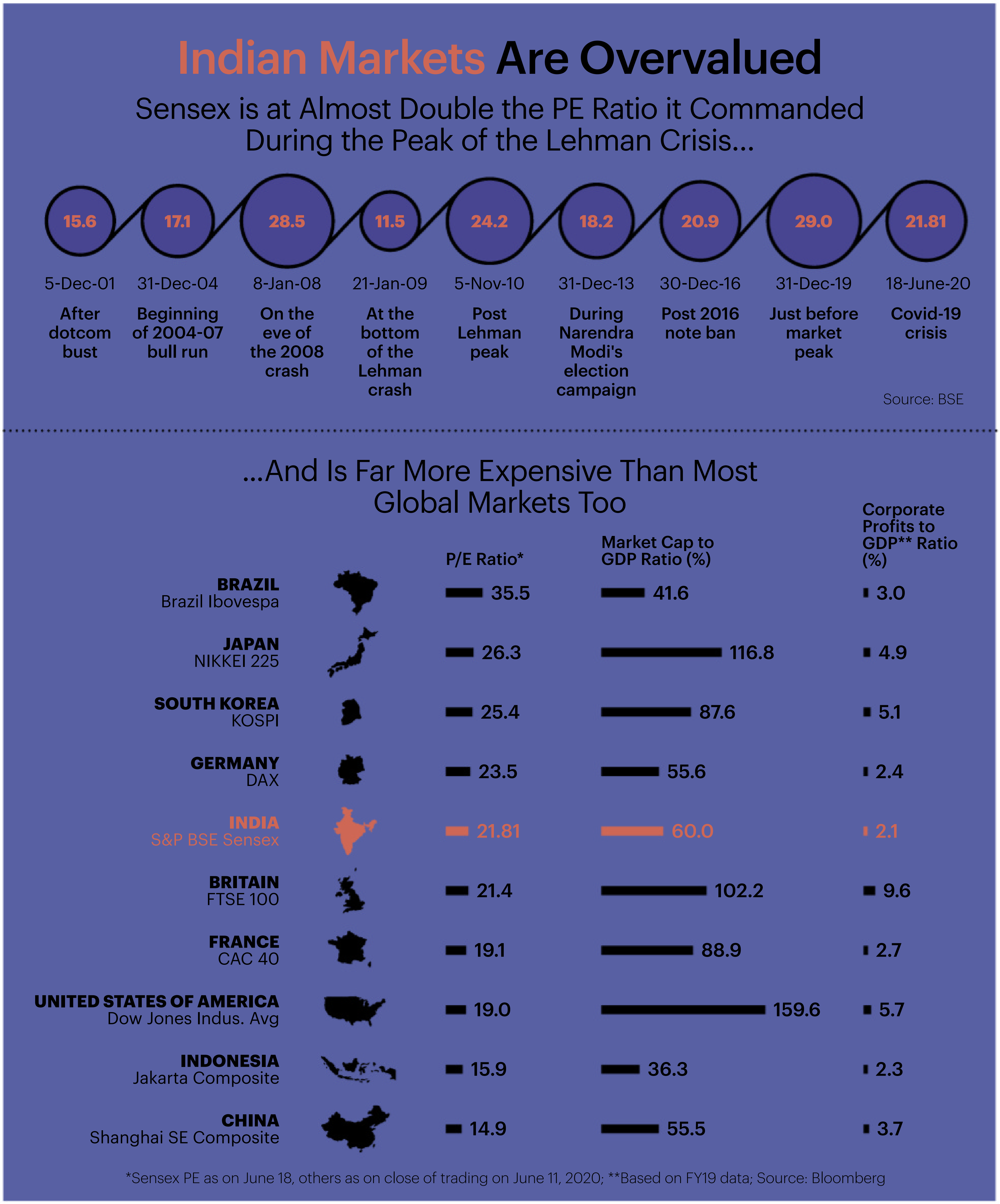
Arindam Som, Senior Analyst at India Ratings and Research, says the downgrade-to-upgrade ratio in rated mid and emerging companies' portfolio rose to 2.85 times in FY20 from 1.28 times in FY19. "Lower-than-expected operating cash flow will weigh on ability of issuers to deleverage balance sheets in FY21, and in certain cases, the quantum of outstanding debt could even be increased to fund cash flow mismatches."

Valuation Free from Fundamentals

The Sensex is down close to 19 per cent from its peak. In spite of the fall, it is trading around 21.81 times trailing earnings, and is nearly twice as highly valued as it was during the 2008 Lehman crisis (11.5 times). This is even higher than the 18 times at the start of Narendra Modi's election campaign in December 2013 and similar to December 2016 after demonetisation triggered a brief sell-off.

"They are clearly overvalued. The future earnings picture is not clear, the government has no money, consumers have no money and companies have no money. Without money, what will you get even after lifting the lockdown? Any loss-making entity is always overvalued," says Sharma.

Chokkalingam says when markets crashed in March, many retail investors

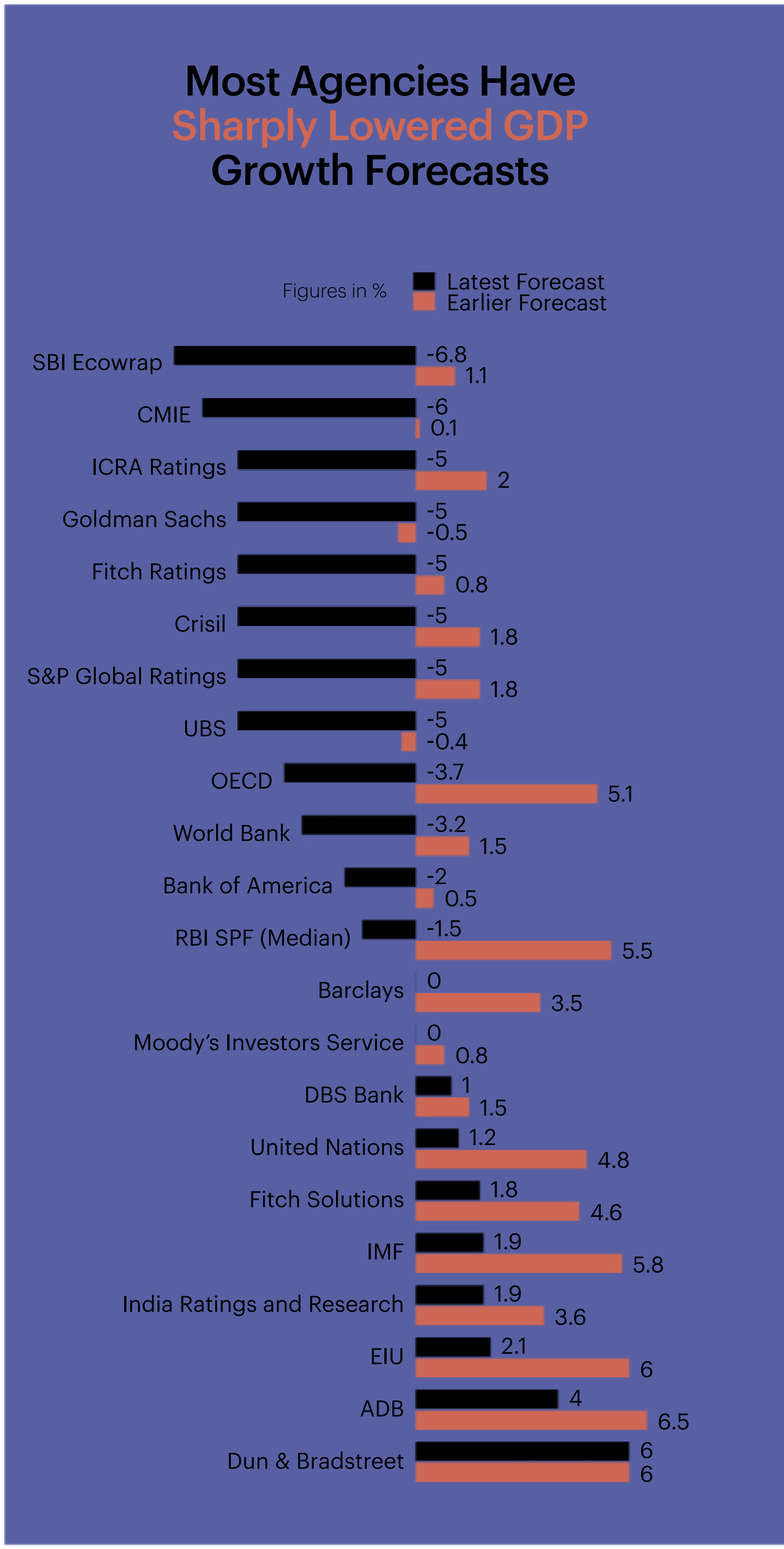


believed it had bottomed out and invested. "Other retail investors bought to make up for their losses. And those who were sitting on the fence, and had idle working capital due to closure of businesses, also entered the market," he says.

The Indian stock market remains over-valued compared to those in other emerging economies. India's market capitalisation to GDP ratio is 60 per cent, among the highest in the emerging markets group but lower than developed markets such as the US, the UK and Japan. For China, the figure is 55.5 per cent, while for Brazil, it is 41.6 per cent.

Weak Macros

On the macro-economic front, the stock market is worse off than in the 2008 crash. "Then, every market fell 50-60



per cent. This time, so far, while markets have fallen, there is a big divide between the top five-seven markets and the bottom five-seven markets. The top markets are stronger economies such as the US while the bottom includes India, South Africa, Brazil and Mexico, with poor healthcare systems and lack of financial strength to come out of the pandemic and the resultant economic problems," says Sharma. For instance, the S&P 500 rose nearly 2.7 per cent on June 16 due to news about a breakthrough in developing a Covid-19 vaccine. It is now just 9 per cent below its record high hit four months ago. In comparison, Brazil's benchmark index is down 20.1 per cent, while Sensex is down 19.1, from their peaks.

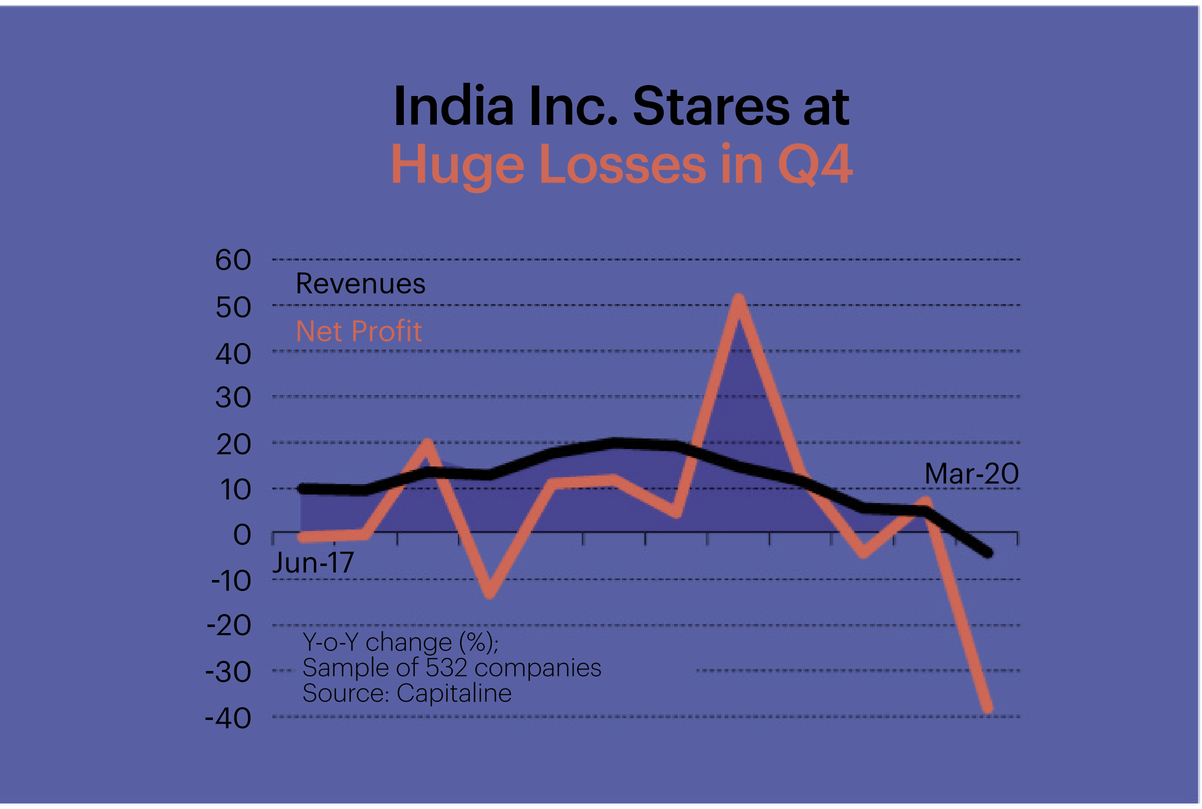
The government's poor fiscal situation and decline in barometers of growth such as Purchasing Managers' Index (PMI) for Manufacturing/Services, Index of Industrial Production (IIP) and GDP has also been a drag. In April, India's industrial output contracted the most in at least two decades due to the lockdown. The IIP shrunk 56 per cent in April, the worst fall since at least 1996 and the steepest among major countries during the lockdown. It had contracted 18.3 per cent in March. While CMIE has forecast India's GDP for FY 21 will decline 6 per cent, SBI Ecowrap has predicted a fall of 6.8 per cent. ICRA, S&P, Crisil and Fitch Ratings have forecast a 5 per cent fall. In March 2020, CRISIL Research had forecast a base case view of 1.8 per cent GDP growth in FY21. "However, with lockdown getting extended in major parts of the country, probabilities are getting tilted towards our downside scenario of negative GDP growth in FY21," says Ajay Srinivasan, Director, CRISIL Research.

The IHS Markit Manufacturing PMI increased marginally to 30.8 in May from record low of 27.4 in April but far below the market consensus of 38. A reading below 50 means shrinking of economic activity. It was at 51.8 in March 2020.

All this will limit the government's fiscal space. The government has not released GST numbers for April and May as lockdown would have led to a steep fall in collections. Experts estimate up to 70 per cent decline in tax collections during these two months. "The fiscal situation is terrible. The central government needs money, state governments need money. It's a serious problem," says Sharma.

Chinese Checkers

Then there is China with which India is going through a serious faceoff at the border. It is the world's second-largest economy, top exporter of goods, and the second-largest importer as well. China is also India's biggest trade partner. Given this, corporate earnings and markets are susceptible to developments in China. They will get worse if the call to boycott Chinese products or supplies leads to higher raw material costs for companies importing raw materials from China in sectors such as automobiles, pharma and solar. However,



as against 720 million per day in May and 708 million in April.

It is clear that markets have been swinging between hope and despair. There was optimism after the government announced its ₹21 lakh crore economic package last month. But when details were released, the market was disappointed, and the Sensex fell 9 per cent in just two trading sessions. In last week of May and early June, there was optimism around the end of the lockdown. This has now been clouded by India's fast-rising Covid-19 tally, which makes it the fourth worst-hit in the world. It has been reporting close to 13,000 new cases in a day.

Sinha says the upswing in Sensex and Nifty in April was a relief rally after the sharp fall in March. As for the market being over-valued, he says: "We have to understand that the link between valuation and underlying fundamentals, whether corporate or macroeconomic, has been broken since 2015. The market shrugged off big events such as demonetisation, roll-out of GST, NBFC crisis and global trade wars," he says. These events shocked the economy and hit corporate earnings but the Nifty 50 multiple kept going up. "In 2013, Nifty 50 was trading at 16 or 17 times trailing 12-month earnings per share, and in January 2020, despite the shocks, it was around 27 times. The correlation between valuation and growth is broken," he says.

There hasn't been a steep correction even now, he says. "The multiple went down to 17 times, seen in 2013 and 2014. The situation then was much better today with good consumer sector growth and earnings numbers," he says. "So, this is the new normal wherein valuations don't fall even after a shock. And possibly, in the current set-up, we have touched the worst valuation. Globally, there is lifting of lockdown, monetary and fiscal stimulus, but not here. History is not the right guide for fair value," he adds.

companies in sectors where India is raising import tariffs will report better earnings.

The global sell-off in equities had started with spread of Covid-19 in China and its impact on Chinese industrial production and global supply chains for goods right from mobile phones and medicines to consumer electronics and automotive components.

China is also the world's top market for consumer and capital goods and a significant source of revenue for the world's top companies, including Indian, such as Tata Motors.

The Chinese stock market, the second-largest globally by market capitalisation, has, however, proved to be more resilient to the Covid-19 crisis than most global counterparts. The Shanghai Composite Index fell around 10 per cent in January as virus tally sky-rocketed, forcing a lockdown in the Wuhan province, but it recovered quickly and was back to pre-virus levels in early March. Shanghai saw another 15 per cent decline in March with the rest of the world. But unlike the rest of the world, market recovery in China after the March 23 low has been more gradual. The Shanghai Composite is currently 7 per cent below its January highs. However, for Indian stock markets, the road ahead is likely to be far bumpier than it has been for China so far.

Return of Retail Investors

The April-May rally was driven by retail investors. Domestic retail investors increased participation in derivatives. The futures & options segment accounted for 41 per cent trading volume on NSE in April as against the FY20 average of 38 per cent. Trading volumes were up even in the cash segment with 790 million units of Nifty traded per day on average till June 15

75.3%
Contribution of 10 stocks to rise in benchmark indices between March 23 and June 12

Portfolio Investors on the Run

Besides poor macroeconomic performance, the pandemic and trade wars, sentiment has also been hurt by the plunge in oil prices, a strong barometer of global consumer/industrial demand. Brent crude prices fell from $60 a barrel around February to $15 before recovering to around $38 a barrel. Low oil prices hurt sovereign wealth funds, which are big investors in equity markets globally, including in India.

This explains why foreign portfolio investors played it safe in February, March and April. They withdrew ₹59,000 crore in March, ₹14,859 crore in April and ₹7,356 crore in May. "They were playing safe and avoiding risks," says Sedani.

But they turned buyers in June and invested a whopping ₹23,335 crore during the first 15 days of the month. This is in line with the surge in global liquidity due to monetary expansion by the US Federal Reserve, the European Central Bank and the Bank of Japan. A significant part of this liquidity has come to equities.

Shah of BNP Paribas says markets will continue to remain volatile till there is uncertainty. "India gained due to the global rally but global money is not going to come too soon to India as our economy, as well as spread of Covid-19, is yet to stabilise. However, we are better off today than a month-and-a-half back, as we now have a better understanding of the situation. Yet, till some uncertainty remains, there will be volatility," he warns. He expects the Nifty to be around 11,000 levels in FY22. "But we are still worried about FY21. We got it (coronavirus) last, will recover last, and have limitations with regard to the stimulus," he says. Closer to FY22, he expects Nifty to trade between 9,000 and 11,000. "If we have a vaccine two to three months from now, everything will look better. Nifty can test 8,500 to 8,700 on the downside but we don't expect it to go below these levels as that was a panic reaction," he adds.

Chokkalingam agrees: "Fundamentals will take time and improve only in the latter part of 2021. If a vaccine is found or the virus is controlled in one or two months, things can look better." Till that happens, investors will be better off treading cautiously. Sinha says it is advisable to go for companies that are resilient and have good cash flows and balance sheets. "They have the ability to absorb shocks," he says.

Since the market keeps falling and rising, without any consistent pattern, Shah says, "Investors should buy the market on every 4 to 5 per cent decline from current levels. The fact is that there are pockets of opportunities across sectors. Large private banks look great. They have underperformed materially and are trading below historical valuations. They will gain market share and eventually do better than the sector. Tier-II consumer names look interesting along with Tier-II large-cap IT stocks," he adds.

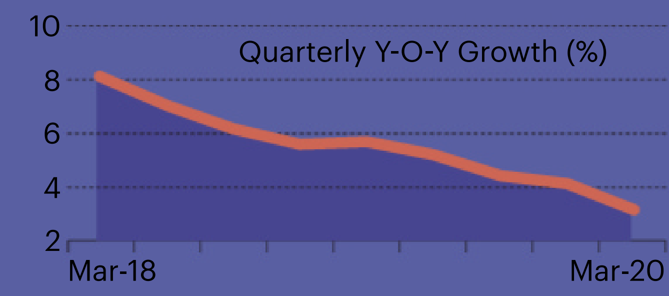
Shah, however, is not very bullish on auto post the recent recovery but sees a rebound in premium two-wheelers and four-wheelers as middle class consumers will be the quickest to come back to the market.

Sharma has an altogether different piece of advice: "Investors should not think equities is the only place where they can make money. This year, gold is up 26 per cent and government securities are up 7 per cent. In contrast, equities are down 25 per cent. Equity is not the only mantra to make money," he says. BT

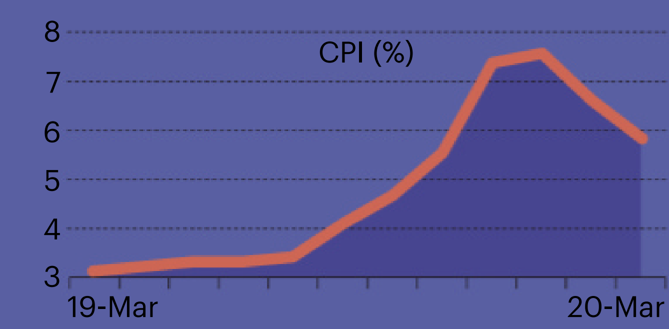
(Rashmi Pratap is Co-founder & Editor of 30Stades.com)

Macros are In a Mess

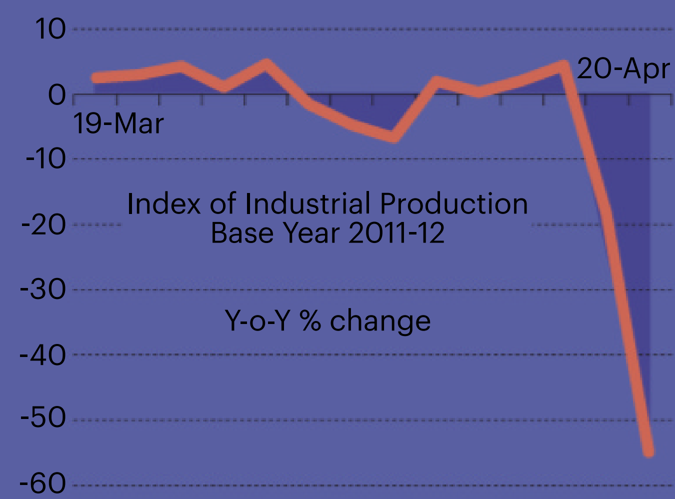
GDP Growth Slumps



Consumer Price Inflation Raises Its Head Again



IIP Growth Turns Negative



REDEFINING LUXURY TO STAY AHEAD

The world has witnessed an unprecedented crisis in the past few months. The Coronavirus pandemic has wreaked havoc globally, affecting every country, industry, family and individual. After several months of strict stay-at-home orders by various governments, restrictions are now being lifted as we slowly inch towards a new normal. Hotels and resorts have thrown open their doors once more, ready to welcome guests with a slew of safety and precautionary measures in place.

The Oberoi Group, putting the safety of its guests at the foremost, has framed several safety and precautionary measures to ensure the highest standards of hygiene and cleanliness. These practices will be followed at both the Oberoi Hotels and Resorts as well as at the Trident Hotel.

From the moment a guest drives up to the hotel porch, till they drive out of the gates, a number of protocols will be followed to keep both guests and employees out of harm's way.

CHECKING IN

Guests will be greeted with the traditional "namaste", with no physical contact and their temperature will be checked at the porte cochere. Both doormen and security personnel will be wearing gloves and masks at all times and the luggage scan tray will be sanitised after every use. If guests opt for valet services, the valet will sanitise the car key and all critical touch points such as car door handle, car seat, driver side seat belt, gear box, gear lever before parking. The car keys will also be sanitised before handing it over to the doorman. Luggage handles will be sanitised if guests opt for bellhop services and will be tagged as "sanitised". Guests will also be given the option of placing luggage outside their doors to minimise contact. Members at the concierge desk will be wearing masks, gloves and face shields at all time and maintaining a two metre distance. Guests will also be encouraged to use digital mediums (for newspapers, sightseeing information etc) over printed versions. While being escorted to the room, team members will maintain safe distance from guests and avoid touching furniture and fixtures.

HOUSEKEEPING

Cleanliness will be of the utmost priority with a sharp focus on points like door handles, knobs, remote controls, telephones and faucets among others. Linens, iron-board covers, and glassware will be laundered and washed, even if they remain unused. Curtains, blinds, rugs, dhurries, bed skirting, upholstered furniture and head board will also be sprayed with industry grade sanitiser.

FOOD SAFETY

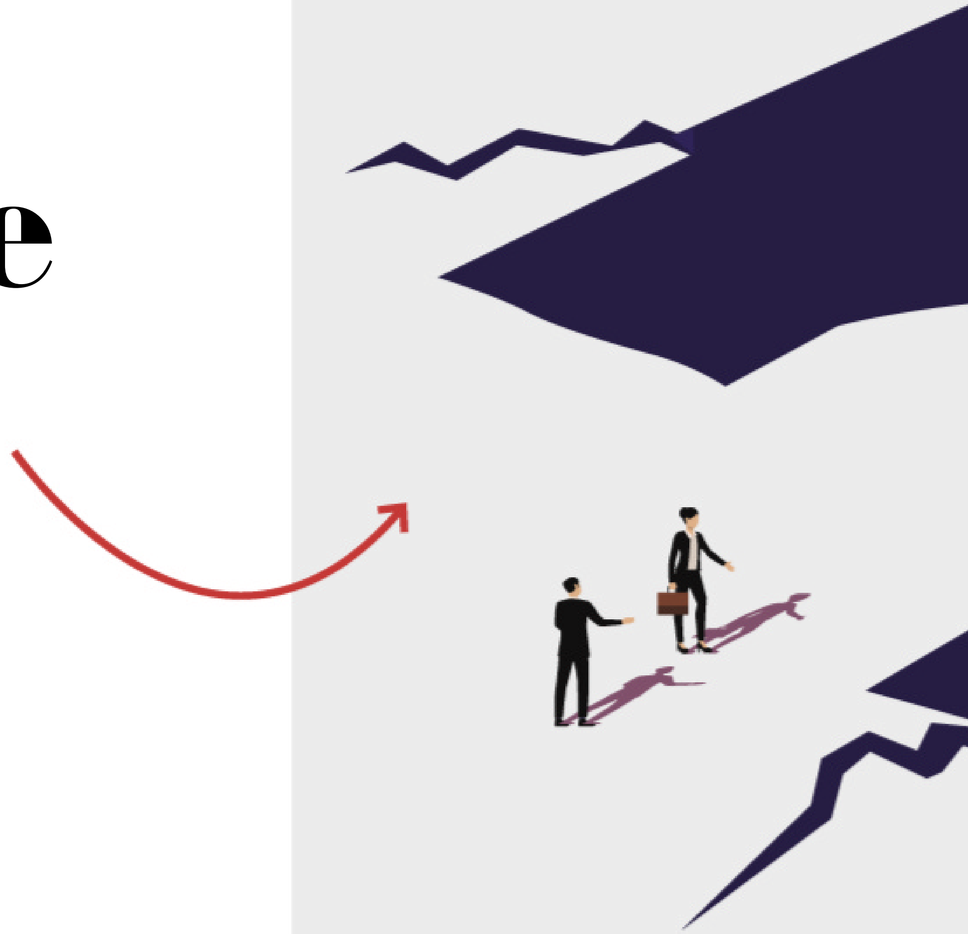
All members of the kitchen will wear hair net, gloves, masks and aprons at all times. All production areas and equipment will be cleaned with food safe sanitiser. Pens, knives and peelers will not be shared to avoid contamination. Gloves and masks will also be changed frequently to minimise infection. During service, safe distance will be maintained from diners and all glassware will be held by stem. Food will be covered with cloches, which will only be removed at the table.

These are a few among the myriad of new ground rules that are being followed at the Oberoi Group of Hotels. Every effort is being made to ensure the safest possible experience for guests and the staff, to make every stay as seamless as possible.

For a full list of safety protocols please visit
https://www.oberoihotels.com/safety-and-hygiene/
https://www.tridenthotels.com/safety-and-hygiene

Policy

Expenditure Crunch



Huge revenue loss, relief and rehab costs may derail the government's ambitious plans for the year

BY DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

Budget 2020 reduced the allocation to the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) by 13.5 per cent (to ₹61,500 crore) from the previous revised estimate of ₹71,000 crore citing lower requirements. This was before coronavirus had set its foot in India. By mid-May, when the pandemic was wreaking havoc across the country, the government increased allocation to MGNREGS by ₹40,000 crore, taking the total to ₹1.01 lakh crore, to support lakhs of migrant workers forced to go back to their villages after being rendered jobless due to the lockdown.

This is just one example of how the economic crisis due to the lockdown has thrown the Central government's FY21 Budget – both revenue and expenditure – out of gear. Considering that revenues have taken a huge dent due to lockdown, it has some serious work at hand to ensure that expenditure does not go out of control. It has to create a fine balance between not spending far beyond its revenue generating capacity and ensure that expenditure does not fall sharply. Lower government expenditure in key areas could deepen the recession.

No Expansionary Intention

Expenditure Secretary T.V. Somanathan has in the recent past said that the government does not want poorly planned spending cuts. But the government has given enough hints that it is not spending more than what it had budgeted for earlier this year. In the Budget, early in February this year, the government had planned for spending ₹30.4 lakh crore in FY21. While many experts

FEELING THE PINCH

A sharp jump likely in interest rate outgo with government borrowings set to rise considerably

Grant-in-aid to states to increase due to higher compensation for GST shortfall, revenue deficit, grants for State Disaster Response Fund, etc.

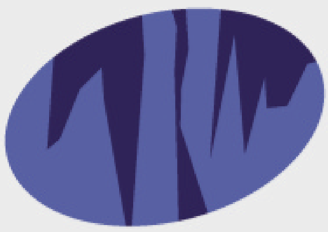
Health, rural development and agriculture sector allocations likely to be higher than usual

Education and urban development may see marginal or no growth in expenditure during the year

No new schemes, except those under Pradhan Mantri Gareeb Kalyan Yojana and Atma Nirbhar Bharat Abhiyan, will be initiated this year

Expenditure on infrastructure and other asset creation

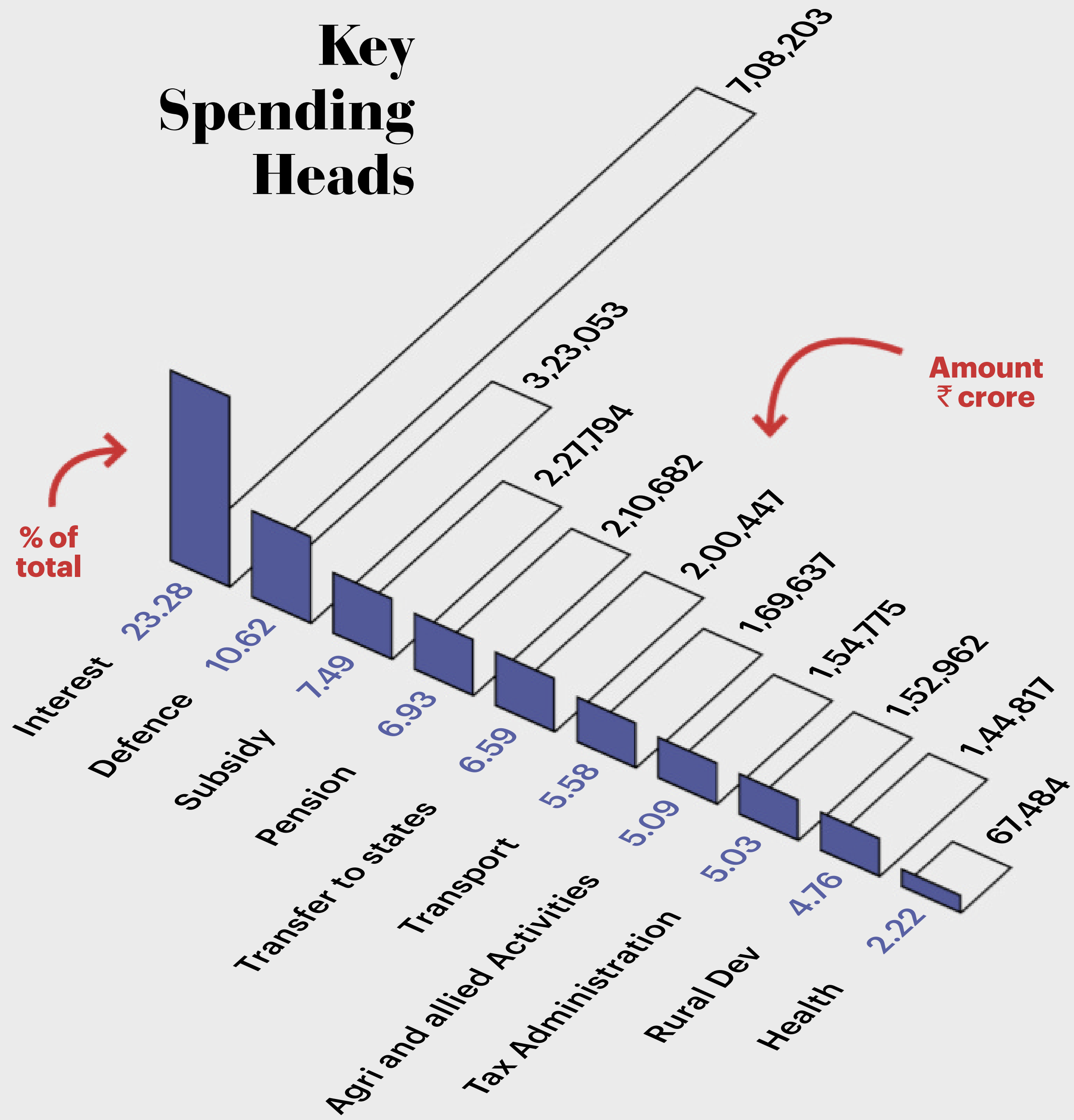
Budget support
₹4,12,085
crore



Extra budgetary resources (including from railways)
₹6,72,663
crore

Source: Budget FY21 estimates

Key Spending Heads



recommend expansionary expenditure to tide over the slowdown, the government has put restrictions on quarterly spending of departments. In April, it asked some of its minor ministries – Group B and Group C as they are called – to cap quarterly spending at 20 per cent and 15 per cent, respectively. It put on hold a hike in dearness allowance (DA) of Central government employees and pensioners till July 2021. It also asked ministries to put on hold approval to new schemes till April 2021, barring those announced under the Prime Minister's Gareeb Kalyan Yojana and the Atma Nirbhar Bharat package.

"The government is attempting to save ₹1-2 lakh crore by controlling expenditure, cancelling DA instalments and directing a number of ministries and departments to restrict expenditure in the first quarter. If the policy remains the same in the remaining part of the year, it may end FY21 without any expansion in expenditure," says former Economic Affairs Secretary Subhash Chandra Garg.

Though the government has announced a 50 per cent increase in borrowing in FY21, most experts say the extra ₹4.2 lakh crore will mostly cover the wide revenue shortfall this year. Unless it announces another round of borrowings, it is likely to stick to its ₹30.5 lakh crore expenditure budget.

Prioritised Spending

The expenditure secretary has suggested that the government will prioritise spending and may reallocate funds from capital expenditure to revenue expenditure and vice versa (if needed), and also switch funds from one ministry to another, depending on its assessment of which spending adds more value.

A look at expenditure trends for the first month (April) of FY21 shows 20 per cent rise in expenditure to ₹3.07 lakh crore compared with ₹2.54 lakh crore in the previous year. This could be due to frontloading of expenses by some ministries. The ministry of agriculture and family welfare spent 15 per cent of the annual budget in April compared to 5 per cent in April 2019. The ministry runs the PM KISAN Scheme, under which the government gives ₹6,000 a year to small farmers. The rural development ministry spent ₹38,058 crore, 31 per cent of the budget estimate. It had spent ₹16,765 crore, 14 per cent of the budgeted amount, in April last year. The health and family welfare ministry spent close to ₹13,000 crore, or 19 per cent of budgeted amount, during the month.

A lot of this could be due to front-loading of spending. For example, the revenue department under the ministry of finance spent ₹15,403 crore in April 2020 compared with ₹140 crore in the same month the previous year. The reason is that it paid states more from the Centre's tax pool in advance. The expenditure secretary says the government has released 110 per cent of what it has collected as tax revenue to states so far. The Centre transfers 42 per cent of its tax collections to states during a year.

Soumya Kanti Ghosh, Group Economic Advisor, State Bank of India, says the government should look at rationalisation of department budgets. "The government has to see which departments did not spend (allocated funds) fully last year. It can reduce their budgets. It can prioritise and shift some spending to healthcare, rural and agriculture departments," he says.

"The government has to see which departments did not spend (allocated funds) fully last year. It can reduce their budgets"

Soumya Kanti Ghosh
Group Economic Advisor, SBI

"Compressing revenue expenditure will create further issues. It's a kind of fiscal austerity I don't recommend"

Lekha Chakraborty
Senior Economist, NIPFP

Capex Cut

If spending trends of the first month of the financial year are anything to go by, the government has fixed its priorities. For instance, April capital expenditure was ₹28,300 crore compared to ₹30,600 crore in April 2019. Though these are early days, this shows the government may cut capital expenditure and use the money saved for revenue expenses. Capital expenditure creates infrastructure and other assets while revenue expenditure covers administrative costs such as salaries and pension.

"The Centre's capital expenditure is around ₹4.12 lakh crore while states' capital expenditure is ₹5-9 lakh crore. One way to manage (the budget) is to rationalise capital expenditure as I don't think there is much scope for capital expenditure this year as almost half the year will be gone (before things normalise)," says Soumya Kanti Ghosh.

Also, a big part of capital expenditure is done by public sector entities such as railways. For example, for FY21, the budget allocation for capital expenditure is around ₹4.2 lakh crore, while public enterprises are expected to spend ₹6.7 lakh crore. So, even if the government cuts its budgetary capital expenditure, it can ensure that its PSUs make up for the shortfall, at least partly.

No Fiscal Fundamentalism

Despite the likelihood of a 5-10 per cent contraction in the economy, the government has not shown much interest in going overboard with a Keynesian expansionary fiscal policy. The ₹21 lakh crore Atma Nirbhar Bharat was more a credit-based package whose fiscal cost is only around ₹2 lakh crore.

Experts caution the government against being too tight-fisted and say too much fiscal fundamentalism can be detrimental in these situations. Lekha Chakraborty, Senior Economist at the National Institute of Public Finance and Policy, an autonomous research institute of the Ministry of Finance, says expenditure compression will be costly. "I don't recommend any cut in spending. May be capital expenditures can be postponed but compressing revenue expenditure will create further issues. It's a kind of fiscal austerity I don't recommend. Instead of that, they should be more innovative in financing debt," she says.

Subash Chandra Garg says: "If you don't expand, economic contraction will be severe. A 10 per cent contraction will be the result of lockdown, which caused major supply shock and led to evaporation of demand. If the government does not generate demand for capex as well as consumption, the contraction will become bigger," he says.

Instead of cutting expenditure, the government should try innovative ways of raising money such as issuing long-term or perpetual bonds so that there is no immediate need for repayments. Some experts also say the government should take the bold step of printing money without worrying too much about high inflation or rating downgrades. BT

@dipak_journo

Policy – Government Debt

Managing the Debt Challenge

Rising debt of Centre and states is set to weaken the country's credit profile. What is the way out?

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

The East Asian currency crisis of the late 90s saw Russia defaulting on its sovereign obligations. A few years later, in 2001, Argentina shook the financial world when it defaulted on its external debt. In 2002, Peru and Uruguay failed to pay off their sovereign obligations. Post the global financial crisis of 2008, Greece's credit profile weakened, leading to a default.

Every crisis has its victims, but common threads in sovereign defaults are high government debt, dependence on foreign capital and low foreign exchange reserves.

This time, too, a likely collapse of global economies post the Covid-19 outbreak will have its victims. The alarm bells are already ringing. Global rating agency Fitch has predicted record sovereign defaults in the current year.

₹22
Lakh crore
Estimated borrowings of Centre and states in FY21 as against ₹13 lakh crore-plus in FY20


DEBT

The Baggage

Consequences can be far reaching...

A sovereign rating downgrade — Moody's has already downgraded India

Cascading impact on ratings of banks and corporate India

Increase in cost of overseas borrowings for companies

Risk for global institutions; lower capital allocation in Indian equities and debt

Much before the Russian sovereign default in 1997, India had narrowly escaped a crisis in the early 90s when its foreign exchange reserves were enough to cover just a few days of imports. At present, however, foreign exchange reserves are at a much comfortable level of $500 billion, which can easily cover over 10 months of imports.

But, India's vulnerability stems from growing government debt, both at central and state levels. "Growing debt creates refinancing risks. Debt management has generally veered towards fiscal restraint or responsibility. As you go ahead, fiscal dependence should drop and debt should become sustainable for refinancing," says Chandan Sinha, Interim Director at RBI's CAFRAL, an independent body set up by the central bank.

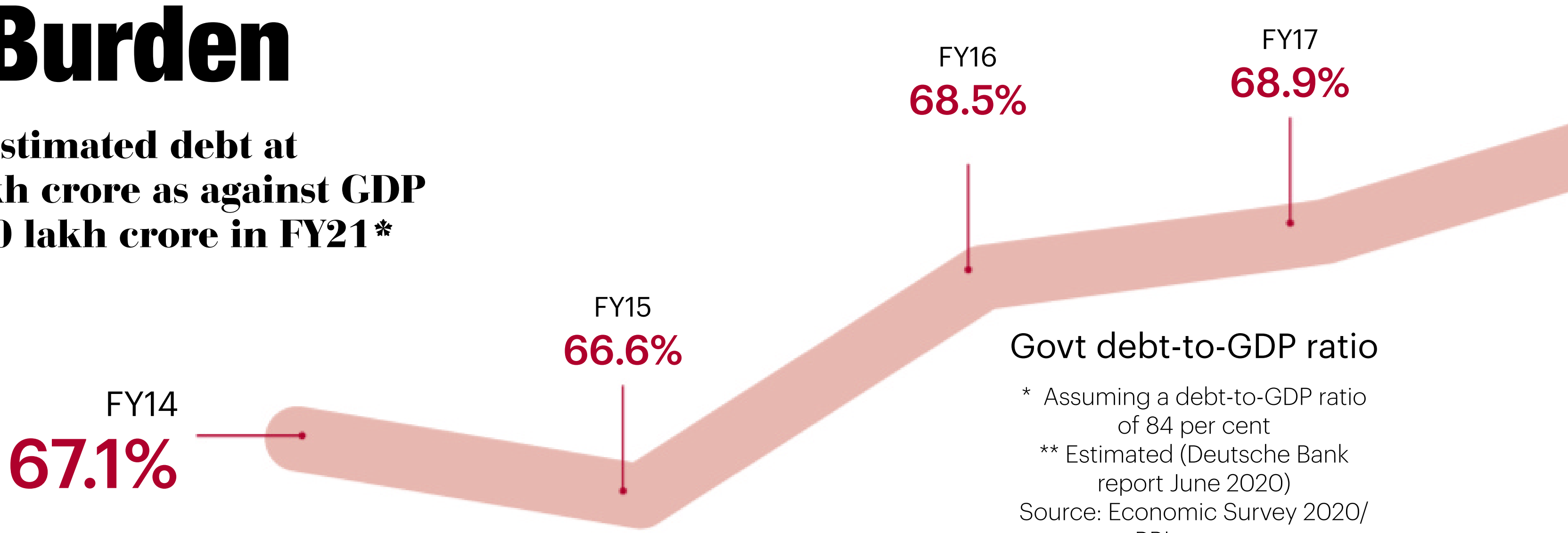
Story so Far

In the early 90s, when reforms were initiated, government debt was at its peak at 77 per cent of gross domestic product (GDP). It, however, started falling soon. By 1996, it touched a low of 66 per cent and again rose to an all-time high of 83 per cent in FY04. Subsequent high growth (high denominator) partly resulted in fall to 66 per cent in the next decade. The ratio has remained largely range-bound at 66-68 per cent between 2011 and 2019. The question is, will there be a spike now?

India has entered the crisis with estimated GDP growth of 4 per cent in FY20. In an already slowing economy, which is expected to shrink further due to high fiscal deficit and higher budget expenditure, the debt-

The Growing Burden

Estimated debt at ₹168 lakh crore as against GDP of ₹200 lakh crore in FY21*



Govt debt-to-GDP ratio

* Assuming a debt-to-GDP ratio of 84 per cent

** Estimated (Deutsche Bank report June 2020)

Source: Economic Survey 2020/ RBI reports

FY21**
84%

Higher interest outgo; constraints on annual budget expenditures

Crowding-out effect, corporate India to get less resources

to-GDP ratio is expected to go up substantially. The estimates from domestic rating agencies suggest that the ratio will jump to 84 per cent in FY21. This means outstanding debt of ₹168 lakh crore, which is close to the GDP of ₹200 crore, assuming zero growth in the current year. The 84 per cent debt-to-GDP ratio will be the highest in the last two decades. Global rating agencies Moody's and S&P have estimated debt figures of 83.7 per cent and 82.7 per cent, respectively, for FY22.

The implications for the economy are plenty — risk of a rating downgrade, cascading impact on ratings of banks and companies, and the danger of high inflation and currency depreciation. Eventually, banks and insurance companies will end up hosting this high government debt.

"It is a huge risk," says a dealer who deals in government debt.

Any crisis that banks face will ultimately end up being a problem for the government since it has to safeguard the interests of depositors and their trust in the banking system.

FY20**
72%

Recently, State Bank of India (SBI), along with other banks and Life Insurance Corporation (LIC), came to the rescue of private sector Yes Bank and the ailing IDBI Bank. The government, therefore, has to manage its finances more prudently since the responsibility of protecting a public institution ultimately falls on the Centre. In addition, banks with investments in government debt fear a likely haircut in interest or principal if the country's situation deteriorates severely. (***See Box/ The Baggage***).

FY19
69.8%

The Fiscal Extravagance

The Centre managed to control its fiscal deficit at 2.5 per cent of GDP just before the global financial crisis, but fiscal stimulus pushed it to 6.0 per cent in FY09, and to 6.5 per cent the next year. Though state governments managed to keep the deficit at 2.5 per cent in FY20, the Centre recorded a deficit of 4.6 per cent, higher than the budgeted 3.5 per cent. The return to the lower fiscal deficit of pre-2008 hasn't happened in more than a decade. Fiscal deficit is funded largely by domestic borrowings from banks, insurance companies, pension funds, etc. The combined borrowings of the Centre and states are likely to increase from ₹13 lakh crore plus in FY20 to close to ₹22 lakh crore plus in FY21.

States, with budgeted borrowings of ₹6.42 lakh crore in the current fiscal, now have the flexibility to borrow an additional ₹4.28 lakh crore at the upper end. Post Covid-19, the Central government has increased states' borrowing limit from 3 per cent of state gross domestic product to 5 per cent.

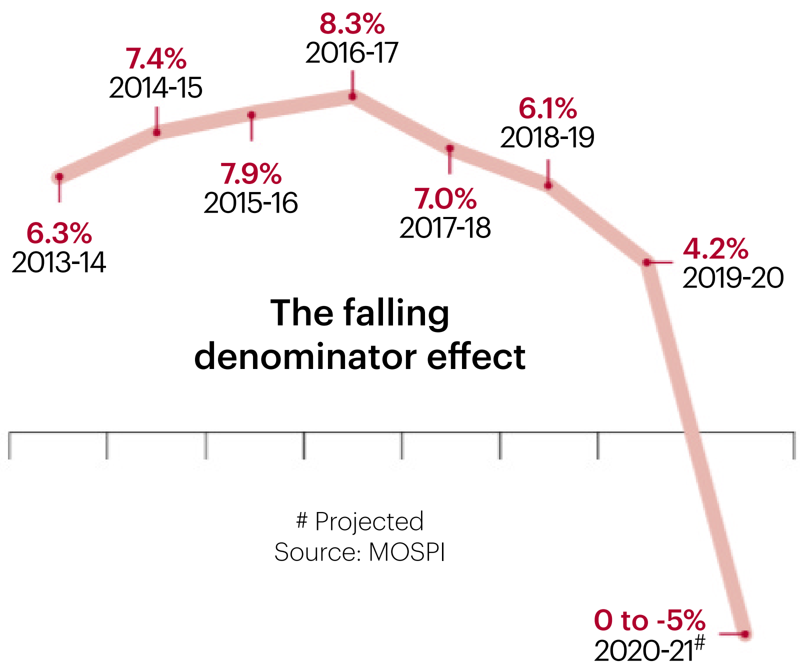
A Deutsche Bank report has pegged the Centre's debt-to-GDP ratio at 84 per cent in FY21. This is expected to move up rapidly as the economy will most likely shrink in the current year. "The denominator effect will also kick in as debt will grow faster than the nominal GDP rate," says a banking sector expert. "The government may have to borrow more either directly from the market or by monetising debt," adds another banker.

Sovereign Rating Risks

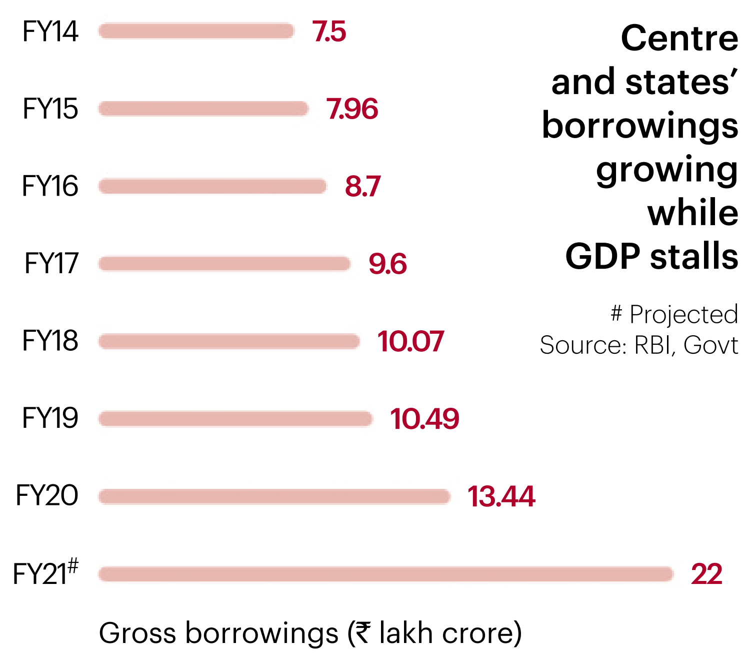
Global rating agency Moody's was the first to cut India's sovereign rating from Baa2 to Baa3, the lowest investment grade. The US-based agency highlighted risks from India's low growth, deterioration in fiscal position and the stress in the financial sector. Its last revision was in November 2017, when it upgraded India's rating from Baa3 to Baa2. Within days, S&P cautioned India of delayed recovery in growth, but retained India's rating at BBB-, which is also the lowest investment grade. S&P's last rating revision was in January 2007 when it downgraded the rating from BB+ to BBB-. On June 17, Fitch Ratings also revised the outlook for India to negative from stable, but retained its sovereign rating at BBB-. The agency had revised India's rating from BB+ to BBB- in August 2006.

Global agencies have not upgraded India's rating for over a decade despite one of the highest growth rates in

What Could Increase Debt-to-GDP Ratio



\# Projected
Source: MOSPI



Centre and states' borrowings growing while GDP stalls

\# Projected
Source: RBI, Govt

the world. Commitment to reduce the fiscal deficit in a time-bound manner, cut public debt and initiate structural reforms in land and labour have been India's pain points. "The rating model has a significant weightage for public debt and fiscal deficit. In the current environment, every country is going to see deterioration in their finances," says Arun Singh, Chief Economist, Dun & Bradstreet. Others talk of global rating agencies taking cognisance of India's resilience in managing the 90s economic crisis, building foreign exchange buffers and initiating regulatory reforms in the financial sector.

"We are of the view that the current economic scenario has set the stage for robust economic reforms, which will help India weather the crisis and put it on the earlier growth trajectory in another two to three years," says Sankar Chakraborti, Chief Executive Officer, Acuite Ratings & Research.

Debt Management Strategy

The next two to three years are going to be difficult since Covid-19 is yet to peak in India. The exact damage to corporate India, especially micro, small and medium enterprises and balance sheets of banks, would be known only when full exit from the lockdown happens.

The RBI now has the big task of raising ₹22 lakh-crore debt for the government and states at the lowest possible cost. Inflation is currently down and interest rates are also low, but it could change since food inflation is going up. Yields on 10-year government securities are around 6 per cent, which is a good rate for the central bank to borrow. Risk-averse banks are already returning over ₹7 lakh crore of daily liquidity through the RBI's reverse repo window.

Expert suggest that the increased supply of government securities (G-secs) is expected to push up yields since the savings available in the economy are limited. This is where the RBI's yield management will come into play. In the past, the RBI had used the open market operation (OMO) route to buy long-term securities and sell short-term papers to keep yields low in long-term papers. "OMO would continue," says the debt dealer quoted above. The RBI can also create room for banks to acquire additional G-secs. This can be done by hiking the limits of the held-to-maturity (HTM) bucket. This will help banks since HTM securities are not only eligible for meeting the statutory liquidity ratio but also don't attract mark-to-market losses for any fall in prices of securities as well.

The government and the RBI will also have to deal with the crowding-out effect in the market since the Centre is likely to sweep away all lendable resources. The private sector could face challenges to get money from banks, which are still the primary source of funds. This, in turn, would impact growth.

Though the credit offtake is low today and a situation of crowding out does not arise, credit demand could revive in sectors such as steel, cement, roads and infrastructure. "One of the reasons for a shallow corporate debt market is the supply of government paper. It's an easy pick for banks and other investors since every month there is either a Central or state paper in the market," says Sinha of RBI's CAFRAL.

"The total borrowings of the Centre, states and the public sector are over 15 per cent of the GDP, whereas

How To Get Out Of The Debt Trap

Come up with a white paper on total liabilities, off-balance sheet debt, guarantees

Adhere to a strict fiscal consolidation path; Targeted approach to bring down deficit to 3%

Present a roadmap to global rating agencies on the timeframe for fiscal consolidation

Diversify borrowing into masala bonds or millennium bonds to avoid crowding-out effect in the domestic market

Develop the bond market; reduce reliance on banks for lending

Reduce trade and current account deficit to avoid currency depreciation

household financial savings are just about 7 per cent," says Govinda Rao, Member, 14th Finance Commission. This will make fund-raising difficult.

In fact, there are some who suggest that the government is better placed to mobilise a part of its resources abroad, whereas a medium or even large private sector won't get money at good rates or able to manage its risk. Experts suggest one of the options could be overseas masala bonds, which are denominated in Indian rupees. HDFC Ltd was the first to raise ₹3,000 crore from masala bonds. NTPC followed with a ₹2,000 crore issue. "It is a good option if there is demand overseas," says Ashutosh Khajuria, Executive Director at Federal Bank. The Centre could encourage NRIs to invest in such bonds. However, some suggest such a window could generate only a limited amount of, say, ₹50,000 crore to ₹1 lakh crore, to start with.

The other option could be a sovereign bond issue abroad. Interest rates are low globally. But there is a currency risk if the rupee depreciates. Experts flag other dangers as well. Firstly, the government borrowing rate outside will act as a benchmark for all future borrowings for banks and the corporate sector. Secondly, investors would track India more closely, especially on current account deficit, fiscal deficit and foreign exchange reserves.

There are also suggestions for tax-free bonds as investors are withholding cash rarher than depositing in banks. "There is a huge load on institutional investors. Why is the government not passing it on to the public? Let it (securities) be open to the public in a different format. People have money in hand," says Gopalkrishna Tadas, Former Executive Director at IDBI Bank.

The last expensive option could be debt monetisation, in case the debt requirement goes beyond the absorption limit of the market. Experts suggest that market borrowing is not a solution since investor appetite would be low. If the supply of debt increases, yields will also shoot up. "The whole issue in monetisation of debt is how long (it will continue)," says Barendra Kumar Bhoi, career central banker and economist.

Clearly, all eyes are now on the country's fiscal and debt position. Given the long-term implications, the government should come out with a white paper on total liabilities, off-balance sheet borrowings, etc. There is an urgent need to adhere to a fiscal consolidation path in the next two to three years. Borrowings are mostly used for revenue expenditure, which is a big concern for global investors. Efficiency of domestic debt is also of utmost importance.

"It is also about the efficiency of where you are putting the additional borrowings. If the borrowings are used for productive purposes or specific projects where we are creating assets, they would yield returns. Even the private sector can leverage it down the line. Then it is credible," says RBI's Sinha.

High domestic debt with low interest won't do much damage in terms of high inflation, but a high debt and high interest together can spell trouble for any economy. India has seen very high levels of inflation in the past, and if the cycle repeats itself, there will be severe consequences. **BT**

@anandadhikari

Policy – WHO

The Curious Case of WHO Funding

US President Donald Trump's announcement to end support for WHO is a reminder for the much-needed reforms in the agency's financial structure

BY JOE C. MATHEW
ILLUSTRATION BY RAJ VERMA

On **April 15,** President Donald Trump tweeted that the US is halting funding of the World Health Organization (WHO) and will carry out a review to assess the agency's role in mismanaging the coronavirus outbreak. In a quick response, the same day, billionaire philanthropist and Microsoft Co-founder Bill Gates said in a tweet that ending support for the WHO during a world health crisis is as dangerous as it sounds. "Their work is slowing the spread of Covid-19 and if that work is stopped, no other organisation can replace them. The world needs WHO now more than ever," Gates tweeted.

Both tweets carry immense weight. The US government is the biggest donor of the WHO. Bill and Melinda Gates Foundation (BMGF) is the second-largest. Both entities together account for nearly a quarter of the WHO's $5.3-billion funding expected from various quarters for the 2020-21 biennium. Any disruption in the fund flow can impact the budgetary plans of the WHO, half of which goes into managing acute health emergencies and polio eradication programmes across the world. The tweets suggested that the credibility and financial flexibility of the 72-year-old organisation was at stake, or at least the US wanted to give that impression, at a time when the WHO's efforts are needed most.

Technically, a shortfall here can be compensated by someone else there. But in the WHO's case, that may not help. Only a small portion of the funds from WHO member-countries, including the US, comes as 'assessed contributions' or un-tied membership-linked regular contributions. This revenue — contributions from member states and associate members recorded annually

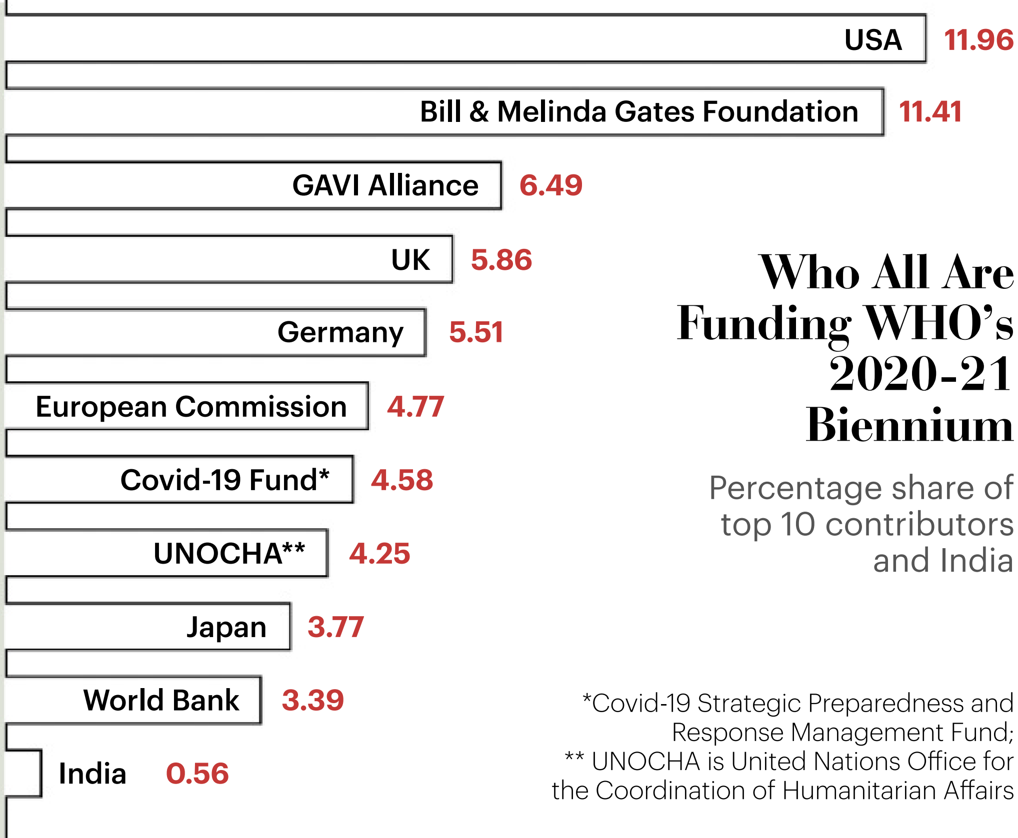
$2.4 bn
WHO's current annual budget

80%
Donor contribution to the budget

$5.3 bn
Expected funding in 2020 and 2021

Who All Are Funding WHO's 2020-21 Biennium

Percentage share of top 10 contributors and India



*Covid-19 Strategic Preparedness and Response Management Fund;
** UNOCHA is United Nations Office for the Coordination of Humanitarian Affairs

State Of Affairs

- The US and the Bill and Melinda Gates Foundation account for 23 per cent of WHO's total funding
- US has said it will stop funding WHO, accusing it of taking a position lenient to China during Covid-19
- The move will add to the WHO's already stressed flexible funding ability
- US can apply bilateral pressure to reduce member-nations' dependence on the WHO

at the beginning of the year according to assessments approved by the World Health Assembly — has been shrinking as a percentage of the WHO's overall budget for several years now. What has been increasing is voluntary contributions like the ones given by the Bill and Melinda Gates Foundation where the money can only be used for a specific purpose. In other words, you cannot always replace one funding source with another.

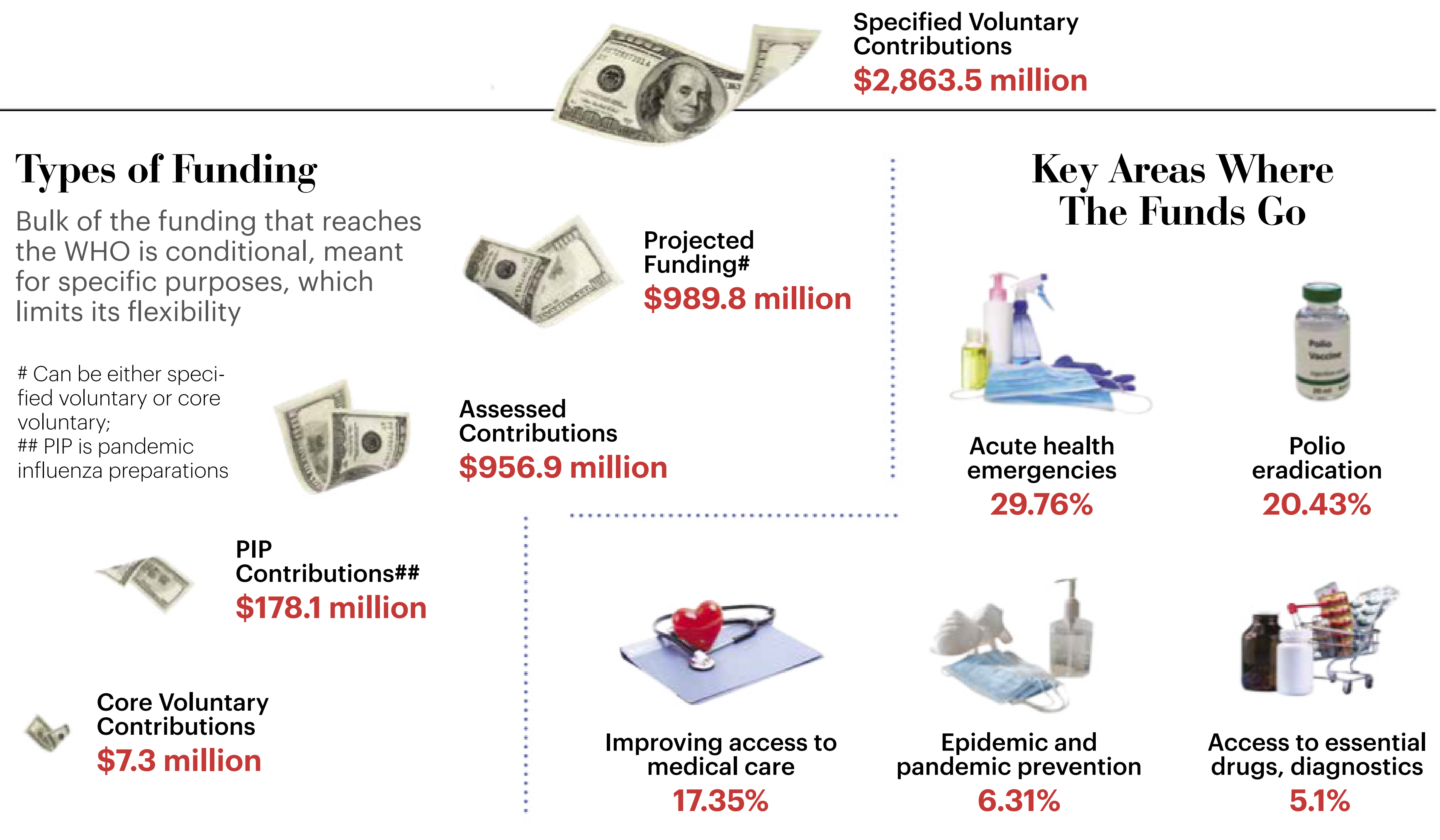
"The WHO is already grossly underfunded, and so many of its disease-control programmes will face cuts, although it is unclear whether or how new commitments from China will be channelled. An accompanying problem is the potential loss of legitimacy of the WHO and the disintegration of the international cooperation that is central to addressing global health concerns," says Anne-Emanuelle Birn, Professor of Critical Development Studies and Global Health, University of Toronto, Canada. "The WHO should heed democratic governance, as per its 1948 Constitution, with an ample dues-based budget, independent science-based decision-making, and democratic agenda-setting drawn from guidance from its annual World Health Assembly. Not only is the WHO's current $2.4-billion annual budget inadequate to the extreme, but the donor stronghold over 80 per cent of that budget means that the agency's agenda is set by special interests instead of people's health needs," she adds.

Donor Grip

Tied funds are useful when countries grapple with pandemics such as Covid-19. In fact, over 4.5 per cent of the WHO's biennium budget for years 2020 and 2021 is the Covid-19 Strategic Preparedness and Response Management Fund committed by various member-countries and entities. Around 20.43 per cent of the WHO's budget is exclusively meant for eradication efforts of diseases such as polio. The problem comes when the WHO needs money to develop technical expertise elsewhere, but finds it difficult to divert funds for that purpose.

David McCoy, Professor of Global Public Health at the Centre for Primary Care and Public Health at Queen Mary University of London, says the BMGF's influence will grow even more if the US sticks to its decision to not fund the WHO. "This should be a great concern because the WHO should not be so heavily influenced by an unaccountable private foundation," he says.

According to McCoy, the most important reforms that should be undertaken in the WHO are financial. "The WHO needs to have a greater proportion of its budget made up of assessed contributions — ones that are not conditional. The technocratic arm of the WHO must be given greater independence to set budgets and priorities, with less donor and political interference. Since the US is the biggest source of funding, the WHO's budget would shrink and the impact of this will depend on the



extent to which other counties fill the gap. (However), if US funding is stopped, the WHO would be able to escape the influence of the USA on the agency's functioning, which has not always been positive," he adds.

Domestic Implications

With a 0.56 per cent share in its funding, India does not play a significant role in the WHO's financial fortunes. But as a stakeholder, India has been a beneficiary of its technical expertise. If Kerala managed to put up a praiseworthy fight against the spread of Nipah before, and Covid-19 now, the essential protocols were available with the WHO. The organisation also sets standards for drug manufacturing, clinical trials etc, which help developing countries like India to adopt them. If the US continues to shun the WHO, it can put bilateral pressure on countries to act on its behalf, and India is not immune to such pressure.

Sujatha Rao, Former Union Health Secretary, says the withdrawal of the US will affect the implementation of some key programmes, but will not have any major impact on India's interests. "India is a founding member of the WHO. Most of the assistance provided by the WHO is technical in nature. Strengthening of the WHO's technical capability is what we have been discussing for a long time," she says. However, Rao adds that India should be concerned about the increasing dependency of the WHO on donors and tied funds. "If X organisation gives funds for polio eradication, they cannot be spent on any other activity except polio. This then distorts priorities as activities are taken up not in accordance with the needs of member-countries, but by what the donor wants," she explains.

According to Rao, the increase in private voluntary funding has distorted priorities. "Developing and low-income countries stand to lose the most since they are very dependent on the WHO's technical support. This is also one of the reasons for the gradual neglect of surveillance and infectious disease control programmes, which in reality, is the core mandate of the WHO."

The message is clear. With or without US funding, the WHO has been going through a difficult phase, where its dependence on tied funds has been increasing over the years. The US decision has only given member-countries an opportunity to think about the importance of the WHO and the flexibility it should enjoy in prioritising its health agenda.

Seen from this context, India's call for reforms in United Nations systems made by Prime Minister Narendra Modi during his recent G20 address is just another reminder that it is time for change within the UN and its arms, including the WHO. BT

@joecmathew

Corporate

Pangs of High Leverage

With the post-lockdown economy still to pick up, highly leveraged companies are looking at ways to reduce debt

BY NEVIN JOHN
ILLUSTRATION BY RAJ VERMA

Vital statistics often hide more than they reveal. India's 20 most-leveraged private sector companies, excluding those that have filed for bankruptcy, have a combined debt of ₹15.4 lakh crore — almost half of the government's budget expenditure planned for FY21. The first five companies in the pecking order — Reliance Industries Ltd (RIL), Vodafone Idea, Bharti Airtel, Larsen & Toubro (L&T) and Tata Steel — account for ₹7.7 lakh crore, according to the latest available numbers for FY19.

Even though they do not represent FY20 numbers since most firms are yet to finalise their annual reports, the debt burden of most companies is unlikely to see an erosion, except Reliance Industries, which recently got ₹1.16 lakh crore from foreign investors by selling 24.7 per cent stake in subsidiary Jio Platforms Ltd (JPL). All the other companies in the pecking order are yet to come up with their debt-handling plans at a time when uncertainty surrounds the Indian economy. In the past, many of the high debtors in the list — Reliance Communications, Bhushan Steel, Essar Steel, Videocon, Lanco Infra and Jaiprakash Associates — had defaulted on loans and filed for bankruptcy. A few promoters lost their firms and some went for liquidation.

₹1.63
LAKH CRORE
Gross debt of four power majors in the list of the top 20 most indebted companies

2.5%
Reduction in the repo rate by the RBI in last 18 months. Banks have failed to pass on the same to consumers

Not The Right Time

At present, it is difficult to service loans due to consecutive lockdowns. Companies that have availed the six-month moratorium offered by the Reserve Bank of India (RBI) will have to pay the principal and interest at the same time once the freeze is lifted after August. Bankers are worried since some of these companies are yet to achieve normalcy in cash flows.

For instance, steel companies are facing huge manpower shortage after migrant workers moved back to their native places. Orders from Europe and West Asia are lined up, but scaling up production is an issue. Carmakers are in the middle of deferring discretionary purchases by consumers, while real estate developers are struggling to find capital to complete ongoing projects. Incumbent players in the telecom industry — Bharti Airtel and Vodafone Idea — meanwhile will have to find investors to reduce debt and invest further to make their networks 5G-ready.

Seshagiri Rao, Joint Managing Director and Group Chief Financial Officer, JSW Steel, says while forecasting risk, companies work on different business scenarios by reducing capacity utilisation, selling prices and margins by 15-20 per cent, or increasing the cost of production at the same level. They anticipate the worst-case scenario based on these assumptions and build a liquidity buffer, while putting in place a balanced capital structure. But, according to Rao, all these assessments hold no value during the current crisis, since no company would have foreseen a zero top line for two months. The situation is not similar to managing compressed margins and deferred profitability, he adds.

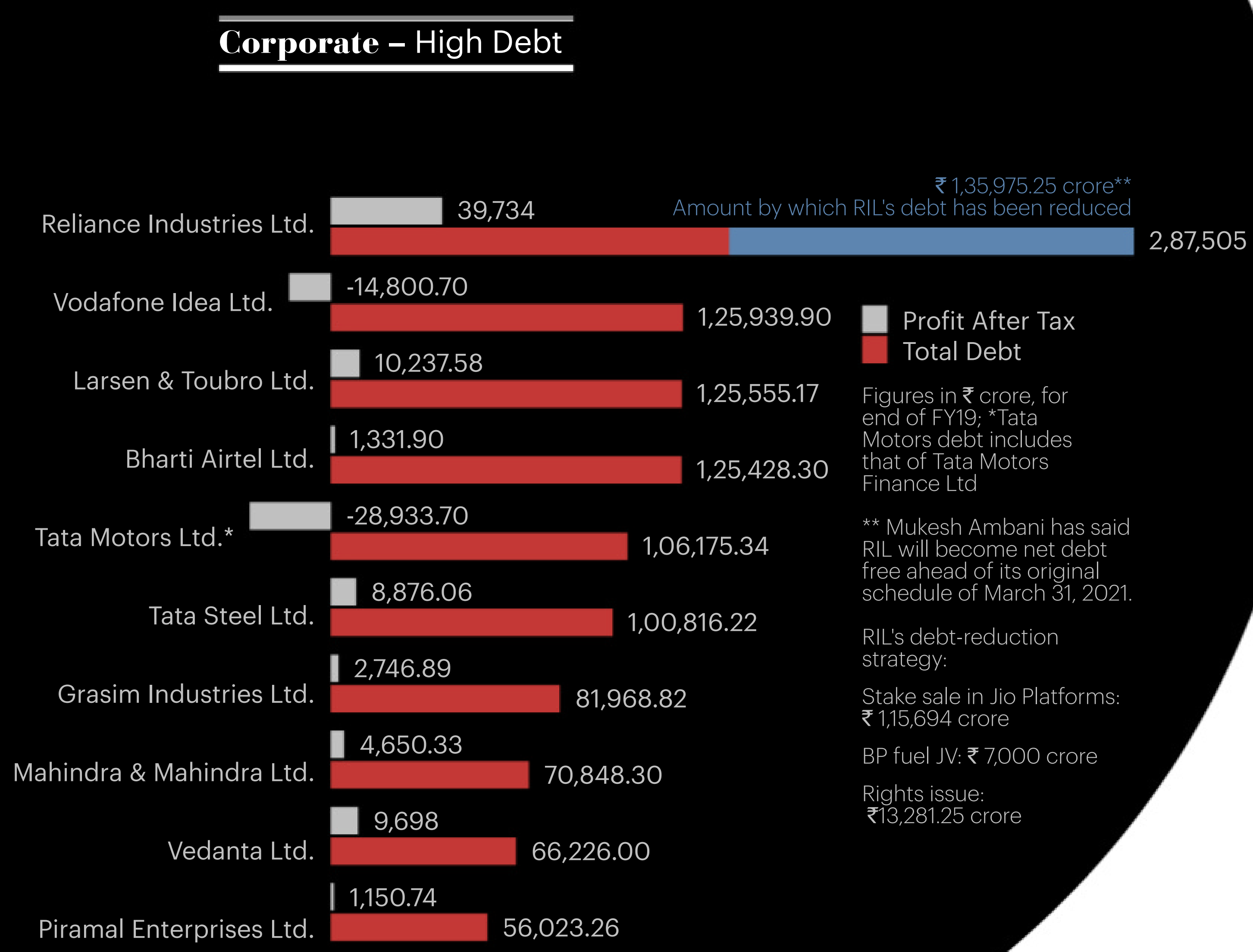
Walking The Tightrope

Hit by the pandemic, Sajjan Jindal-led JSW Steel has slashed its capital expenditure plans for FY21 by almost 45 per cent to ₹9,000 crore. The company had initially earmarked ₹16,340 crore. Plans to double the capacity of its Dolvi plant in Maharashtra to 10 million tonnes (MT) have also been delayed by six months, primarily due to shortage of manpower and material. Tata Steel Europe, which was in discussion with the UK government for a £500-million relief package, has restarted negotiations with Germany's Thyssenkrupp for a possible merger almost a year after the two firms called off a joint venture proposal citing the European Commission's objections. Both companies are now planning to sell off some of their assets to meet Europe's anti-competition norms. Besides, Tata Steel has also taken huge loans for building the Kalinganagar plant in Odisha, where it is raising the capacity from 3MT to 8MT. Naveen Jindal-led Jindal Steel and Power Ltd (JSPL), meanwhile, reduced its net debt by ₹4,379 crore in FY20.

The four power majors in the list of the 20 most-indebted companies have a combined gross debt of ₹1.63 lakh crore, with Adani Power topping the list. The current crisis has delayed the commis-

Debt Overhang

India's 20 most indebted companies have a gross debt of ₹15.4 lakh crore, almost half of the government's budget expenditure planned for FY21. A look at the top 10



sioning of the company's 1,600-MW ultra-supercritical, coal-based thermal power project in Jharkhand, which is being developed for the supply of 1,496 MW to the Bangladesh Power Development Board. The company has evoked the relevant clauses under the Power Purchase Agreement (PPA) with regard to Force Majeure and change in law, due to Covid-19.

Adani Power and Vedanta have also announced plans to delist since they are under-valued according to their managements. Vedanta's net debt stood at ₹21,273 crore on March 2020, ₹5,683-crore less compared to a year-ago.

Tata Power, on the other hand, is selling overseas assets to reduce the pressure on debt. It recently sold three big dry, bulk cargo carriers it owned through a Singapore-based unit for $213 million. It is also looking to raise ₹2,000 crore through a rights issue.

Another Tata Group firm, Tata Motors, plans to terminate around 1,100 temporary jobs at its arm Jaguar Land Rover. JLR's cost-control programme, Project Charge, is targeting £5 billion in savings by the end of the current fiscal. So far, it has managed to save £3.5 billion. The company, whose capital expenditure has declined by 40 per cent to £2.5 billion due to economic woes, is also cutting down on working capital and cost overheads in manufacturing and materials.

Infrastructure major L&T has been planning to become asset-light for a long time. Recently, CEO and MD S.N. Subrahmanyan said the company will reduce its ₹1.24-lakh-crore debt by ₹30,000 crore before March 2021 by selling its entire stake in L&T Infrastructure Development Projects and Nabha Power, and transferring its stake in Hyderabad Metro to an infrastructure investment trust.

Another major player, GMR Infrastructure, in February, sold its stake in the coal-fired Kamalanga power project for ₹5,320 crore to reduce debt. It has signed a share purchase agreement with French company Groupe ADP, which will hold 49 per cent stake in GMR Airports Ltd (GAL) for an equity consideration of ₹10,780 crore. GMR has also cut salaries by up to 50 per cent.

Other companies have also reduced wage bills. Tata Sons has initiated 15-20 per cent pay cut for vice presidents and above across group companies. Reliance has undertaken 10-50 per cent salary cut in its oil and gas division, anticipating a reduction in cash flow.

Piramal Enterprises has made a Covid-19 provision of ₹1,900 crore in terms of non-performing assets (NPAs). The company brought down debt by ₹17,500 crore in FY20 and is looking to sell a minority stake in the pharmaceutical business to reduce it further.

1,100

Temporary jobs that Tata Motors plans to terminate at its arm Jaguar Land Rover

Moratorium And Repayment

The Reserve Bank of India (RBI) recently said that an estimated ₹38.68 lakh crore of the total ₹100 lakh crore

"CREDIT IS NOT HAPPENING. BANKS WANT TO PLAY SAFE. THEY WANT TO INVEST IN GOVERNMENT SECURITIES, NON-CONVERTIBLE DEBENTURES OR LOANS TO PSUs OR AAA-RATED COMPANIES"

Seshagiri Rao
Joint MD and Group CFO, JSW Steel

"BUSINESS REQUIREMENTS ARE NOT GOING TO BE HIGH. DEBT WILL BE NEEDED MAINLY FOR LARGE DISBURSEMENTS. NBFCs WILL NEED MORE MONEY IF DISBURSEMENTS PICK UP BIG TIME"

Ramesh Iyer
VC and MD, Mahindra & Mahindra Financial Services

worth of outstanding loans, is currently under moratorium. Of this, loans to large companies constitute around ₹24 lakh crore. Rating agency ICRA has said that gross NPAs of banks are likely to rise to 11.3-11.6 per cent by March 2021, from 8.6 per cent in March 2020. It highlighted that uncertainty on the asset quality front remained high with almost 30-40 per cent of loan book across various banks under moratorium. Even if 10-20 per cent of these borrowers were to default, the slippage rate for banks could rise to 3-8 per cent of advances, according to the report.

Anticipating that highly leveraged companies will not be able to meet repayment schedules, RBI extended the moratorium period for three months till August 31 (from May 31 earlier). The government also suspended the Insolvency and Bankruptcy Code (IBC) for up to one year, fearing pile-up of cases at bankruptcy courts due to rising number of defaults.

In the first month of the moratorium, around 328 companies, including JSW group firms, Tata Power and Piramal Enterprises, availed the option. But the government did not announce any compensation to banks for the delayed principal and interest collections. Banks, on the other hand, wanted to charge interest on delayed interest payments. The matter is currently in the Supreme Court. On June 12, the apex court asked the finance ministry and the RBI to hold a meeting to decide on the waiver of interest on interest for deferred payments of loan installments during the moratorium period.

In the case of suspension of the IBC, the government does not have any direct financial overload. Banks will have to stay with the loan books of defaulted companies. They can, at best, restructure the loans. It means lenders will have to increase the loan tenure, forgo the unsustainable portions, and sanction additional working capital to help businesses turn around.

Niranjan Hiranandani, Founder and Managing Director of Hiranandani Group, says lack of cash flow and shortage of capital are major issues. He pointed out the necessity of one-time restructuring of corporate debt. "The Indian economy has been facing challenging times since past few years because of economic and taxation reforms. The lockdown has just brought things to a total stop," he says.

According to recent RBI data, credit to the industry has fallen by ₹1.33 lakh crore despite the government's efforts to increase liquidity. However, deposits have increased by ₹2.83 lakh crore. The fact is that deposits are moving from mutual funds to banks after Franklin Templeton MF closed six of its debt funds citing redemption pressures.

But where is the additional money being invested? Centre borrowed ₹6.70 lakh crore in April and the first week of May. Of that, banks have lent ₹3.48 lakh crore and the RBI ₹3.22 lakh crore, says a banking expert. "Credit is not happening. Banks want to play safe. They want to invest in government securities, non-convertible debentures (NCDs) or loans to PSUs or AAA-rated companies," says Seshagiri Rao.

"The fraud in Bhushan Steel was investigated by 900 officers. All the banks were involved in the transactions. In the Nirav Modi case, several PNB officers were in the dock," says a corporate executive.

Credit flow was a problem even pre-Covid. But there were other sources of financing like mutual funds, insurance companies, foreign portfolio investors (FPIs) and non-banking financial companies (NBFCs). Commercial papers were majorly funded by MFs. "When credit flow has stopped from other sources, banks are also not lending. This logjam has to be cleared," says Rao.

Transmission of rate cut is another issue. In the last 18 months, the RBI has reduced the repo rate by 2.5 per cent. But SBI's MCLR came down only by 1.15 per cent. It means not even 50 per cent of the cut was passed on to consumers.

Ramesh Iyer, Vice Chairman and Managing Director, Mahindra & Mahindra Financial Services, says the Centre and the RBI have taken enough steps to make liquidity available to NBFCs. "But business requirements are not going to be high. Debt will be needed mainly for large disbursements. NBFCs will need more money if disbursements pick up big time," he adds.

There are structural issues in the financial system. So, strengthening the balance sheet and creating liquidity within the company are important. Five years back, a company sitting on an additional ₹500 crore would repay banks. But, not anymore. Today, companies want to preserve cash and wait-and-watch since lending taps are drying up. **BT**

@nevinjl

Column

India Inc's Rising Cost of External Capital

Now, affected Indian companies will have to pass on higher borrowing costs to stakeholders

BY PAOLO PASQUARIELLO, MARTI G. SUBRAHMANYAM, and DAVIDE TOMIO

• • • •

India needs external capital to grow. This has been true since the early years of Central planning following independence when India relied on external debt raised mostly by its Central and state governments from foreign governments and multilateral agencies (like the World Bank). Until the liberalisation of the economy in 1991, few Indian companies were able to do so. In the 1990s, these companies finally began to raise external equity and debt capital, mostly through Global Depositary Receipts (GDRs) and Eurobonds. After the first Indian companies were listed on stock exchanges in the United States in 1999, equity funding took the form of American Depositary Receipts and Foreign Portfolio Investment. In parallel, Indian companies raised debt through External Commercial Borrowing (ECB), mainly in Eurobond markets.

Since then, the ratio of external debt to GDP has grown steadily and touched around 20 per cent ($563.9 billion) in March 2020. Of this, a large fraction (38.8 per cent) is ECB debt, regulated by the Reserve Bank of India (RBI) and the Ministry of Finance (MoF). In particular, the RBI closely monitors pricing and quantity of ECB debt to ensure that external indebtedness stays within limits. At present, the cap on the interest rate ("all-in cost") for Indian companies is the benchmark rate, that is, the London Interbank Offered Rate (LIBOR), plus 450 basis points (4.5 per cent), equivalent to about 5 per cent in USD for floating rate debt. This compares favourably with their domestic rupee cost of borrowing, even after considering the potential depreciation of rupee against USD, or hedging costs. Most of the highest-rated Indian companies such as Reliance Industries, State Bank of India and ICICI Bank Ltd. have been able to borrow at much tighter spreads — at all-in USD interest rates as low as 2.3 per cent on average — as recently as February 2020.

Under normal circumstances, these spreads reflect and compensate lenders for the credit risk they bear while lending to the best Indian companies — currently rated by global rating agencies (S&P, Moody's, Fitch) at the lowest investment-grade level (BBB- from S&P) or a notch higher, on the international scale. However, the Covid-19 pan-

ILLUSTRATIONS BY RAJ VERMA

demic has dislocated global credit markets and, as we discuss next, these spreads have significantly widened since then.

What's UP

Before the crisis, the group of top private companies was considered less risky than the top PSUs. After the pandemic started, the situation reversed, although the cost of debt rose sharply for both

This was possibly due to the perceived sovereign guarantee of the latter group

Mispricing of risk can yield a distorted assessment of absolute and relative default risk for firms, which may lead to significant capital outflows

Dislocations are an important, yet not fully understood, source of risk in financial markets when they are under extreme duress. Much academic research shows that in those arguably uncommon circumstances, markets cease to price financial assets correctly, often creating gaps between the prices of identical assets, thus the popular label, "dislocations." These gaps are not supposed to occur materially in well-functioning markets and they usually do not during normal times. Yet, when these gaps do occur — during times of turmoil and instability — they wreak havoc, especially in global derivatives markets, which are dependent on accurate relative pricing.

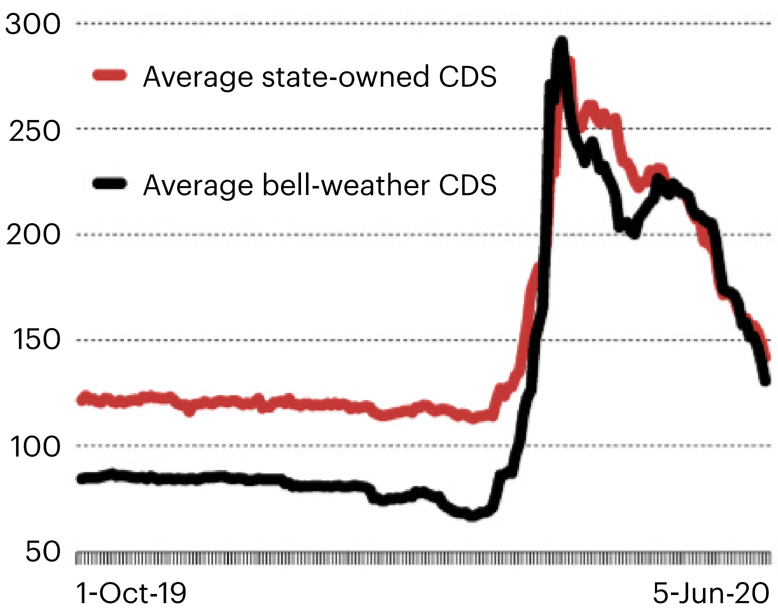
Dislocations have been plaguing domestic and international markets for currency, stocks, bonds and commodities for decades. However, only in the aftermath of the default by Lehman Brothers in 2008 and the ensuing global financial crisis did market participants finally become aware of their importance. Unfortunately, it appears that many of these markets are dislocated today, in the midst of the Covid-19 pandemic, with potentially devastating effects for the Indian economy, already ailing from the shutdown and the global recession.

How severe is the dislocation? Let us look at the market for external debt, on which many Indian companies are reliant. A traditional measure of credit risk of these companies is the spread over LIBOR that they have to pay to borrow in ECB markets. A novel and increasingly important measure of this risk is cost of insuring these companies' debt against default. These insurance contracts are traded in global financial markets in the form of credit default swaps (CDSs), and insurance premiums paid for protection against default are known as "CDS spreads." CDS spreads have become a crucial input in the determination of companies' cost of domestic and external funding. CDS contracts are currently available for many large Indian companies, including such well-known names as Reliance Industries, State Bank of India (SBI), ICICI Bank, Tata Motors, and Tata Steel. Hence, we can use their CDS spreads as a barometer for global market's perception of credit risk of India Inc.

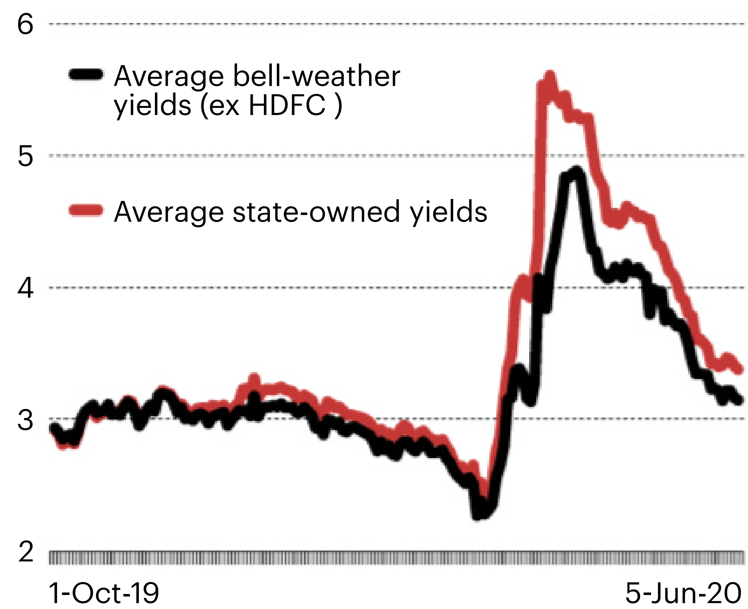
Consider the following two sets of large Indian companies: First, private-sector bell-weather firms with credit ratings at or above the Indian sovereign (BBB- from S&P) like HDFC, Reliance Industries and ICICI (all at BBB- or higher); second, large state-owned enterprises with only marginally lower credit ratings like Indian Oil Corporation, National Thermal Power Corporation, Rural Electrification Corporation and SBI. Before the crisis, CDS markets deemed the first group less risky than the sec-

The Great Market Dislocation

Spike in CDS spreads after coronavirus outbreak (left) but more steep rise in cost of debt for state-owned firms



CDS spreads (in basis points) for five-year maturity (Source: Markit data)



India Inc.yields on USD five-year maturity external debt (in percentage); (Source: Bloomberg) ond — as captured by their five-year CDS spreads in the graph, moving together in a narrow range until just before the pandemic. Yet, starting in early March, and a few days into the pandemic, dislocated CDS markets suddenly dictated that both sets of companies had become several times more likely to go bankrupt, as measured by their CDS spreads. For instance, the average annual premium to insure $10 million of Indian bell-weather debt, for the five-year maturity, against the risk of default jumped from less than $80,000 on February 28 to nearly $300,000 on March 24. CDS markets also assessed that the bell-weather companies, with the highest ratings, had become, over that same period of time, nearly four times as likely to go bankrupt, while the risk for ex-ante riskier state-owned enterprises had only more than doubled, perhaps due to their implicit sovereign guarantee.

These sharp swings in perceived absolute and relative credit risk within CDS markets have had a significant impact on the external debt market for both sets of companies. Prior to the pandemic, the average yields for their USD-denominated five-year fixed rate debt were close and moved within a steady range around 3 per cent, as shown in the graph. However, in early March, as investors worldwide "flew to safety" when faced with coronavirus risk, the credit market consensus suddenly dictated that the most creditworthy, bell-weather Indian corporations would have to pay up to 2.3 per cent more in annual interest than just a few weeks earlier in order to borrow in USD, a substantial increase relative to risk-free USD interest rates for similar maturities (at less than 1 per cent). Debt yields of these bell-weather companies decoupled from those of state-owned Indian firms. In particular, state-owned firms' cost of USD borrowing increased as suddenly, yet much more sharply, by roughly 3 per cent, such that they could borrow only on much worse terms than their bell-weather counterparts, despite their relatively more favorable credit risk assessment in CDS markets.

This seeming dislocation in the external credit markets continues as of today and could significantly harm India Inc., the Indian sovereign, and ultimately its economy, for at least two reasons. First, dislocated financial markets cannot allocate resources and share risks efficiently among investors, firms, governments and households, ultimately hurting their bottom lines. In the example above, the affected Indian companies will have to pass their

The average annual premium to insure $10 million of Indian bellwether debt (five-year maturity) jumped from less than $90,000 on February 28 to nearly $300,000 on March 24

higher borrowing costs to own stakeholders (customers, employees, suppliers, central and state governments) and potentially forego valuable investment opportunities exactly as the Indian economic engine is slowing down because of the pandemic and its aftermath.

Second, as asset prices are dislocated, market participants may make inefficient decisions, and their decisions may lead to self-fulfilling prophecies. In the example above, dislocated CDS and external debt markets may yield a distorted assessment of the absolute and relative default risk for Indian firms, which may lead to significant capital outflows (e.g., as domestic and foreign investors sell risk [Indian stocks and bonds] and buy safety [e.g., U.S. stocks and Treasuries]). Such actions, in turn, may lead to a greater cost of capital, and actually increase the likelihood of default for the most credit-needy Indian firms, in a vicious spiral that would be difficult to contain.

Ignoring market dislocations arguably contributed to the severity of the global recession that followed the 2008 financial crisis. India escaped the worst of that global shock. This time may be different, since the RBI has been sluggish in its response and the fiscal stimulus has been feeble. The RBI and the MoF should revisit this lesson and acknowledge that important segments of domestic and global financial markets — crucial sources of capital for Indian companies — are currently dislocated. Unprecedented efforts may be necessary to remedy these dislocations, prevent future ones, and mitigate their consequences, along the lines of the early actions of the US Federal Reserve and the European Central Bank in support of their local credit markets — actions that are already bearing fruit for their local economies. Only such dramatic actions would avert the catastrophe that these dislocations could otherwise wreak upon the already fragile Indian economy. We hope that Mint Road and North Block pay heed. BT

Paolo Pasquariello *is Professor of Finance at the Ross School of Business at the University of Michigan.*
Marti G. Subrahmanyam *is the Charles E. Merrill Professor of Finance, Economics and International Business at the Stern School of Business at New York University.*
Davide Tomio *is Assistant Professor of Business Administration at the Darden School of Business at the University of Virginia*

ENERGY That is Forever

Moving towards cleaner and greener initiatives, harnessing the potential of renewable energy is the need of the hour

With ample sunshine and surrounded by the sea on three sides, India has around 7,600 km of coastline. And this gives India an advantageous position to harness solar and wind power for renewable energy. Optimising this potential since the last four decades, India now stands at the 4th position in wind power, 5th in solar power and 5th
in renewable power installed capacity as of 2018, according to the Renewable Indusrty in India report on ibef.org. It further states that in the 2018 Climatescope report, India ranked second among the emerging economies to lead to transition to clean energy.

But what is the need for renewable energy? In an article on indiary.org, Gautam Khurana explains, "Renewable energy is the energy collected from renewable resources, which are naturally replenished on human timescale such as sunlight, wind, rain, tides, waves and geothermal heat. It is the cleanest source of energy with least carbon emissions or pollution. This helps in reducing reliance on coal and other fossil fuels. With the expansion of renewable energy, India can improve air quality, reduce global warming emissions, create new industries and jobs, and help to move world towards a cleaner, safer, and affordable energy."

Pushing growth in the sector, India was the first country in the world to establish an exclusive ministry for this-Ministry of New And Renewable Energy (MNRE). As per the data given on mnre.gov.in, renewable energy has a share of 23.39% in the total installed generation capacity in the country, that is 368.98 GW (up to February, 29 2020).

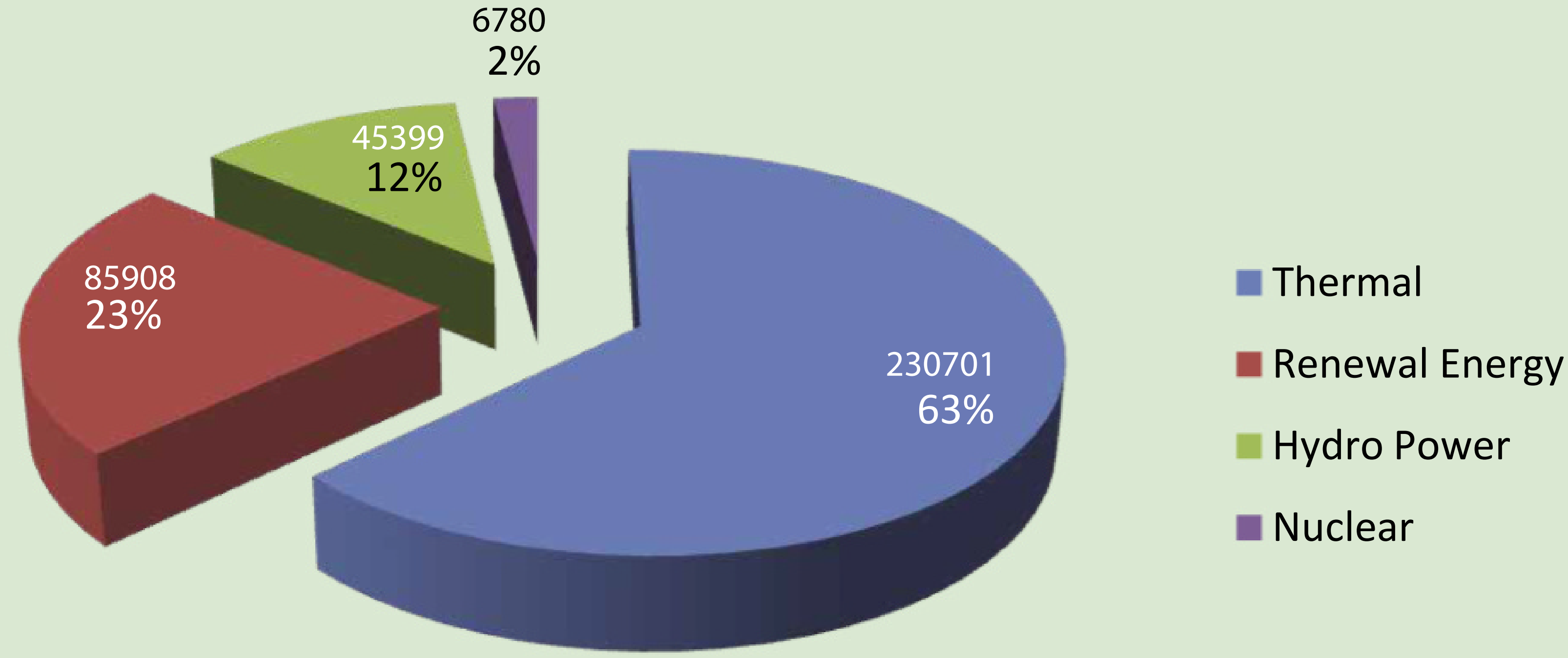
The Mission

Renewable energy is the need of the hour for many reasons. Depletion of conventional resources means damage to the planet. Seeing the growth engine, by 2040, electricity consumption is expected to reach 15,280 Twh. And India's renewable resources such as ample sunlight throughout the year and a large hydropower potential make renewable energy an attractive proposition. With many initiatives in place, the sector has attracted more than US$42 billion investment since 2014. As per the ibef.org report, around Rs 36,729.49 crore (US$ 5.26 billion) investment was made during April-December 2019 by private companies in renewable energy. The government has also listed renewable energy projects under priority sector for loans. In fact, the government launched the National Solar Mission in Janaury 2010. This was the first operationalised mission under the National Action Plan on Climate Change (NAPCC). The initial target was to deploy 20,000 MW of Grid-Connected Solar Power by 2022. But in June 2015, the target was revised to 100,000 MW by 2021-22.

The steps

In its annual report 2019-2020, MNRE clearly states that, "...In India, renewable energy has started playing an increasingly important role in the augmentation of grid power, providing energy access, reducing the consumption of fossil fuels and helping India pursue its low carbon development path. Ahead of COP 21, India submitted its Intended Nationally Determined Contribution (INDC) to the UNFCCC, outlining the country's post-2020 climate actions. India's INDC builds on its goal of installing 175 gigawatts (GW) of renewable power capacity by 2022 by setting a new target to increase the country's share of non-fossil-based installed electric capacity to 40 percent by 2030."

To achieve its aims, the government has rolled out initiatives such as waiver of Inter-state transmission charges for sale of solar and wind power; Renewable Purchase Obligation trajectory, competitive bidding guidelines for procurement of solar and wind power; flexibility in generation and scheduling of thermal power stations; solar cookers programme; solar-wind hybrid policy; solar PV manufacturing linked with assured take-off; Atal Jyoti Yojana and standards for deployment of Solar PV systems; Grid Connected Rooftop Solar programmes, organising RE-Invest 2015—a global investors' meet; solar pump scheme with a target of installing 100,000 solar pumps and programme to train 50,000 people for solar installations



India - Source Wise Installed Power Generation Capacity (MW) as on 31.12.2019

under the Suryamitra scheme and more.

Initiatives in place:

- Solar sector in India received investments of US$ 9.8 billion in CY2018.
- Three solar parks Kurnool (1000 MW) in Andhra Pradesh and Bhadla-II (680 MW) in Rajasthan and Pavagada (2000 MW) in Karnataka are fully operational.
- As of 2019, the solar power plant Bhadla Solar Park in Rajasthan will be the world's largest solar plant with a capacity of 2,255 MW.
- More than 74 lakh solar lanterns and study lamps; more than 17 lakh home lights have been distributed under the Off-Grid and Decentralised Solar Programme.
- More than 6.80 lakh street lights have been set up in the villages of India.
- More than 2.46 lakh Solar PV Pumps have been installed in the rural areas for irrigation and drinking water purposes.
- Around 60.61 lakh solar study lamps were distributed to the students under 70 lakh solar study lamp scheme in the States of Assam, Bihar, Jharkhand, Odisha and Uttar Pradesh.
- Kisan Urja Suraksha evam Utthaan Mahabhiyan (PM-KUSUM) scheme, launched in March 2019, involves setting up of 10,000 MW of Decentralized Grid Connected Solar or other Renewable Energy Power Plants on barren / fallow land; Installation of 17.50 lakh standalone solar agriculture pumps; and solarisation of 10 lakh Grid Connected Agriculture Pumps.
- The current annual manufacturing capacity of wind turbines in the country is about 10,000 MW.
- 12 biogas based projects have been commissioned with a power generation capacity of 212 kW and corresponding biogas generation capacity of 1805 m3 per day. With this, the cumulative total of 316 biogas based projects with a total power generation capacity of 7.166 MW with a cumulative total biogas generation of 69,500 m3 per day has been set up in the country, up to December 31, 2019.
- Under the Green Energy Corridor project, approx. Rs 2,000 crore has been disbursed to the states.

Benefits

Seeing the massive scale on which the renewable energy projects are deployed, imore than 10 million man-days employment is created annually. There are investments in education, training and skill development, which open livelihood opportunities, esepcially in the rural belt. "Under the solar study lamp scheme, over 7,436 women were trained as solar lighting technicians, 1,769 repair and maintenance centers were established, around 1,896 people were trained in entrepreneurship development and 832 solar shops have been opened. Under the Suryamitra programme, around 40,441 Suryamitras have been trained cumulatively up to December 31, 2019," states MNRE's annual report. The ministry encourages internship and fellowships in clean energy for those who want to pursue further studies.

Clean energy has resulted in savings in all ways in many places. To give an example of Asian Paints, Khandala, Maharashtra. Here, a CPC-based pressurised solar hot water system having a collector area of 369.6 m2 was installed at a cost of Rs.77.89 lakh. It delivers pressurised hot water at rate of about 6 lakh kcal/day, which saves around 70 litres of HSD/day. The result is saving of about Rs 5,000/day.

Opportunities

Going by the government reports, India has a wind potential of more than 300 GW at a hub height of 100 metre, solar potential of ~750 GW, assuming 3% wasteland is made available, small hydro potential of ~ 20 GW, and bio-energy potential of 25 GW. Biogas can be the answer to meet rural cookign energy. Solar power can be used for decentralised distributed applications to meet the hot water requirement for residential, commercial and industrial sectors. Renewable energy can be a gamechanger in electrifying the un-electrified or power deficient villages and hamlets.

The Energy Efficient Solar/Green Buildings programme has also been promoted at various levels. To name some buildings which received certifcation under this: Power Grid Regional Headquarter Office Building, Bangalore, Madanjeet School of Renewable Energy, Pondicherry University, Puducherry, New Girls Hostel, IIT Madras.Around 60 cities/towns were indentified for development as 'Solar/ Green Cities'. In this FY, Shimla, a Pilot Solar City, has completed 35 kWp SPV project and also supplied 1,300 Solar Home Lighting systems for slum areas.

Enormous potential and many policies, renewable energy in lieu of coal will save around Rs 54,000 crore (US$ 8.43 billion) annually. And keep the planet safe for future generations.

RENEWED FOCUS
RENEWABLE ENERGY

A GRACEFUL STEP TO A SUSTAINABLE FUTURE

In an era of Covid 19, Ahmedabad based Grace Renewable Energy Pvt Ltd is a personification of the phrase 'Grace Under Fire'. Manish Bagadia, the MD & CEO of the company talks about the challenges and opportunities in the Renewable Energy sector.

Q How has been the impact of the Covid 19 pandemic in RE sector? Do you agree with the fact stated by various authorities that during this lockdown Governments, organisations and people at large have become more aware and conscious about the benefits of being more responsible towards our planet's limited natural resources?

The renewable energy sector was on a growth trajectory before we were hit by the pandemic. During the lockdown phase, government and people at large have become more considerate and responsible towards our planet and its limited natural resources. A glimmer of hope in these trying times was the awareness it has created for renewable energy, specifically for solar energy. People have become aware of the benefits that solar can provide in these unprecedented times and are inclined to invest in this sector as soon as the situation stabilizes. This was evident from the fact that even when the world was on a standstill due the outbreak of virus, operational renewable energy projects of wind, solar has continued to give returns all over the world. We believe that the utility scale segment is capable to absorb the impact as the government is bullish on achieving the 175 GW target.

Q We are sure the past 3 months must have been an extraordinarily challenging time for you, as the chief of this enterprise. Where do you see your company going from here? Can you kindly elaborate on your plans?

Yes, past few months were tough for us as the outbreak of the virus has significantly disrupted the momentum of solar sector which was on its peak. In addition we have to absorb some operational expenditure under these conditions as well. Even though the nationwide lockdown has brought all our operational solar projects on standstill, the silver lining amid this pandemic was that our commissioned solar projects have continued to generate power and given returns to our customers. If we look at this from a larger perspective, positive trends are expected in this sector as some proactive customers who had realized the benefits of solar and are inclined towards the cleaner energy would be definitely ready to invest upfront. We have had a host of inquiries during the lockdown phase from customers to understand the benefits that Solar provides. There is no doubt that the going is tough, but as they say only the tough gets going. As a chief the most important aspect is to keep the team motivated and make them believe that we would sail through. We believe that although we might face the heat in the next couple of months, but we would end the year on a high note.

Mr. Manish Bagadia, MD & CEO, Grace Renewable Energy Pvt Ltd.

Q Being a Capital-intensive industry, how do you view the credit availability for this sector?

Solar Industry is definitely a capital intensive industry and the policy framework in India lacks effective implementation of financing structure. Government of India incessantly encourages the adoption of solar energy in the country; however the rooftop solar has been challenging for the investors owing to poor credit availability, lack of awareness and banks criteria for collateral in the market. The pandemic has impacted Indian economy adversely and post Covid-19 adequate financing for solar projects which involves depreciation and interest cost remains a challenge for solar enthusiasts. In order to facilitate solar project financing then in 2017, World Bank in collaboration with State bank of India has approved financial assistance $357 million to support grid connected solar rooftop projects in India. However adoption of this scheme by government owed banks like SBI and PNB has been extremely slow on the ground level. Many times small and medium scale industries are reluctant to invest upfront capital for rooftop Solar and also face challenges in raising financial capital for the same owing to their poor credit rating. I believe that the rooftop market may take a hit in the short-term, say a couple of quarters. In these difficult times, these funds could be deployed appropriately and will add to the growth of rooftop market.

Q Any SOPs from the govt? If not, what is it that you seek from the government?

The state and central government have favourable subsidies, incentives and streamlined process for residential segment. With this Government of India has recognized commercial and industrial (C&I) segment as the untapped potential market which can play a critical role in the adoption of solar energy in the country. However there are no incentives or subsidies facilitated by the centre government for C&I consumers which has highest market share of ~70% of the total installed solar capacity. There are few challenges and bottlenecks which are hampering the growth of solar rooftop in India. In states like Gujarat, commercial and industrial (C&I) consumers can only install 50% of their sanctioned load. Currently the commercial and Industrial sector is generating the demand in rooftop but Gujarat solar policy doesn't approve net metering policies for OPEX model. In addition, state discoms tend to see the rooftop solar segment as threat to their revenue and create complex approval process and hurdles for solar projects. Some of the other challenges faced by industry are multiple charges levied by Discoms such as wheeling charges, transmission and distribution charges, CTU charges, cross subsidy charges for injection of power into the grid etc. The central government should focus on providing standardized policies in all parts of India to avoid protectionism to state discoms.

Q Can you please share some of the key products / services offered by your company?

Grace is one of the leading solar EPC solution providers in India with a focus on providing world class quality and cost effective solar solutions to our customers. We pride ourselves in offering an extensive range of solar products and services, ranging from Solar EPC services for Residential, Commercial & Industrial segments to Utility scale projects and Solar PV modules. Our philosophy is to enable energy independence to our clients by reducing their dependency on fossil fuel and create a lasting impact on social well-being. We are also the exclusive channel partner of leading solar module manufacturing company and have built strong partnerships with many leading global technology providers to extend our reach to our clients globally. Grace is actively engaged in development of various solar projects in India and across the globe. We have rich experience and exposure of executing projects conforming to international standards. As we have already installed a solar project in Indonesia, have project under execution in Nepal and presently developing a 4 MW solar project in Africa.

WORKING TOWARDS A SUSTAINABLE FUTURE

In conversation with Rushabh Mashru- the young entrepreneur, leading Mashru Energy, discusses the challenges and opportunities in the Renewable Energy sector.

Can you talk about the inception of the company and share some of the key products/services offered by you?

The seeds of Mashru Group were sown by the Late Shri. Bhachubhai Hansraj in 1949. He believed in core values of integrity, quality, and consumer focus that created a strong foundation for the group. Over the years the Mashru Group has diversified into various businesses including Petroleum, Logistics, Textiles. In 2018 Mashru Energy was started as an initiative by the Mashru Group to develop sustainable energy to help the future generation. I graduated from The Pennsylvania State University in 2017 with a degree in Energy Engineering. It is the detailed knowledge and expertise that I gained there that I bring to the company as I oversee the daily operations along with my brother Ruchir Mashru who has an MBA in entrepreneurship from Babson College.

Left to right is - **Ruchir Mashru, Pradeep Mashru, Dinesh Mashru** (on the chair) and **Rushabh Mashru** (right most).

We believe solar is gaining precedence as an economically reasonable renewable energy technology to reduce the nation's dependence on fossil fuels, and we want to be at the forefront of that revolution. The essence of our company focuses on fighting this problem and educating people to make sure they make the right choices and realise that solar energy is not just a choice but a sustainable future they are building.

We are an Engineering, Procurement, and Construction (EPC) company that provides turnkey solutions for residential, commercial, industrial, and utility-scale projects. For solar rooftop, we work with the customers and provide OPEX solutions as well as CAPEX solutions. In the OPEX model we set up the entire powerplant on the customer's property with 0 investment from their side, and in turn, provide them with electricity under a long term Power Purchase Agreement (PPA). In the CAPEX model, the customer invests for the entire project and takes full ownership and benefits.

How has the impact of the COVID 19 pandemic been in the RE sector? Do you agree with the fact stated by various authorities that during this lockdown Governments, organizations and people at large have become more aware and conscious about the benefits of being more responsible towards our planet & its limited natural resources?

Whether it is about health or energy choices, we now have the time to assess our impact on the world. We have seen the positive impact on the environment by the forced reduction of our fossil fuel use. I personally feel, from a socio-economic standpoint, that when people experience a change of such magnitude it helps everyone focus and wake up to fight existing problems- a major one being the exploitation of fossil fuels and its adverse effects on the environment.

People have become more mindful of the fact that there is just one home for our civilization- if any disaster occurs, like the pandemic we have at hand, there is no place that we can just migrate to. Therefore the need of the hour is to nurture the planet and utilize its finite resources more efficiently and responsibly. Hence using renewable clean energy is the only way moving forward. Countries have already started setting agendas for low carbon emissions post the pandemic and the Indian government too has the opportunity to shift dependence from fossil fuels to more favorable sustainable energy sources.

At the present time only a third of India's electricity generation comes from renewable or sustainable sources. Renewable energies, like solar, have become cheaper, on a per-unit basis, than thermal energy and coal-fired power plants. In Addition solar has the added advantage of being a decentralized renewable system that is very easy to integrate on the roofs without having to change much of the existing structure. This will make solar the obvious choice in the Renewable Energy sources.

We are sure the past 3 months must have been an extraordinarily challenging time for you, as the chief of this enterprise. Where do you see your company going from here? Can you kindly elaborate on your plans?

The COVID-19 outbreak has proved to be the biggest health, social and economic emergency our generation has ever faced. To deal with the further spread of the virus, and flatten the curve, governments globally decided to restrict the spread of the highly contagious virus by resorting to locking down entire countries. Our government had a very ambitious plan to have a strict nationwide lockdown that resulted in an economic slump.

The pandemic had some adverse effects on almost all industries and sectors, and solar was definitely not an exception. India still heavily relies on the supply of materials for PV projects from China, and with the closing of the Chinese markets at the beginning of CY20 disrupted the Supply Chain. Regardless of the anti-dumping duty imposed on the imports of Chinese PhotoVoltaic(PV) modules, seeing such a huge deficit in the supply of materials, the price of goods in India escalated. While this situation as a whole is great for manufacturers in India, EPC companies that were in the execution stages are facing huge issues as the prices were finalized at previously negotiated rates. In March, India decided to lock down the entire country bringing everything to a standstill. This mainly impacted EPC companies in 2 ways. Firstly, due to government offices being shut there was a delay in the release of payments from government agencies, which has put most companies in a cash crunch, and secondly, the reverse migration of labour further slowed down the execution of projects in the pipeline.

Moving forward, however, I see huge growth in the solar industry as it is the more viable alternative source of energy by being cost-effective and cleaner. The economic crisis will force companies to allocate funds more efficiently and cut costs wherever possible. With the government providing subsidies to residential consumers and giving the accelerated depreciation benefit to industrial consumers, solar has already gained popularity as the go-to self-sustainable source of energy. Keeping this in mind Mashru Energy is now focusing on the residential and industrial rooftop solar space.

In the industrial rooftop sector we see ourselves executing more OPEX based projects. The long term Power Purchase Agreement will be at a tariff lower than what they are currently paying the current DISCOM. This type of a purchase model is very beneficial for the consumer as they don't have a capital investment and their operating cost per month reduces as a result of the lower tariff they would be paying for electricity.

Any interesting projects OR product development in the pipeline, which you would like to share with our readers?

In the last 4 months, under the Surya Gujarat scheme, we have commissioned more than 300 residential rooftop solar projects and have another 300 projects more in the pipeline, which were delayed due to the pandemic. We are also in talks with a few companies for private PPAs. Our goal is to hit 15MW by the end of FY20-21.

Your view on the contribution of New & Renewable Energy in helping India lessen its dependence on Oil import.

Imported crude oil in India accounts for around 85% of our oil requirement. With the demand falling steeply because of the pandemic we saw a huge decline in the worldwide prices of crude oil. Already in the FY2019 INR 67 thousand crores were allocated towards subsidizing oil and gas which was up 65% compared to FY2017, whereas subsidies allocated to the Renewable Energy sector were down by 35%. Hence, keeping in mind the low crude oil prices, reallocating these subsidies funds from the fossil fuels sector is a vital definitive step towards the Renewable Energy sector. At this moment we are at a crossroads and every action has a consequence so we must make sure we take the right road and not the convenient one, because that will have long term detrimental actions. India must transition to a much cleaner energy initiative by all ocating more funds to boost the Renewable Energy Sector.

Closing this interview, your give-away to our readers about your learning during this unprecedented pandemic time.

It's great to live in a global world where everything is shared. However, the unprecedented pandemic highlighted the importance of having local resources. What I have learned is while economic progress is essential it must go hand-in-hand with a mindfulness of our resources and environment. Every step we take has a consequence for our Earth today and for our future generations. It has also shown us that we have the ability to become self dependent. The crisis has pushed us towards Make in India, let us continue in that path to become more self dependent and economically powerful. This is essential for a sustainable environment and for an economy with a solid backbone. This is our opportunity to become an economic power to be reckoned with.

ENERPARC: DELIVERING ZERO EMISSION GREEN ENERGY

About Enerparc: Enerparc Energy Private Limited is a wholly owned subsidiary of Enerparc AG, Germany (7th largest Solar developer in the world outside China). Headquartered in Bengaluru, the company specialises in EPC services for rooftop and ground mounted solar photovoltaic (PV) systems across India with a focus on Commercial & Industrial (C&I) segment.

Mr. Santosh Khatelsal, Managing Director at Enerparc Energy

Enerparc is a global expert in developing, engineering, building and operating Photovoltaic (PV) systems. Enerparc has executed over 3,000 MW of solar projects as an EPC contractor and owns 1960MW of them. With an unrivalled knowledge base, they deliver projects with a high degree of flexibility, speed and quality. Enerparc has established local presence in all active solar markets such as Western & Central Europe, Middle East, Australia & India.

Here are the thoughts, Santosh shared with us on how current pandemic has affected solar business in India.

Q How has been the impact of the Covid 19 pandemic in RE sector?

For the last couple of months new enquiries have reduced by 70% for solar project implementation in Indian commercial and Industrial customer base. As cash flow gets tighter among these customers, we expect the projects to move into OPEX or investment-free models where end-customer has someone else putting in the asset and only buys energy. The larger utility market has slowed down, but will resurrect in 4-6 months' time.

Q Can we say that the last quarter has been an extraordinarily challenging time for you, as the chief of this enterprise? Where do you see your company go from here? Kindly elaborate

Times like this, is a once in a century event. There is no second thought about moving forward and learning something new from the current situation. I would thus say, one needs to go with what one fundamentally believes in. We believe in solar and the Indian solar story 100%. Hence, we decided to invest further into our Indian business in April this year right in the middle of the pandemic. My opinion is that the solar market will slow down for next 4-6 months, but will pick up pace and pent up demand fulfilled for clean green energy from Q4 of this fiscal year.

Q Any SOPs from the Govt so far? If not, what is that you seek from the Government?

For our industry, the SOPS government announced so far are largely aimed at making credit available. In my opinion, this will not by itself lead to industry and economy opening up. Demand needs to open up and credit SOPs have limited impact on this Deregulating distributed decentralised solar generation is one thing the government can think of, to boost the sector. It's

essential to remove hurdles and allow private enterprise to flourish.

Q Any interesting projects OR product development in the pipeline, which one would you like to share with our readers?

In India, we are continuing to build rooftop solar projects for our Industrial customers and we are also building a 37 MW project in Assam. This is one of the largest in that state. We are also investing in Australia and the Netherlands along with Spain and Germany where we continue to build solar projects. We recently completed a 100 MW bifacial solar project in Kazakhstan where temperatures drop to (-) 20 deg in winter and (+) 30 deg in summer. Designing and building this project was a technical challenge.

Q With your years of experience in this all-important space, your advice/tips to all those following this vibrant sector.

A growing economy like India needs a lot of energy. Being scarce of other options and also to mitigate greenhouse gas emission, India must continue to adopt more and more solar energy. There may be occasional clouds of uncertainty in our industry but I believe the sun will continue to shine strong and long in India. I would wholeheartedly invite those who want to bask in the sunlight to this sector.

Q Can you please share some of the key projects implemented by your company?

Enerparc conceived and built South Asia's first solar project next to the runway inside Delhi International airport 7 years ago. This 7.5 MW solar project provides close to 25% of the energy requirements of Delhi International airport and taking DGCA and pilots on board to get their green light to build this project was a significant first. We have also built solar systems atop ship-to-shore unloading cranes in JNPT port Mumbai. These are one-of-a-kind solar projects atop cranes that move. In International market, one of the projects I would like to speak about is the one we built only a few meters from the Chernobyl Nuclear power plant site. This solar project which we invested in, is unique among the other 1960 MW of solar assets Enerparc owns across the world. We take pride in greening up the site of the world's worst nuclear explosion.

Industry

Sky is

There was a sense of self-assurance and desperation in his voice. When *Business Today* spoke to one of IndiGo's pilots about his experience of flying during the Covid pandemic, he said much has changed in the aviation business since May 25, the day the Ministry of Civil Aviation (MoCA) allowed airlines to restart flights.

From the pilot's perspective, the airline is flying a lot less passengers, and taxiing and take-off time has been substantially reduced, he said, on condition of anonymity. In addition, he doesn't have to take a breathalyser test before every flight because of risk of spread of the virus. His savings have been hit as his salary has been slashed

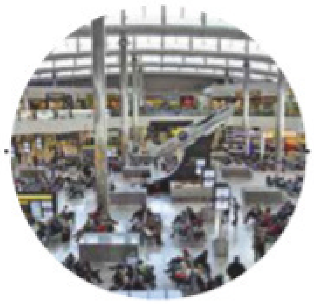
Limited

Airlines have taken to the skies after two months. But their pain is far from over

BY MANU KAUSHIK
PHOTOGRAPH BY RAJWANT RAWAT

by 15 per cent but the 38-year-old pilot does not have any grudges. "I have operated just four flights since the re-opening. The airline is doing its best to limit the risk of exposure. Load factors are low. But it's good that we are flying again after sitting idle for two months," he says, adding that his flight hours per month have gone down considerably – from 80 hours before to 15-20 hours now. He hopes that the salary cuts could be reversed if IndiGo could fly more. "A 15 per cent cut is manageable. It's a question of overhead expenses. I don't own a luxury car, nor am I paying EMI for a big apartment like some other pilots. For me, the salary cut has translated into lower

Estimated Aviation Sector Losses in FY21



Airlines
₹17,000 crore

Airport operators
₹5,500 crore

savings," he says.

In March, just before the first lockdown, IndiGo had reduced staff salaries by 5-25 per cent across pay grades with senior management taking the steepest cut. This was followed by another cut in May (between 3 per cent and 12 per cent) in the form of leave without pay, ranging from one day to five days a month. Other airlines like SpiceJet, GoAir, Vistara and Air India have also slashed salaries.

Not just its staff, IndiGo's management also believes the only solution out of the crisis is to fly more. But with capacity restriction of 33 per cent, imposed by the government till August, and decision on international flying likely only in July, there's a limit to which airlines can fly.

Traffic Tales

In a recent conversation with *Business Today*, IndiGo's CEO Ronojoy Dutta said contrary to popular belief that demand in the initial days would be high before dying down, his airline is witnessing a sustained upward demand trajectory. IndiGo started with about 220 flights a day in late May and went up to 350 in middle of June.

Dutta says he's hoping the government will allow 50 per cent capacity as underlying trends support that kind of number. "Once it gets to 50 per cent, will we say, go to 70 per cent? I don't know. We will decide then. But at this point, all arrows are pointing up, and we want to add capacity," he says.

However, analysts say it's only a matter of time before demand crashes. "The key drivers of demand are not going to pick up over the next three-six months," says Kinjal Shah, Vice President at ratings agency ICRA. ICRA says passenger traffic will remain under pressure till September with some recovery likely only after that. On a full-year basis, airline traffic is estimated to decline by 45-50 per cent.

"It's not a question of real demand. What we are seeing is scare demand," says Amit Sinha, Partner at Bain & Co.

Dutta, however, feels the bottom end of the market is likely to sustain traffic growth even if corporate demand is muted. "There are more virtual meetings, Zoom calls and all of that. So, people won't travel (for work meetings) because of the enabling facility of these technologies. In India, it is not easy to navigate if you want to go from point A to point B. So, it is a train versus plane issue. Remember, airline travel has become affordable," says Dutta.

Even as Dutta is optimistic, the

Funds Crunch

Expected Revenue Fall in FY21

44%

Additional Funding Required between FY21 and FY23

₹35,000 crore

Projected industry debt in FY22

₹46,500 crore

Estimates by ICRA

No-Fly Zone

Nearly all airlines are flying at 25-30 per cent capacity due to restrictions and low demand

Demand is uneven with flights to East India reporting higher load factors

May data released by regulator DGCA (Directorate General of Civil Aviation) shows traffic has come down to a trickle. In the seven days in May, it was 2.81 lakh, down 98 per cent from May last year.

To make it more complicated, the traffic is uneven. There's more traffic towards Eastern India. On routes like Mumbai-Patna, Mumbai-Dibrugarh, and Delhi-Kolkata, the load factor (seats occupied as percentage of total) is above 80 per cent, whereas on Patna-Delhi, it is in the region of 40-50 per cent.

In order to capitalise on this traffic imbalance, Vistara has deployed its wide-body aircraft Boeing 787-9 Dreamliner on the Delhi-Kolkata sector. "The traffic is quite directional. Some flights are doing 100 per cent load factors. We are seeing more people moving out of Mumbai. Our network is being constantly reviewed," says Vinod Kannan, Chief Strategy Officer at Vistara. The Tata Group-owned airline is operating at 25 per cent capacity as against 30 per cent for IndiGo.

The load factor at top five carriers stood between 44.1 per cent (Vistara) and 57.2 per cent (SpiceJet) in May. This is fairly low compared to the pre-Covid period. But airlines think this is partly due to fare bands introduced by the MoCA for three months till August. Based on flying hours, it has set seven fare bands. Airlines can take bookings for Goa-Mumbai between ₹2,000 and ₹6,000 per ticket. Similarly, fares can vary between ₹6,500 and ₹18,600 on a Delhi-Coimbatore flight. Airlines think that they have lost the flexibility to offer lower fares on routes with low load factors.

30%

Share of international traffic for the domestic aviation industry; start of international routes will be the key to revival

The domestic aviation sector is extremely price-sensitive. Even FSCs (full-service carriers) like Vistara cannot charge a large premium over LCCs (low-cost carriers). Consumers typically prefer price over value. For instance, Jet Airways couldn't survive the cut-throat competition as its cost structure was that of an FSC while fares were closer to those charged by LCCs.

Managing the Crisis

Despite a steady start, there are four factors that continue to haunt airlines: Economic slump affecting demand, safety risk, lack of clarity on international flights and state-specific restrictions. For example, people travelling from Maharashtra to Karnataka have to undergo a mandatory seven-day institutional quarantine. Mumbai, which used to have 915 flights a day, is seeing 100 per day. Each state has own quarantine rules for passengers coming from other states. These are forcing people to postpone or shelve travel plans.

Similarly, the international segment, which accounts for about 30 per cent of overall traffic, has been shut for nearly three months. Though there has been some movement on the international front through the MoCA's Vande Bharat Mission, which has flown over 2.5 lakh citizens home, Airlines do not make much money from such relief flights.

Mumbai-based Centrum Broking has estimated that sliding revenues on a high cost base will result in two largest carriers – IndiGo and SpiceJet – posting losses in FY21. Market leader IndiGo, for example, is expected to record losses of ₹1,401.6 crore, while SpiceJet is expect-

Despite reports that the Centre is targeting international flights by July, airlines do not expect this before September

Demand in the later part of 2020 is likely to come from premium leisure segment and travel by SME executives ed to report a loss of ₹1,030.7 crore.

CRISIL says the entire aviation sector is expected to lose ₹25,000 crore revenue in FY21; this includes ₹17,000 crore losses of airlines and ₹5,500 crore of airport operators.

To fund these losses, airlines will need additional funding of ₹35,000 crore – in the form of debt and equity – that will push up the total sector debt to ₹46,500 crore by 2021/22, says ICRA.

In spite of severe headwinds, airlines are trying their best to stay afloat. Because of limitations on demand, almost all airlines have gone back to the drawing board where they are looking at each cost carefully. Fixed costs are employee salaries, aircraft rentals, etc. Variable items are fuel, landing and parking charges, maintenance, in-flight catering and ground handling.

For most airlines, 40 per cent costs are fixed. Even after reducing salaries, fixed costs are likely to fall by about 7 per cent for the full financial year. This means they will have to do a lot more in other areas to minimise losses.

IndiGo has converted its 10 aircraft into freighters carrying 17-20 tonnes of cargo per flight as against six-nine tonnes carried in the belly of a regular passenger flight. SpiceJet also recently converted three Bombardier Q400 passenger aircraft into freighters, taking its all-cargo fleet to eight. But what's the idea behind starting all-cargo operations? One, demand for transportation of medical and essential supplies and e-commerce is robust. International cargo rates have jumped nearly three times of late, which has improved profitability.

Both Spicejet and IndiGo have also started offering private charter services for individuals and groups who are willing to pay a price for flying alone. "There's a lot of demand and they are good revenue generators for us. We are doing about 10 charters a day," says Dutta.

But adding new revenue streams is just one part of the effort. Airlines have approached vendors and lessors to bring down cost of services like hotels, transportation and information technology. IndiGo has been able to freeze supplementary rentals for nine months since a large part of its fleet is grounded. "We continue to engage with partners. These are protracted discussions," says Vistara's Kannan.

So, while airlines are making efforts to slash costs, prices of ATF (aviation turbine fuel), which accounts for 30 per cent of their costs, have moved up significantly after staying at record lows during the initial lockdown phase. This will impact bottom lines of airlines and bring down incremental margins that airlines will make by adding capacity in the days to come.

The International Energy Agency has said that air travel is down 70 per cent globally this year, and since airlines are facing an existential crisis, demand for oil, particularly ATF, will be impacted until at least 2022. "This should be good news for airlines as low oil demand will translate into weak ATF prices provided the government doesn't interfere (with higher taxes) to make up for its revenue shortfall," says an aviation consultant.

A New World Order

A recent analysis by UK-based travel data provider OAG shows the pecking order of the largest airlines in the world has undergone a complete change. The new order is dominated by Chinese carriers with three airlines (China Southern Airlines, China Eastern Airlines, Air China) in the top five list. IndiGo, which was the tenth largest carrier in the world in January, is nowhere to be seen.

Dutta says airlines globally are being supported by their governments, but that's not the case in India. He says lack of support has led to issues with refunds. When domestic and international flights got cancelled during the lockdown, airlines issued

What Airlines Are Doing to Stay Afloat

Converting passenger planes into cargo planes

Sending staff on leave without pay to cut fixed costs

Offering private charter flights for high networth individuals

Flying under Vande Bharat mission to select countries to bring back stranded Indians

"Once it (capacity) gets to 50 per cent, will we say, go to 70 per cent? I don't know. We will decide then. But at this point, all arrows are pointing up, and we want to add capacity"

Ronojoy Dutta
CEO, IndiGo

"The traffic is quite directional; some flights are doing 100 per cent load factors. We are seeing more people moving out of Mumbai. Our network is being constantly reviewed"

Vinod Kannan
Chief Strategy Officer, Vistara

credit shells against bookings. The shells, which are essentially a note from airlines against cancelled tickets that can be used for future bookings, were not liked by passengers, who demanded refunds in cash. This created a huge ruckus between airlines, travel agents and passengers. In mid-June, the Supreme Court directed airlines and the MoCA to find a way out to issue refunds to passengers whose flights were cancelled during the lockdown.

"The government asked us to shut down all flights. Then, they said don't take future bookings. If we don't have future bookings, how do we pay for those refunds? We got caught in a bind as did the global industry. However, all US airlines, Air France and Air Canada got huge amounts of money from their governments. We got zero. We want to get out of this credit shell issue as quickly as possible. The best way of doing that is to put more flights in the air," says Dutta.

Last month, the government did announce a slew of measures to support the aviation industry, including freeing up more airspace, boosting MRO (maintenance, overhaul and repair) services and auctioning of six more airports. But these have not found favour with the industry. Some have criticised the move saying this is not the right time to auction airports since the airports economics has changed. In fact, there are reports that the Adani Group is seeking more time to take over three (Lucknow, Mangalore and Ahmedabad) of the six airports it had won in an auction last year due to uncertainty created by the pandemic.

Nevertheless, the crisis has also opened a door for airlines to buy distressed assets at a cheaper valuation. Chile-based LATAM, Colombia's Avianca Holdings and Australia's Virgin Australia Holdings have filed for bankruptcies in recent months. IndiGo's parent company InterGlobe Enterprises expressed interest in buying Virgin Australia but fell out of race.

Back home, airlines are still holding on but it seems consolidation is inevitable. The government has already put Air India disinvestment on the back burner but the national carrier continues to bleed. This will swell its debt further and make its resale process tougher in the future.

"There will be consolidation in the industry. It's highly unlikely that IndiGo will participate in it. We are a standalone airline, and we are happy with what we're doing," says Dutta.

While it's too early to believe domestic airlines will emerge stronger from the crisis, no matter how hard they emphasise that they will, the next few quarters are going to be painful for carriers. BT

@manukaushik

Craft beer market in 2014

0.15
million litres

Craft beer market in 2019

43
million litres
(microbreweries are a small part of this)

Beer market in 2018

2.4
billion litres

Expected size by 2023

3
billion litres

250-275
Number of microbreweries in India

Brewing Trouble

India's nascent microbrewery industry is facing the double whammy of lockdown blues and high taxation

BY RUKMINI RAO

For a lot of people visiting Bengaluru for leisure, the job is pretty cut out: Finding out the most happening brewpub in town for a taste of house specials. And if the brews aren't interesting enough, hit the next one which, going by the sheer numbers in the city, cannot be far away. Even for a nascent segment such as brewpubs – pubs which have in-house microdistilleries that brew fresh beer and serve it in the premises – you know how well the city has taken to it when you see a handful of them even in an area like Jayanagar, considered an old and conservative part of the city.

But not everything is right in the microbrewery universe. The growth of this niche segment – started in Pune in late 2000, it found home in Bengaluru and caught on well in cities as far Chandigarh, Gurugram and Hyderabad over the next few years – is under threat. Lakhs of litres of beer has had to be drained out as breweries have been shut for months. Even in places where they have opened after the lockdown, the seating capacity has been reduced due to social distancing norms, and there are few customers. This, even as fixed costs such as rentals and equipment maintenance remain high. For an estimated 250-275 players in the craft-beer segment, the next 10-12 months will be all about surviving the slump.

$23.5 billion
Expected size of the Indian beer market in 2024

According to a Euromonitor International report of July 2019, the size of the beer market was 2.4 billion litres in 2018, expected to reach three billion litres in 2023, at 5 per cent compounded annual growth rate (CAGR). However, craft beer, being in the premium/niche segment, is relatively small. The India Craft Beer Market Report by GlobalData says the market was 43 million litres in 2019, up from 0.15 million litres in 2014. This is a staggering CAGR of 304 per cent. Microbreweries serve customers in-house as well as sell to other restaurants. In-house sales, in fact, are a small part of the craft-beer market.

The Challenges

Maharashtra is the worst Covid-hit state. Navin Mittal, Co-founder and Partner of Mumbai-based Gateway Brewing Company, says even before the government announced the lockdown, things were grim in early March, when people had started avoiding going to restaurants and a number of companies had asked employees to work from home. "Nobody knew how long this is going to last or what to anticipate. It was all about wait and watch," he says. With restaurants in Maharashtra shut for nearly three months now, he says: "We have probably drained out 50,000-100,000 litres of beer from our tanks that was consuming electricity and also probably losing freshness."

In Bengaluru, one of the early brewpubs, Toit, saw this coming and stopped production a few days before the lockdown. "We still have a lot of beer left," says Sibi Venkataraju, Co-founder, Toit Brewpub.

Unlike pure-play alcobev industry or bottled craft beer players, the business of microbreweries is similar to that of the restaurant industry. Microbreweries operate in the premium segment, have higher fixed costs as equipment takes a lot of space and also require more employees. In bigger cities like Mumbai and Delhi, where real estate is expensive, number of customers is an important factor driving profitability. The restriction on seating capacity has amplified the problem, says Sibi Venkataraju.

The cost of raw materials is ₹25-30 per litre. With overheads, it escalates to around ₹200, says Navin. With industry watchers anticipating shutdown of 35-40 per cent restaurants due to the pandemic, brewers fear loss of a large part of the keg business (sales to restaurants) in the short term. "If we assume that 40-50 per cent of the restaurants will not open immediately, the number of places we serve will almost halve. The reality is that in India, given the economy and the cost consciousness, we don't think consumption will hit even 50 per cent of earlier levels," he says. With a fall in the number of restaurants and consumption, especially in Maharashtra, where Gateway operates, Navin sees around 25 per cent of earlier volumes coming back.

Microbrewers are also facing challenges from the excise department. Even when alcohol sales were allowed, except Karnataka, no other state allowed microbreweries to sell existing stocks as takeaways. White Rhino Brewing Company Founder Ishaan Puri says as liquor taxes in states such as Maharashtra, Delhi and Karnataka are ad valorem (on value of sales), their excise payments are almost double of what regular large bottled beer makers pay. "We have a considerable excise payment obligation as

The Problem Areas

Since liquor taxes in some states are ad valorem, excise duties are almost double of what a regular bottled beer maker pays

A large number of restaurants are expected to close down due to the lockdown-induced slowdown

Social distancing means they can now serve fewer customers

Lockdown has forced microbreweries to drain out lakhs of litres of beer that they had brewed

Real estate costs are very high in bigger cities, where microbreweries are popular

ILLUSTRATION BY RAJ VERMA

"We have probably drained out 50,000-100,000 litres of beer from our tanks that was consuming electricity

Navin Mittal
Co-founder,
Gateway Brewing

"We still have a lot of beer left. The restriction on seating capacity has amplified the problem"

Sibi Venkataraju
Co-founder, Toit Brewpub

in several states. The taxes have to be paid upfront before stocks are brought inside," he says. As cash-strapped state governments increase taxes on alcohol, microbrewers are also paying for renewal of excise licences for which the excise department has not provided any concession or extension. Ishaan says working capital costs have increased sharply, revenues are zero, but they are still bearing costs such as rents and salaries.

A Goldstein Market Intelligence report says India's beer market will reach $23.5 billion by 2024 by growing at 10.9 per cent CAGR. But microbreweries will have to endure a lot of pain in the short term.

Rebooting Business

No microbrewery owner is expecting a huge uptick in demand even after the lockdown is lifted completely. Most have resigned themselves to the fact that some "normalcy" will return in urban areas and tourist hotspots such as Goa only in 2021. The challenge till then will be managing costs and redistribution of stocks in the various supply channels.

"After cutting all possible costs, we are looking at operating at a break-even point," says Navin. His business is fairly small and used to report sales of around 15,000 litres a month before the pandemic. With existing money, even if it can operate at a break-even number in the coming months, it will be a job well done, he says.

Even in cases where stocks are flying off the shelf at stores – for instance, says Ishaan, there is no White Rhino stock in Bengaluru – it's all about doing prudent business. With a 70:30 bottling to keg ratio, "we are not going to look at new markets we had planned for the year (Goa) and focus on the existing business," says Ishaan, who largely operates in North Indian markets such as Delhi, Gurugram, Punjab and Chandigarh. The company is chalking out future plans with revised targets and will look at further expansion only after the market recovers.

Brewers who operate in bottled segment and also sell in-house seem to be better insulated than the rest of the players. Javed Murad, Founder of White Owl Brewery, which moved out from keg sales in Mumbai and Pune to 100 per cent bottling, says: "Typically, keg sales tend to be 30-40 per cent of sales depending on the brands. This channel is now compromised on account of the pandemic."

The economic downturn may make people more hesitant in ordering beer at a restaurant given the mark-up in prices compared to buying from a retail store, he says. "In the absence of a vaccine, I'm unsure if restaurants and bars will be able to function in even a remotely similar manner to the way they were running before the pandemic," says Javed. For White Owl, bars account for 40 per cent sales, with the rest coming from retail stores.

While Karnataka is looking to allow breweries to operate only as takeaways and also giving permission to microbreweries to restart a fresh production batch, the microbrewery players are demanding a more friendly policy that will allow them to resume operations instead of treating the alcobev industry as a cash cow. **BT**

@rukminirao

Interview

"WILL ROPE IN PRIVATE HOSPITALS IF CASES SURGE"

The Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY), the flagship health insurance scheme of the Central government, has just reached the one-crore treatment landmark. The total cost has been around ₹14,000 crore so far. Launched 20 months ago, the scheme – a partnership between Centre and states – provides ₹5 lakh a year health cover to 10.74 crore poor families. **Dr Indu Bhushan**, CEO, National Health Authority, which implements the AB-PMJAY, talks to **Joe C. Mathew** about how the AB-PMJAY cover can help the poor fight the Covid-19 emergency. Edited excerpts.

PHOTOGRAPH BY SHEKHAR GHOSH

Private hospitals are complaining that their footfalls have fallen considerably during the lockdown. What has been the experience of PMJAY-empanelled hospitals?

In the last two months, or after March 23, we have seen a significant drop in admissions. Before March 23, we were doing 25,000-30,000 hospital admissions/treatments per day, but after the lockdown, we are down to 12,000-13,000. This is more than a 50 per cent drop. The drop has been more in some states as compared to others. We have also seen that the drop has been more in private sector hospitals rather than public sector hospitals.

Why So?

We are looking at the reasons. The fear factor is one obvious reason. People don't want to go to hospitals for elective procedures as they are afraid they may get infected. Also, because of lockdown, mobility is restricted. The third reason is that many hospitals, including government ones, have become Covid-only (no admissions for other treatments), and in many private hospitals, footfalls have fallen so much that they have scaled down operations. It's a vicious circle. Some have closed OPDs, because of which footfalls have fallen further. So, there are three reasons – fear factor, mobility, and fall in supply.

Has it impacted all treatment packages under the PM-JAY?

Not all. In some critical packages like chemotherapy, dialysis, which cannot be postponed, we have seen a decline of 15-20 per cent, not 50 per cent. It is good news.

How can we address the problem?

We have embarked on a drive to have more hospitals on board, for both Covid and non-Covid treatments. Most importantly, we need more hospitals for non-Covid patients as number of Covid patients is not much compared to people who need chemotherapy or dialysis or surgery. Since April 1, we have empanelled more than 1,000 hospitals. Now, we have close to 22,000 hospitals. We have also launched an express way to empanel hospitals. Even hospitals that do not fully comply with our eligibility criteria are being taken on board temporarily, for three months, to improve quality and access to services.

On one side, you are de-empanelling hospitals that are not up to the standards, and on the other, adding more hospitals. Is this creating more problems?

We have been de-empanelling hospitals based on fraud and abuse. We are still maintaining zero tolerance of fraud and abuse. The relaxation is on other parameters. For instance, we have criteria for minimum number of beds, infrastructure, space, etc. These are parameters than can be waived off.

When the AB-PMJAY completed one year, you had over 18,000 empanelled hospitals. In the next eight months, you have added only 4,000, of which 1,000 were added in less than two months. Is this fast enough?

The 18,000 empanelled hospitals at that time included over 1,000 hospitals from West Bengal. Those have been taken out after they (West Bengal) withdrew (from PM-JAY). But frankly, 4,000 additional hospitals is not a small number because these are mostly private hospitals.

Are these from smaller towns? How many more such hospitals can you tap?

They are mostly from Tier-II and Tier-III towns. We believe that by the end of this year (2020), we should have around 25,000 hospitals.

How are you reaching out to new hospitals?

We have asked our state agencies to expeditiously dispose pending applications and send mailers to hospitals to get empanelled. We have a hospital empanelment module (HEM). It is paperless. They have to apply online. We have launched a module – HEM Lite – which requires lesser information, so that even if hospitals do not have all certificates, they do not take too much time to furnish the information. We have shortened the process. Earlier, there was a district-level empanelment committee where the DC or the Collector first gave his or her approval. Then, at the state level, the state empanelment committee approved it. Now we have delegated powers to one person. All this is being done to expedite empanelment of hospitals.

Your focus is primarily tertiary care. Are all these tertiary care hospitals?

We largely focus on tertiary care. But we also take some secondary care. The hospitals will be a mix of both. For Covid treatment, we need hospitals which are 100 per cent dedicated to Covid. It should not be a part-Covid facility because of fear of cross-infection. Though most hospitals providing Covid treatment are government hospitals, now we have empanelled some private hospitals.

The number of treatments seems to have more than doubled in eight months. But the number of e-card holders is still a fraction of the beneficiary universe. How do you see this growth?

Not everyone is interested in e-cards and e-card is not essential before coming for treatment. E-card only helps you know beforehand that you are eligible for the services. So, we are undertaking a drive to provide e-cards. Because of the lockdown, we have reduced emphasis on e-cards. If and when the situation improves, we will start it again.

> We believe that by end of 2020, we should have 25,000 hospitals in Tier-II, Tier-III towns

Active Covid cases may not be huge but are steadily increasing. Do you foresee an emergency situation in the coming weeks and is this drive based on any such advance planning?

Right now, much of the load, 90 per cent and more, is being taken by government (hospitals). But if there is a huge surge, then, of course, these hospitals will not be enough. In that case, we will be looking to private hospitals as dedicated Covid hospitals. The Ayushman Bharat PMJAY is going to help. We have now established packages in most states. The remaining states should also be finalised soon, so that, we proceed with private hospitals providing Covid care as well.

At the moment, how many patients have come through this route?

Very few, as in government, it is free for everyone, whether they are Ayushman Bharat beneficiaries or not. We have done about 300 Covid treatments, mostly in private hospitals, till now. BT

@joecmathew

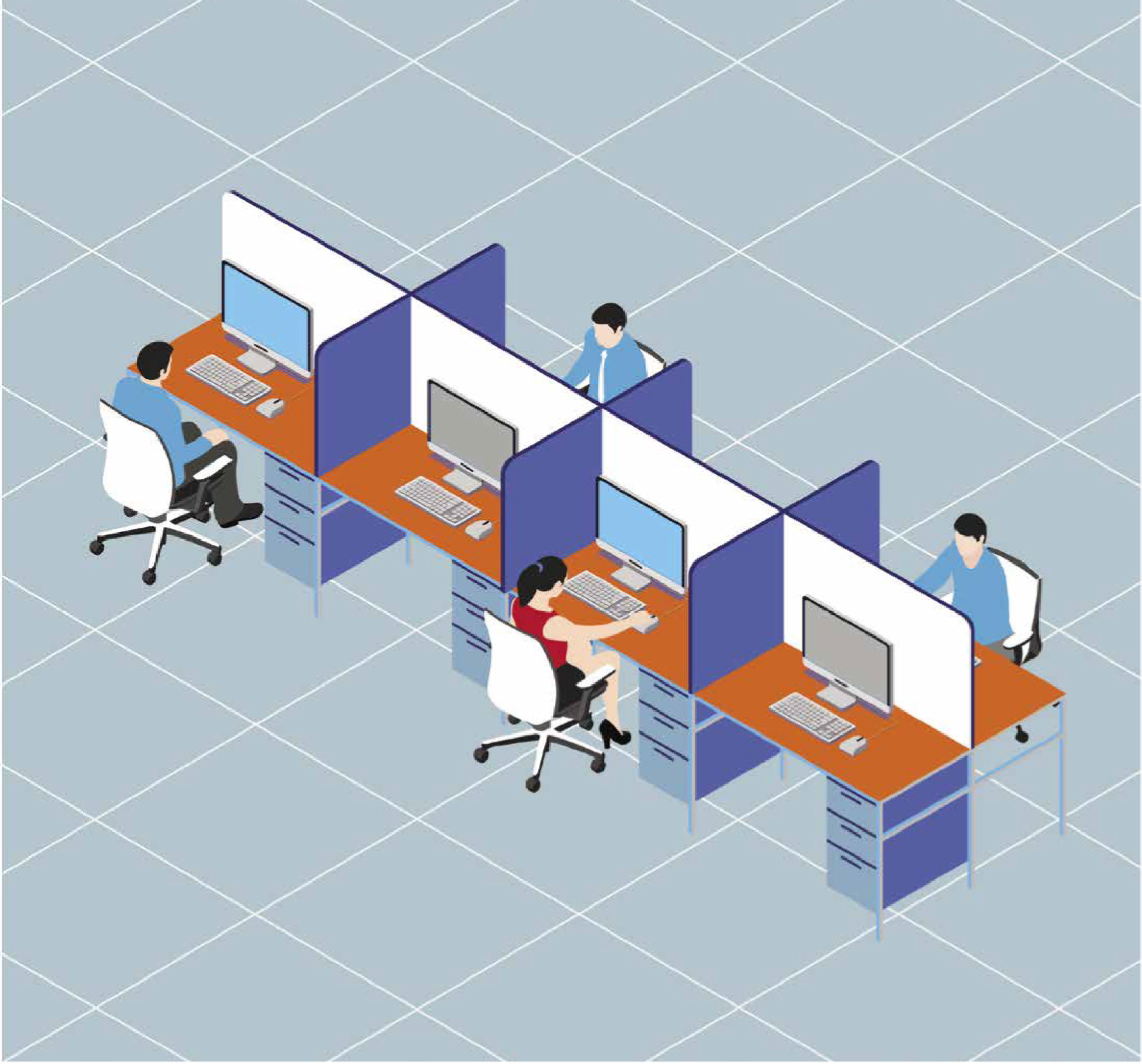
Spacing It

WITH SOCIAL DISTANCING NORMS IN PLACE, OPEN OFFICE DESIGNS ARE BEING TURNED UPSIDE DOWN

BY SONAL KHETARPAL
ILLUSTRATIONS BY RAJ VERMA

At 9.00 am every day, Pranav Primlani, Talent Management Specialist at Dr Reddy's Laboratories gets out of his car in the parking lot of the company's office in Hyderabad's Banjara Hills, wearing a mask. He then stops at the screening point, sanitises his hand, takes out his phone, and fills in the e-self declaration form about his health and travel history. A security official checks his body temperature, scans the barcode on Keep Safe, Dr Reddy's in-house app, and updates his temperature on the app. Employees who fail to download the app are denied entry. Primlani says his heart skips a beat every time his temperature is checked, "but it is for our safety only."

"With Unlock 1.0 kicking in and more people are allowed inside offices, we have come up with several measures that are preventive, reactive and proactive around three key pillars — Infrastructure, Process and People — to ensure business continuity," says Thakur Pherwani, Head of Safety, Health, Environment and Corpo-



Out

rate Sustainability, Dr Reddy's.

As health and hygiene becomes priority, companies are going the extra mile to ensure employee safety at work. While earlier, walls were brought down to create open office spaces to foster collaboration and camaraderie among staff, the layout has now been turned on its head. Employees are now sitting 1-2 metres away from their colleagues. Crowding around water coolers and passageways are strict no-nos. Meeting rooms are locked, and eating alone is the new normal.

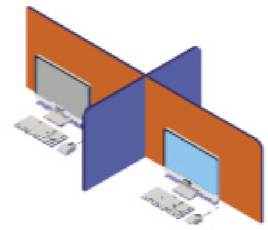
The First Steps

As companies come up with strategies to maintain physical distancing, the entire workspace is getting divided into zones. Employees are being divided into groups so that the risk of contamination can be controlled in case anyone turns corona-positive.

Infosys has divided each of its campuses into two-

HOW FIRMS ARE REINVENTING OFFICES

Figuring out teams that need to come to office and ones that can continue working from home



Dividing office spaces into zones. Each zone is a self-contained unit with own entry and exit points, pantry, washrooms, etc

three zones, depending on the size. "The zones are marked and work on the principle of self-governance. Each zone is a complete unit in itself and each employee has a pre-designated zone. They do not go to another zone unless absolutely necessary," says Richard Lobo, Executive Vice President and Head of Human Resources, Infosys. It is like several offices within one single campus with separate entry, exit, canteen etc.

To keep the density in check in these "smaller campuses", companies are scrutinising employees' roles to determine the ones who need to come to office regularly, and those who can work on alternate days and in shifts.

Pherwwani of Dr Reddy's says 50 per cent of the 300 employees who work out of the company's corporate office in Hyderabad are coming to office, while the rest are working from home. "With social distancing norms, it is difficult to get the entire workforce to office. Each business head was asked to determine from their teams, 50 per cent of those who should come to office." The reason for that is offices were originally designed in the open format to maximise space and optimise real estate. "Real estate in corporate hubs is expensive. Hence, offices are built on the premise of maximising space, but that doesn't work while implementing social distancing norms," says Sudhir Dhar, Executive Director and group Chief HR Officer, Motilal Oswal Financial Services (MOFSL). "Social distancing will increase per capita office space allocation. The rule of thumb was to have 40-50 sq foot per person. Now, it has to be at least 80-90 sq ft."

"Since the organisation is not creating new infrastructure, we have to work with what we have," adds Dhar. Companies, including MOFSL, Infosys, Cisco and Dr Reddy's, have alternate seating arrangements to ensure a distance of at least 2 metres between two people. The seats are also marked to avoid confusion. There is a similar demarcation in canteen and common areas as well. Corridors are also marked like one-way streets. All recreation activities have been closed for the time being. The basic premise, says Dhar, is that no two employees should come face-to-face with each other. Even in the lifts at MOFSL, it is mandatory for employees to stand in the four corners, facing the wall. Of MOFSL's total staff strength of 6,500 across India, 1,800 are coming to office.

Each company has a different approach towards meeting and conference rooms. At Motilal Oswal, they can be used at 50% of capacity, whereas at Infosys, Dr Reddy's and Nestle, they are locked.

"As of now, we are not doing any physical meetings. We have moved meetings entirely to the virtual world and it works well," says Infosys' Lobo. Employees are also going beyond video meetings, and are using more of whiteboarding sessions, simultaneous collaborations on work documents, quick chats and virtual reality demos. "This will impact the future of conference rooms as well. They will have a lot of technology built in, assuming only a small number will be present physically," he adds.

Primlani of Dr Reddy's says virtual meetings are happening even with colleagues sitting in the same area. "Initially there was a sense of disorientation, but now there is an acceptance that this is the new normal and we have to live with it."

The cafeteria is another crowd puller. While canteens are now decentralised and offices have created different cafeterias for each zone, employees are encouraged to not talk too much or mingle. "Since people remove masks while eating, companies might also encourage them to eat at their desks," says Sameer Joshi, Associate Vice-President, Godrej Interio.

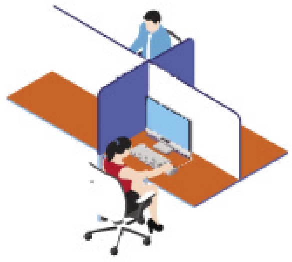
CUSTOMISABLE OFFICES WILL SEE A RISE IN DEMAND. NEW OFFICES WILL BE DESIGNED FOR NEXT 5-10 YEARS

At Dr Reddy's, seats have been rearranged so that occupancy gets limited to 25% in each of its four canteens. Tables are arranged in single rows so that there is one person on each table and no two individuals face each other, says Pherwwani. Also, lunchtime (from 12.30 to 2.30 pm) is divided into four slots of 30 minutes.

But then, does no physical contact means no social contact as well? MOFSL's Dhar doesn't think so. In fact, the team organises a game or a virtual party almost every day. There are online competitions of ludo, carrom, and snakes and ladders as well.

Technology Is King

Physical distancing can only do so much given there are so many common touchpoints in offices. While companies have upped their game and rooms are sanitised after ev-



Employees sit 1-2 metres away from each other to ensure physical distancing

Virtual meetings even with those present in office

Video meetings are giving way to white boarding and collaborating live on documents

Voice-activated technology and sensors are being used to eliminate the need to touch common area buttons (like lifts), and to control lighting and audio-visual equipment

ery shift or a few hours, the role of technology cannot be ignored.

To reduce the need for 'touch', firms are figuring out ways to ensure contactless offices. Anuj Puri, Chairman, ANAROCK Property Consultants, says, "Companies that can afford are deploying voice-activated technologies to control lighting and audio, visual equipment in conference rooms, or using sensors where a simple wave could be used while passing through doors or for flushing the toilet."

At Infosys, entry to campuses, payment for services, switching on lighting and utilities, etc. are all contactless. Many of the company's new offices have sensors that give real-time insights on office space usage and occupancy of seats and meeting rooms. This also allows the IT major to allocate space, keeping social distancing norms in mind on a daily basis depending on needs, and also control lighting and air conditioning usage.

Says Lobo, "Since only 5-6 per cent of our workforce is coming to office, the demand is very less. So, we have kept only one or two food courts open, but, if there is any crowding, others can be opened easily."

"An overlay of digital technologies is enabling us to reimagine the existing physical infrastructure, whether it is an individual's workstation or the wider campus area, to create a collaborative culture and also ensure safety of employees," he adds.

Cisco, too, is using its cloud-based software DNA Spaces, which is integrated with wireless access points to enable real-time location tracking in the campus. The software calculates the distance between two people and the density of a certain area. "This enables us with crowd control, managing footprint within the office campus and better enforcement of social distancing norms in a non-intrusive manner," says Daisy Chittilapilly, Managing Director, Digital Transformation Office, Cisco India and SAARC. At Cisco, 2.76 million sq feet of the company's campus in Bangalore constitutes eight buildings. Four of them are closed. Less than 2 per cent of its roughly 12,000 employees in India are working from office. The rest have been working remotely for the past few months.

Dr Reddy has a Keep Safe app built along the lines of the Aarogya Setu. It has a Bluetooth feature that tracks people who come within 2 metres on a specific day. It is mandatory for employees to keep Bluetooth on for the app to work on office premises. The rationale is that if anyone is detected with Covid-19 later, the data can be used to identify the group at risk, says Pherwwani.

Changing Office Spaces

Puri of ANAROCK thinks office space designs will change. "The previous open-plan workplaces are likely to be replaced with old, small private offices or cabins. Also, there will be preference for building materials, such as stone, which can withstand heavy cleaning, especially the use of caustic products," he says.

Customisable offices, though not new, will see a rise in demand. New offices will be designed for the next 5-10 years. "They will have enough flexibility built into their interiors and furniture, so they can be reconfigured and reoriented once the pandemic is over," says Joshi of Godrej Interio.

"There will be more mechanisation. What is done manually now would be done with a click. And, in the next three to four years, though it might sound futuristic, it could be reconfigured from the phone as well," adds Infosys' Lobo. For some Infosys campuses, the entire layout of the office is already on wheels, where workstations can be reconfigured according to demand, usage and need.

Since these are unprecedented times, companies are in a wait-and-watch mode "It is unlikely they will make any big real estate decisions right now. What will happen is that they might negotiate rents with property owners, but they will be specific to every tenant and limited to a timeframe. Even if there is any decrease in rental costs, it will come with an in-built expiry date as the market will recover," says Puri of ANAROCK. **BT**

@sonalkheterpal7

Technology

Tech-tonic Shift in Hotels

From smartphones doubling up as room keys to real-time data access for staff to new solutions for cleaner air, technology is transforming the hospitality sector

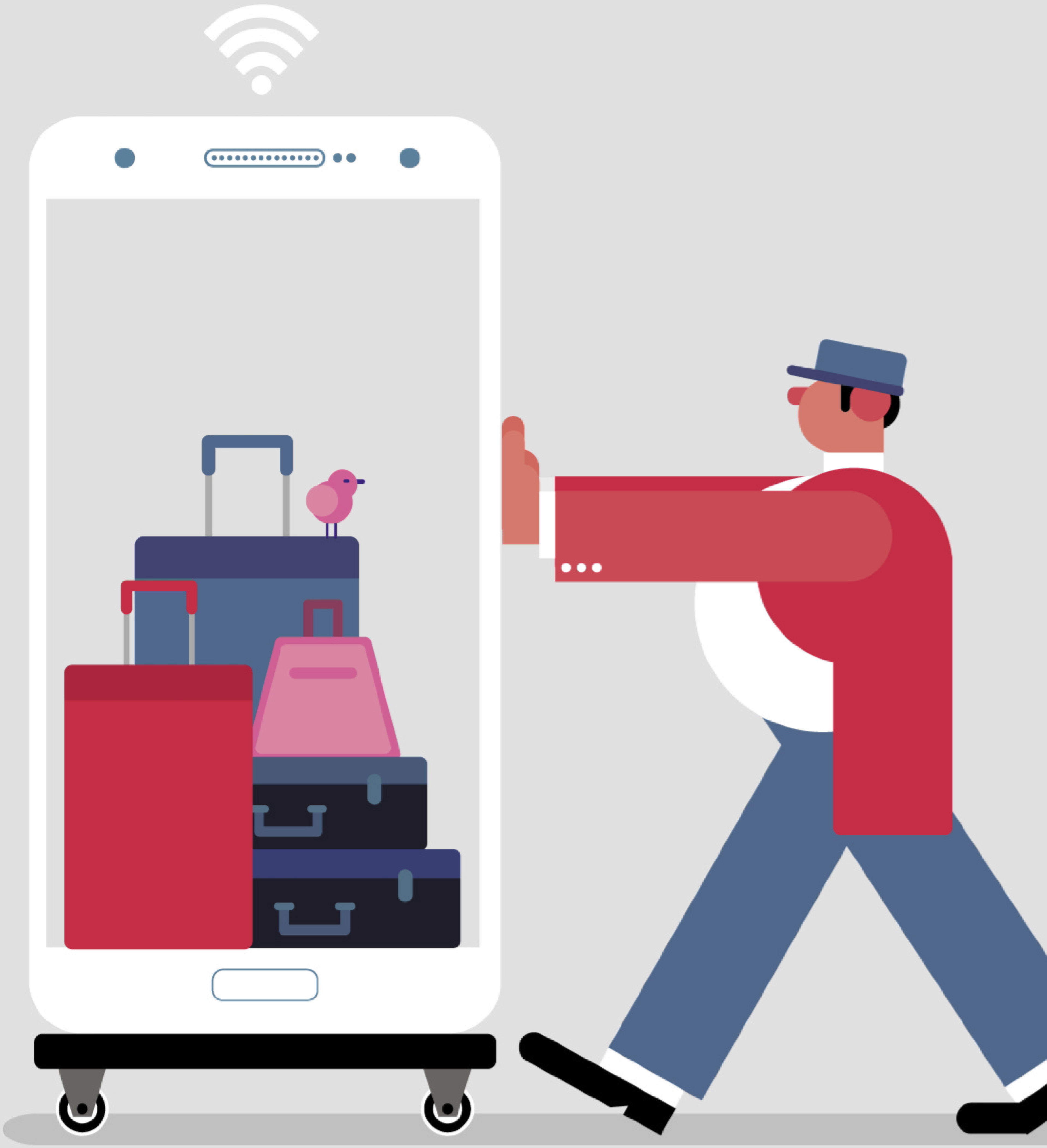
BY NIDHI SINGAL
ILLUSTRATIONS BY RAJ VERMA

During his stay at the Sheraton Grand Bangalore Hotel at Brigade Gateway in January, Delhi-based executive Rishabh Gupta did not have to stand in queue at the front desk. Instead, he used the hotel's mobile key to check-in, and accessed the room key using his smartphone.

While hotels have been investing in consumer-connect technologies for over a decade, it has now found more takers after the Covid-19 outbreak, with social distancing being the new norm.

According to industry experts, technology can bring down the operation cost of a hotel by 15-40 per cent, or even more, depending on the property (boutique or budget hotel), footfall, and the kind of systems deployed.

"Travel and tourism is among the fastest-growing sectors in India, contributing nearly a tenth to the country's GDP ($247.3 billion) and accounting for roughly 42 million jobs (direct and indirect). The role of technology will be key in the post-pandemic world. Most states have already



Taking the Hit

Source: HVS Anarock

₹1,58,113 Crore
Revenue earned by the hotel industry in 2019

57%
Estimated fall in revenue in 2020 due to the Covid crisis

58%
Estimated decline in RevPAR (Revenue per available room) post-Covid

put in conditions of 'contactless' check-in/check-outs. QR codes, artificial intelligence and machine learning will soon replace physical menus in hotels and restaurants," says Vivek Agarwal, Partner, Infrastructure, Government and Healthcare Services, KPMG in India.

This year, due to the virus outbreak, the domestic hotel industry is likely to see a 57 per cent decline in revenue at ₹90,000 crore, against ₹1,58,113 crore in 2019, according to consulting firm HVS. "RevPAR (revenue per available room) in the organised segment is expected to decline by 58 per cent. The industry has not seen such an unprecedented decline in RevPAR in the last two decades, since we started recording this data. The unorganised segment, which is 10 times the size of the organised segment, is also likely to witness a similar quantum of decline," says Mandeep Lamba, President (South Asia), HVS ANAROCK.

Guest Management

From managing bookings to guest interactions, resource procurement to accounting, the industry preference has shifted towards cloud-based solutions, from the earlier practice of storing data on-premises. This saves time and minimises chances of errors, while leading to increased accuracy and efficiency.

"By migrating from on-site software to Cloud-based (SaaS) software, we have lowered the cost of hardware, maintenance, manpower and other operating system licences. Online training and adoption in our team have also become easier," says Shiv Kumar Mehan, Chief Operating Officer, Leisure Hotels Group.

For instance, Oracle Sales Cloud helps hotels manage the sales cycle, while keeping a tab on interactions with customers. "Today's sales representatives don't just need data. They need to be able to access and leverage timely and relevant insights that empower them to serve customers better," says Rakesh Jaitly, Senior Sales Director, Customer Experience (CX) Solutions, Oracle. Tata group-owned Taj hotel chain is already using the software to provide its sales team with real-time insights into customer behaviour.

"We offered ITC Hotels a customer-experience platform to handle thousands of guest queries, ensuring that nothing slipped through the cracks and each communication received a prompt response. This has resulted in a 43 per cent increase in guest satisfaction and 24 per cent cost-saving," says Raj Mruthyunjayappa, Managing Director, Talisma Corp. It helped the hotel chain drive collaborations across teams with ease of information sharing, enhanced monitoring and tracking, all of which were also available to the management.

What All Is Changing

In fact, hotels are leveraging technology at every step. "Until recently, hospitality was all about human interactions, with high dependence on manual processes. Technology was only seen as a good-to-have feature. The Covid crisis has turned our world upside down with social distancing mandating strict safety checks, resulting in service delivery issues," says Anupam Verma, Co-Founder, Revo-Ex Technology.

Hotel Sarovar Portico in Naraina, New Delhi, is using the company' guest management platform, including mobile/kiosk check-ins, mobile smart locks and smart power control, among other things, for better customer experience.

Across Oberoi's properties in India, an e-mail with a link for online registration and submitting photo identity proofs is being sent to guests before arrival. Government-mandated self-declaration forms

"By migrating from on-site software to Cloud-based (SaaS) software, we have lowered the cost of hardware, maintenance, manpower and other operating system licences. Online training and adoption in our team have also become easier"

Shiv Kumar Mehan
COO, Leisure Hotels Group

"To keep pace with the influx and service demands, plenty of wastewater from all en-suite bathrooms, laundry rooms, gardening, etc., is generated... This has an impact on costs and environment, making it vital to have a water treatment system"

Koichi Matsui
Chairperson and MD,
Toshiba Water Solutions

are available through QR code/URL displayed at the front desk, which guests can access on their personal devices. Even invoices are available through e-mails along with a digital payment link to minimise contact during check-out.

"Digital invoices reduce time and costs involved in processing paper invoices by eliminating two frequent sources of error—mail sorting and data entry. As the digital system is integrated into a software management solution, it also facilitates data exporting," says David Mathews, General Manager, Trident Bandra Kurla, Mumbai.

In-room Services

Premium chains, as well as independent hotels, are installing solutions such as mobile locks, Internet of Things (IoT) for automation of temperature and light controls and smart charging stations, among others.

Since digital keys often malfunction, hotels are putting up mobile locks on doors, which can be unlocked from a particular application on the guest's smartphone. iPads with custom apps are placed in each room, which double up as remotes for controlling lights, blinds, temperature, changing TV channels, and even for placing requests for room services. In The Oberoi, Bengaluru, in addition to all these, guests can see who is at the door before activating the electronic unlocking system. Some of the hotels are also giving access to premium streaming services, including Netflix and Amazon Prime, that can be streamed on to the TV through mobile devices.

Even traditional flat-panel TVs are being replaced with specially designed hospitality TVs for digital signage and in-room entertainment. Besides customised greetings, they provide information on latest offers to guests. There are dedicated pages for information and services, in-room dining, and ongoing events and promotions as well. "This helps in optimising costs as hotels can minimise or completely avoid individual promotions," says Hemendu Sinha, Vice President and Business Head, Business Solutions, LG Electronics India. LG's Hotel TV has been installed at the Marriott, the Oberoi, and the Taj, to name a few.

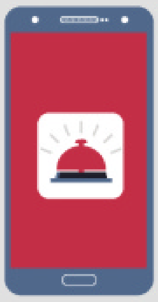
Data Privacy Issues

The technology push has, however, put the spotlight on data security. Post the implementation of General Data Protection Regulation (GDPR), organisations are liable for financial penalties in case of data breach, even outside the European Union. Then there are concerns around brand reputation as well. Only recently, Marriott International confirmed a breach where confidential data, including names, addresses, phone numbers, loyalty member data, date of birth, and airline loyalty numbers of 5.2 million guests, was leaked. According to US-based software firm Salesforce, 59 per cent of customers think their data is vulnerable to security breach.

So, hotels are now investing in data protection. Systems are being put in place where communication is received in a secure and encrypted format. Information flow is monitored through emails, and by keeping a track of uploads on external shared drives, unauthorised copies on pen drives and unusual computing behaviour within and/or outside organisational boundaries.

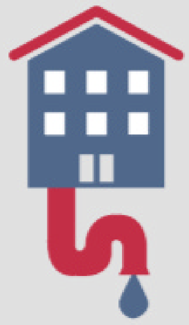
A Data Leakage Prevention (DLP) tool (In-Defend) has been deployed at The Oberoi, Mumbai. At Sheraton Grand Bangalore Hotel at Brigade Gateway, data is captured in a secured way with the help of tools such as the Oracle Sales Cloud, and emails are automatically deleted after seven days. Even when guests use a public computer and download

Users Club



Hyatt's Event Concierge App allows guests to make requests directly through the application; its Group Bill app lists all costs in a single invoice

Sheraton Grand Bangalore Hotel at Brigade Gateway receives guest information in an encrypted manner, deletes emails after seven days



Toshiba Water Solutions recently delivered modified-to-fit sewage treatment plans at The Oberoi Rajvilas in Jaipur, The Oberoi Udaivilas in Udaipur, and The Trident, Mumbai

The Marriot, the Oberoi and the Taj have installed LG's Hotel TV to provide information on latest offers, and for digital signage

data, the hotel deletes the entire history after the guest logs out.

Resource Management

Electricity and water consumption across lighting, boilers, kitchen equipment, gardening and air conditioning systems contribute significantly to the overall cost of hotels, which often go unnoticed. Investments in in-house solutions can reduce resource consumption by 20-30 per cent across properties, say industry experts.

At Andaz Delhi, the in-room air-conditioning system is integrated with the front office check-in system, which automatically leads to a two-degree drop in temperature during check-in, and a two-degree increase during check-out. The Leela Palace New Delhi is powered by a 24-hour gas-fired generator set that uses water and steam bi-products in the air-conditioning system.

"Managing electricity usage has been vital for us as it saves costs, which ultimately benefit the customer. More than 80 per cent of power is generated through solar panels at the property and we have a preventive maintenance system for all electrical equipment," explains Abhilash K Ramesh, Executive Director, Kerala-based Kairali Ayurvedic Group, famous for authentic ayurvedic wellness treatments.

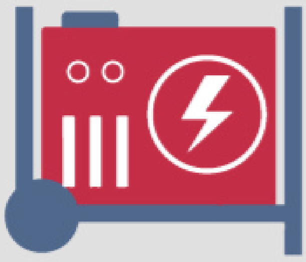
Hotels are also using sensors and aerators to reduce water consumption. For instance, installation of water flow controllers in guest rooms and public area taps at Radisson Blu Faridabad has reduced water consumption from 20 litres to 5 litres per minute, resulting in savings of Rs 36 lakh. Similarly, disposal of wastewater is big on operational costs, and hotels are using sewage and wastewater treatment plants to recycle wastewater for gardening and circulation in cooling towers.

"To keep pace with the influx and service demands, plenty of wastewater from all en-suite bathrooms, laundry rooms, gardening, etc. is generated. A large amount of wastewater has an impact on costs and environment, making it vital to have a water treatment system at the

"Sales reps don't just need data, they need to be able to access and leverage incredibly timely and relevant insights that empower them to serve customers better"

Rakesh Jaitly
Senior Sales Director, Customer Experience Solutions, Oracle

Talisma Corp has delivered a customer experience platform to ITC Hotels to handle guest queries



The Leela Palace in New Delhi is powered by a 24-hour gas-fired generator set, which utilises the water and steam bi-products in the air-conditioning system

hotel to cope with the load," says Koichi Matsui, Chairperson and Managing Director, Toshiba Water Solutions Private Limited. The company has installed membrane bioreactor (MBR) wastewater treatment technology for modified-to-fit sewage treatment plants at The Oberoi Rajvilas in Jaipur, The Oberoi Udaivilas in Udaipur, and The Trident, Mumbai.

Hygiene Practices

With over hundreds of guests walking in every day, hygiene at every touchpoint - lobby to dining areas, rooms to washrooms - becomes paramount, especially in the current situation.

With a focus on sustainability, hotels are setting up their own automated water bottling plants that include UV-sterilisation of bottles, without human contact. Hyatt Regency Delhi and Park Hyatt Hyderabad have water purification and glass bottling plants that use IoT-based technology for real-time monitoring of the cleanliness of water. "This initiative will help the hotel save over 3.5 lakh litres of water, 200 MW of energy and reduce over 20 tonnes of carbon emissions per year alone at Park Hyatt Hyderabad," says Arif Patel, Regional Vice-President, Sales and Marketing, Hyatt India.

Even the amount of upholstery (textile covers on furniture) a hotel has to clean isn't an easy task. They either end up investing in industrial laundry machines, including washer and driers, or outsource it to the laundry company. There are now hygiene washers that disinfect the upholstery using proprietary technology. An intelligent laundry system helps hotels automate the system, reducing labour costs and cutting down on the use of water through an optimised cleaning process, thereby also setting the wash cycle right.

"In future, clothes and linens will have tags that will contain what type of fabric they are made of, and where and how the garment is worn and/or used. These tags can be read by the system, which can then decide the best way to wash it," says Milind Gandhe, Head of Systems Business Unit at Tata Elxsi.

Air circulation is another focus area. Global organisations are looking for hotels with clean indoor air for their executives to stay. In fact, air quality issues are common in hotels, especially odours in rooms, which leave a negative impact. Volatile organic compounds found in cleaning supplies along with dust, mold, pollen, allergens, etc. can remain airborne for long and trigger allergies.

"To handle these issues, the air is filtered through mechanical solutions and high-efficiency filters before being distributed. In addition to this, even the carbon dioxide (CO_2) levels are controlled at less than 1,000 ppm (parts per million), while adequate air changes per hour (ACH) of 6-15 are also maintained," explains Barun Aggarwal, CEO, BreatheEasy Consultants Private Limited, a full-service indoor air quality (IAQ) solutions provider.

While new constructions have such solutions installed from day one, existing properties are going for retrofit air purification devices. The Oberoi, New Delhi, for instance, has an air purification technology integrated into the air-conditioning system, resulting in public area measure at around 30 ug/m3 (microgram/cubic metre) and guest rooms measure under 10 ug/m3.

Challenges Ahead

Though India is among one of the most digitally advanced traveller nations with hotels upgrading fast in terms of digital tools and managing operations, there are enough challenges.

The first relates to data privacy. There have been instances of personal data being stolen, and hotels need to ramp up their systems, especially with 'contactless' services emerging as the new norm.

The second is enabling high-speed connectivity at peak and adventure locations. While telecom infrastructure has improved over the years, concerns remain. The third is integration of digital payments with core banks, wallets, points of sale and more. Lack of consistency in deployment of technology solutions across properties of the same group also remains a problem.

One thing is clear though. As hotels look to reopen with strict sanitation and social distancing protocols across properties, there will be a new technological order in place. BT

@nidhisingal

Money Today

NEW-LOOK HEALTH PLANS

IRDA HAS MADE CHANGES IN HEALTH POLICIES FOR MORE TRANSPARENCY IN PRODUCTS AND PRICES. THE LOW-DOWN ON WHAT THE CHANGES MEAN FOR YOU

ILLUSTRATION BY RAJ VERMA

New-look Health Plans

IRDA HAS MADE CHANGES IN HEALTH POLICIES FOR MORE TRANSPARENCY IN PRODUCTS AND PRICES. THE LOW-DOWN ON WHAT THE CHANGES MEAN FOR YOU

BY NAVEEN KUMAR
ILLUSTRATION BY RAJ VERMA

D**ifficult times** often expose vulnerabilities of life. Coronavirus has made people realise how easily life can be taken away. It has also made them understand the importance of health insurance. We are in a situation where there may be possibility of the entire family requiring medical care.

To increase health insurance penetration, the Insurance Regulatory And Development Authority (IRDA) has introduced a number of changes to improve coverage, service quality and claim experience of policyholders. Some have already been implemented.

These changes are a good point for you to take stock of your health insurance cover. And if you do not have health insurance, it can be a good time to buy one considering customer-friendly changes IRDA has brought about and the health crisis we are facing.

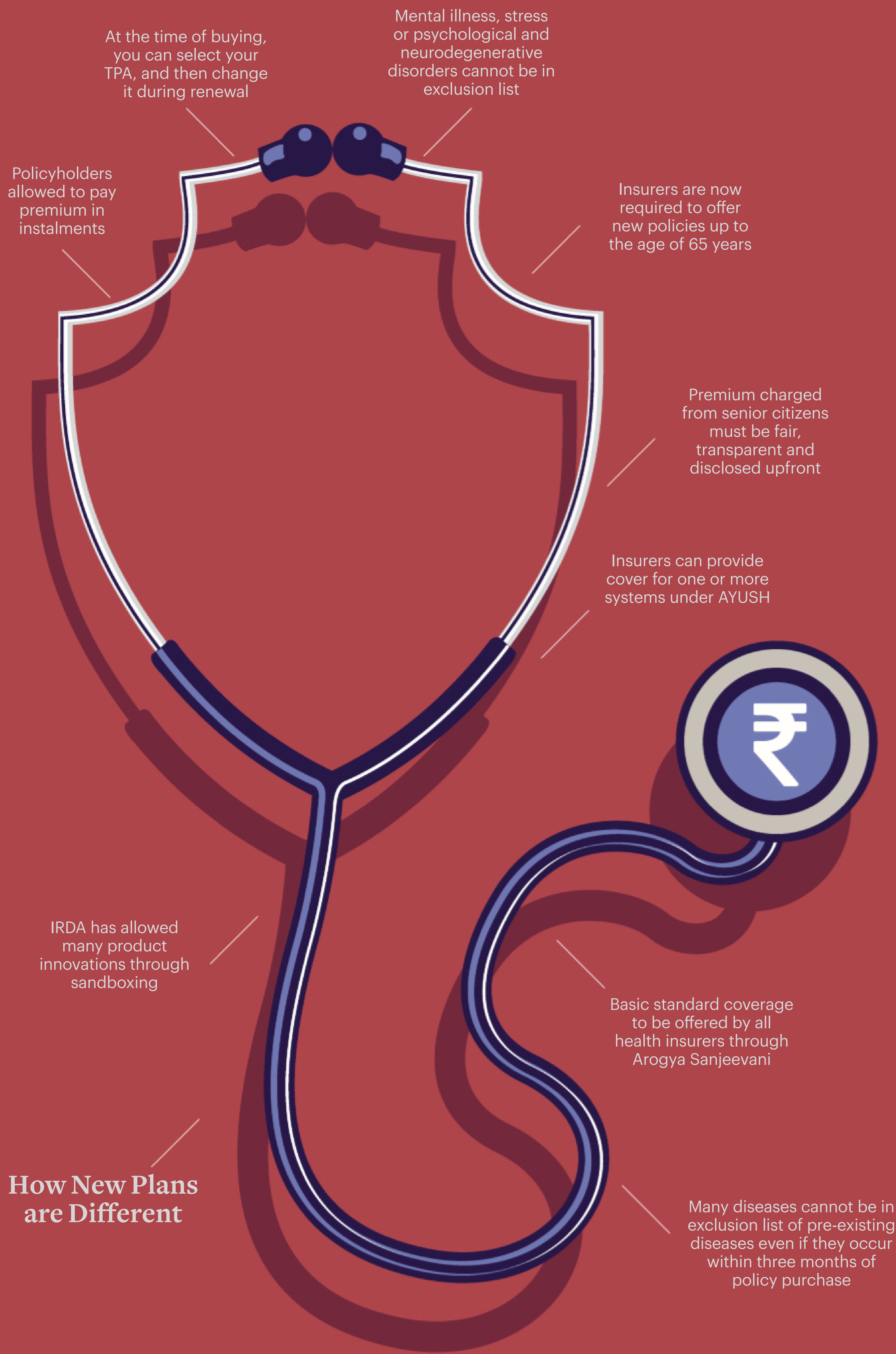
Corona Cover

Many policyholders are not sure if their policy covers coronavirus infection or not. "Viral infections are covered. This is one of the common infections a policyholder can contract. All Covid-related diseases and complications are covered by the basic health policy," says Dr. S Prakash, Managing Director, Star Health and Allied Insurance.

IRDA has issued guidelines to remove doubts among policyholders. "A basic health policy covers medical expenses, that is, hospitalisation expenses, for any viral infection, including coronavirus. Also, as instructed by IRDA, insurers are liable to pay for treatment of coronavirus," says Ravi Vishwanath, President, Accident & Health, HDFC ERGO General Insurance.

However, this does not mean everything is hunky-dory. As the pandemic spreads, finding a bed in a hospital is not easy. Even if you do, you may have to bear high out-of-pocket expenses due to corona-specific disposable items.

How New Plans are Different



"There are a lot of consumables such as PPE kits that are not paid for in a standard policy. Patients can end up spending as much as one-fourth of their bill on PPE kits during extended hospitalisation," says Krishnan Ramachandran, MD & CEO, Max Bupa Health Insurance.

The costs being charged are not uniform. "Hospitals are charging ₹400 to ₹12,000 per PPE kit. Different hospitals are claiming different prices for same product and brand. We can accept some difference due to quality of material and type of product but such a huge difference is difficult to understand," says Dr. Prakash of Star Health and Allied Insurance.

Some insurers are paying for these consumables but only to an extent. "We are paying for reasonable PPE costs. PPE kits have become a necessity. We understand their importance in safeguarding people," says Ramachandran of Max Bupa.

Unless there is a mechanism to prevent levy of arbitrary charges, patients will keep bearing significant out-of-pocket expenses despite having a good policy. "Representation has been submitted to the regulator. I hope it will look into it," says Dr. Prakash.

State governments have also swung into action to ease the process. "With state governments' efforts to standardise costs for Covid-19 treatment, the insurance industry is also working towards standardisation of costs paid for consumables such as PPE kits. This is expected to ease Covid-19 treatment payouts," says Vishwanath of HDFC Ergo.

Many insurers have launched or plan to launch corona-specific plans. "We are in the process of filing a coronavirus policy which may offer wider coverage, including quarantine and hospitalisation expenses," says Subrata Mondal, EVP (Underwriting), IFFCO Tokio General Insurance.

Understand coverage details while buying a new policy. "A regular health policy does not cover infectious diseases for the first 30 days. Apart from this, standard exclusions, mentioned in the policy, will be applicable in case of hospitalisation. OPD consultations/treatments are covered if they are part of pre- and post-hospitalisation expenses of the main claim," says Vishwanath of HDFC ERGO.

Universal Plan/Eight-year Rule

The extent of coverage, list of diseases covered, diseases excluded, waiting period for pre-existing diseases, all these vary widely from one health plan to another and one insurer to another. There is no way for a layman to differentiate between plans offered by different insures. This makes porting tedious.

To address this, IRDA has come up with a standard plan called Arogya Sanjeevani that all health insurers will have to offer from June 15. "Arogya Sanjeevani is a base plan with limited features. It should work in the

Changes in Post-purchase Processes

- Longer grace period of 30 days for policy renewal without coverage in the gap period
- Any increase in premium of modified or new policy can be done only after three years
- Freedom to migrate to another policy or insurer if existing policy changes or is withdrawn
- No charges for porting due to changes in existing product
- Easier claim rules for those holding multiple policies
- More incentives for renewal and adherence to good health habits

How Arogya Sanjeevani Works

- It is a basic and standard product being offered by all health insurers from June 15
- It offers standard hospitalisation, day care, pre- and post-hospitalisation coverage
- Cover amount only between ₹1 lakh and ₹5 lakh
- Cumulative bonus facility with up to 5 per cent increase in sum assured for a claim-free year
- Daily room rent, boarding and nursing expense capped at 2 per cent of sum assured or ₹5,000, whichever is less
- Mandatory co-payment of 5 per cent for eligible claim amount

current environment in Tier-II and Tier-III markets as people are worried about expenses for coronavirus treatment. This can be a starting point for customers looking to secure health of their families," says Ramachandran of Max Bupa Health Insurance.

Those looking for a basic and affordable plan can go for it. "One reason people don't buy health insurance is confusion created by plethora of products. Arogya Sanjeevani offers common features and exclusions. This makes it an ideal product for base coverage," says Mondal of IFFCO Tokio.

While buying, you just have to compare the price and find the best service quality. "We will later offer easy upgrade to more comprehensive plans," says Ramachandran of Max Bupa.

IRDA has also said that once a policy completes eight years with continuous renewal, insurers cannot apply a look-back. "After the expiry of the period, no claim shall be contestable except for proven fraud and permanent exclusions specified in the contract. The policies would, however, be subject to limits, sub-limits, co-payments, deductibles, as per the contract."

"VIRAL INFECTIONS ARE COVERED. THIS IS ONE OF THE COMMON INFECTIONS A POLICY HOLDER CAN CONTRACT. **ALL COVID-RELATED DISEASES AND COMPLICATIONS ARE COVERED BY THE BASIC HEALTH POLICY ISSUED BY INSURERS"**

Dr. S. Prakash
MD, Star Health and Allied Insurance

AYUSH Coverage

A lot of people take treatment from alternative medicine systems. There are few plans for these treatments. IRDA has asked health insurers to encourage other medicine systems. "Coverage for alternative treatments such as Ayurveda, Unani, Sidhha and Homeopathy is included in indemnity-based health plans and Arogya Sanjeevani," says Ashutosh Shrotriya, Head, Products & Business Process, Religare Health Insurance. Insurers have also started designing products keeping requirements of senior citizens in mind. "Such products have a shorter waiting period for pre-existing ailments, easier co-payment options, coverage for multiple co-morbidities and comprehensive health check packages," he says .

Late Renewal/Health Incentives

You will now get a longer grace period for policy renewal. "The insurer shall provide a mechanism to condone a delay of up to 30 days from the due date without deeming such condonation as break in policy. However, coverage need not be available for such period," says IRDA. This means you can carry forward no-claim bonuses if you renew your policy during the grace period. However, you cannot claim anything in the gap period.

The industry is also encouraging healthy habits. "In our flagship product, every claim-free year is rewarded with 10 per cent cumulative bonus, up to 50 per cent. We also reward customers for fitness activities. The wellness points accumulated can be redeemed against reimbursement of out-patient expenses that the customer incurs in a policy year," says Sanjay Datta, Chief of Claims, Underwriting and Reinsurance, ICICI Lombard General Insurance. "Some other benefits are annual health check-ups, discount on pharmacy bills, complementary doctor consultations, online consultations, etc," says Shrotriya.

Many issuers were charging prohibitive premiums from senior citizens. The regulator has taken note of this. "The premium for health insurance products offered by life insurers, general insurers and health insurers to senior citizens shall be fair, justified, transparent and duly disclosed upfront," it has said.

Claim from Multiple Policies

It is not uncommon for many people to have two or more active policies such as corporate, family floater, top-up and individual. The regulator wants insurers to make it easy for policyholders to make simultaneous claims from multiple policies for single hospitalisation. "Efforts are being made by insurers in this direction. Customers who hold multiple

The Covid Challenge

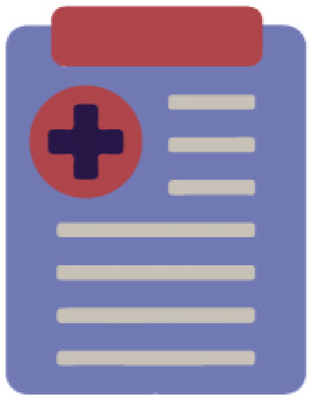
The illness is covered under all basic policies but overcrowding can make hospitals refuse admission

There is significant out-of-pocket expense on PPE kits and related costs

Private hospitals are demanding upfront payment of ₹3 lakh or more for admission even with a health plan

Many hospitals are charging arbitrarily. There is a huge difference in charges among hospitals

So far, there has been no regulatory intervention to standardise these charges



Multiple Policies – How to File Claim

No insurer can reject your claim due to multiple policies

You can claim for same illness from multiple policies

If some expenses are not covered under one policy, you can claim them from the other policy

You can use the settlement detail of the first policy to claim from the second policy

Corporate Vs Personal Health Plan

Corporate plans have a broader coverage and offer better claim experience than a basic personal plan

These end when you are no longer working with the company

It is better to keep a personal cover option as back-up

If you have multiple policies, you can use your corporate plan first and save non-claim bonus for your personal plan

health policies may avoid the hassle of reporting multiple claims for different policies," says Ravi Vishwanath, President, Accident & Health, HDFC ERGO General Insurance.

If you have two polices and one does not cover a particular cost, you can claim it from the other insurer. "In case of two policies, one needs to declare both. One can take benefit of consolidated coverage depending on the wordings of the programme," says Anik Jain, Co-Founder & CEO, Symbo India Insurance Broking.

Those with personal and corporate plans should first use the latter. "Corporate plans are generally better negotiated and, hence, possibly address more areas, at least in the first few years," says Jain. Insurers will have to either change policies or come up with new ones reflecting the changes ordered by IRDA by October 1. These changes and enhanced coverage mean additional expenses for companies. Though plans which are already offering a wider coverage may not need a big rise in premiums, many base plans may become more expensive. "There may be a 25-30 per cent increase in premiums," says Rakesh Goyal, Director, Probus Insurance, an insurtech broking company.

The regulator has asked insurers to offer policyholders the option of migrating to a suitable alternative policy while modifying or withdrawing the policy. "Indemnity-based health covers offered to specific age groups, students, children under family floater policies, shall also offer an option to such lives to migrate to a suitable alternative health insurance policy available at the specific exit age. Every policy migrated shall be allowed suitable credits for all previous policy years, provided the policy has been maintained without a break," it has said.

Tech/Easy Portability

Applications for portability are not processed in several cases due to lack of policy documents and history. This will change now. "IRDA has created a web-based facility which enables the new insurer to get history of health insurance of the policyholder. The data-sharing portal has expedited the process," says Mondal of IFFCO Tokio.

Restriction on movement during lockdown has made both consumers and insurers realise the importance of digital transactions and enabling infrastructure. "IT has played a great role during the lockdown due to which we have been able to offer services. All this was possible because of technological readiness at the right time," says Dr. Prakash of Star Health and Allied Insurance.

The companies with high level of IT-readiness were able to quickly turn this crisis into an opportunity. "Since

> **“**
> THERE ARE A LOT OF CONSUMABLES SUCH AS PPE KITS THAT ARE NOT PAID FOR IN A STANDARD POLICY. **PATIENTS CAN END UP SPENDING AS MUCH AS ONE-FOURTH OF THEIR BILL ON PPE KITS DURING EXTENDED HOSPITALISATION”**
>
> **Krishnan Ramachandran**
> MD & CEO, Max Bupa Health Insurance

most functions were digitised even before the lockdown, there were no teething issues, and transition was smooth. The learnings from this lockdown have led to digitisation of all operations in the insurance life cycle right from issuance of policy to claims,” says Datta of ICICI Lombard.

The experience gained during the lockdown will help the healthcare and insurance industry. “As pressure on health services rises, we are likely to see a rise in tele-health services. This can help healthcare reach more remote and less affluent populations, including the under- or un-insured,” says Ramachandran of Max Bupa.

Corporate Plan

Many people have health covers offered by employers. It is it wise to depend only on them? “It is considered prudent to run a parallel individual insurance policy to address situations like job loss and retirement. Also, job change may reduce the cover depending on policy offered by the new employer,” says Anik Jain of Symbo India.

Usually, the corporate cover is on the lower side. “Treatment costs can go beyond the group policy cover. So, it is better to have a regular health plan or a super top-up plan even if you are covered by a group plan,” says Rakesh Goyal of Probus Insurance.

Individual Vs Family Floater

If affordability is a big concern, family floater is a better option than individual cover for all family members. “If one is married and has children, one should go for a floater policy. Buying individual policies will be expensive. Probability of entire family becoming unwell is low,” says Indraneel Chatterjee, Co-founder, RenewBuy.com.

However, if there are big age differences and if a family member has health complications, it may not be the cheapest option. “Floater will work as long as there is not much age difference between husband and wife. Else, the premium may be high. Also, if one person has an ailment, loading will make the policy costlier,” says Suresh Sadagopan, Founder of Ladder7 Financial Advisories.

“If you are a couple living with kids, go for family floater. If living with dependent parents, buy individual plans for parents and family floater for others,” says Nitin Shahi, Executive Director, Findoc.

Also, if you are old and have family history of a medical complication, an individual plan is better. “Go for individual health plans when you start nearing 40s. If someone is having health issues like diabetes or high blood pressure, he should take an individual plan, while the rest of the family can avail floater benefits,” says Shahi of Findoc.

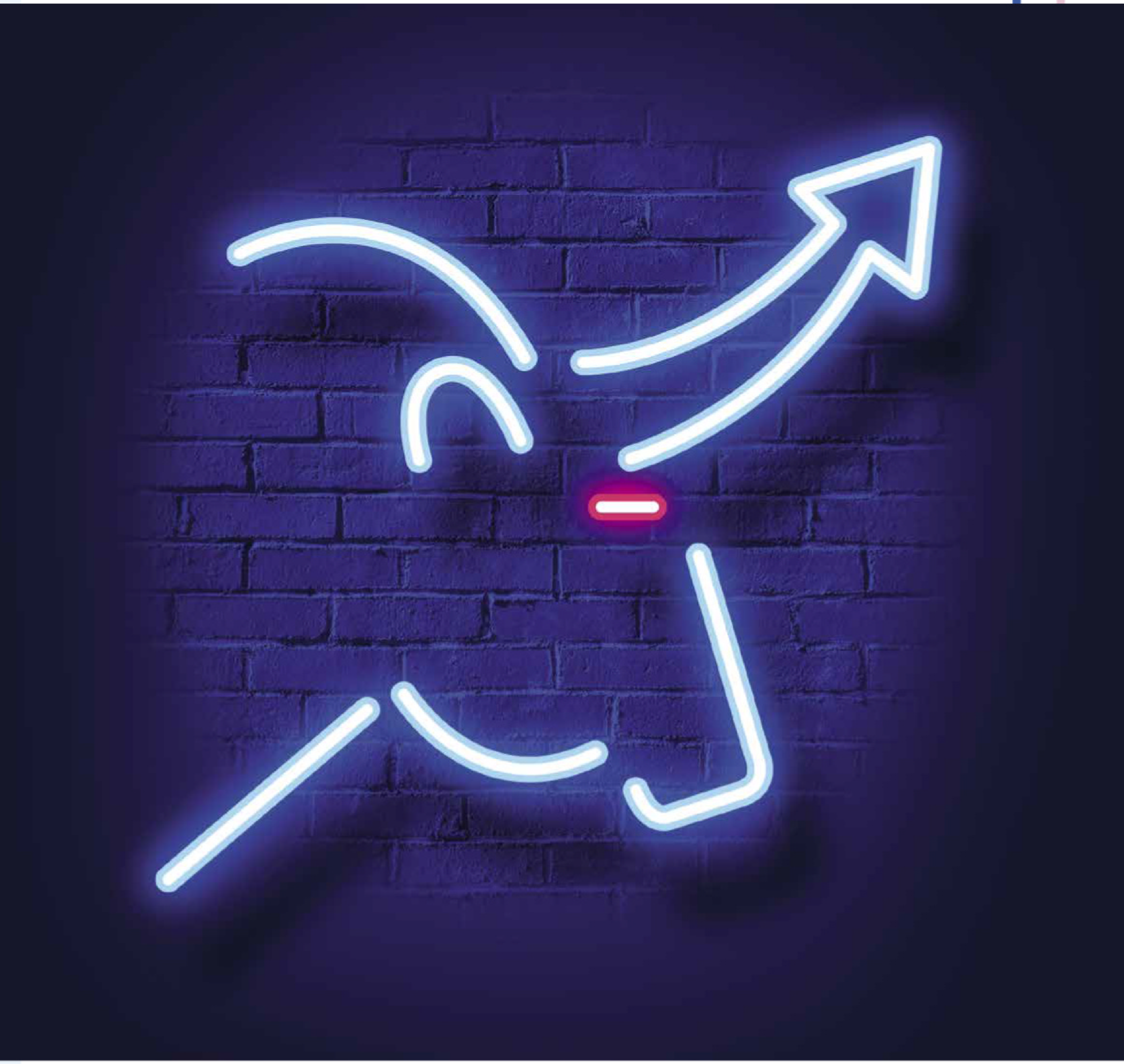
If affordability is not an issue, go for individual policies as they offer reliable cover for each member. “For a family that has one policy per individual, the no-claim bonus will accrue to all except those making a claim. In family floater, no bonus will accrue even if any one family member has filed a claim. A family policy is taken assuming everyone in the family may not need insurance in the same year. This assumption may not hold in some cases,” says Sadagopan.

Critical Illness Plan

There are many diseases where chances of survival are less and which require costly treatment. It may prove disastrous if such a disease is contracted by the main earning member of the family. Critical illness plans address this. They provide immediate full payment on diagnosis of a covered disease. Should you have one? "Yes, it is becoming a must with increasing incidence of diseases. One can have a special insurance policy or even riders that are available at a low cost and cover a lot of critical illnesses,” says Shahi of Findoc.

However, some have a different view. “Critical illness is a good-to-have policy, not a must-have policy. A critical illness policy covers a set of common illnesses. It will exclude a large number of critical illnesses one may be susceptible to. It is a limited cover for common critical illnesses afflicting the population” says Sadagopan of Ladder7 Financial Advisories. “If one has history of a certain critical illness in the family (like heart ailments), one may buy this cover. Also, if one feels financially vulnerable to certain illnesses which can curtail one’s earnings and become a massive drain on financial resources, one can go for it,” he adds. **BT**

@naveenkumar80



Know Your Risk

Bharat Bond ETF April 2023 and April 2030 series have returned 5.39 per cent and 6.72 per cent, respectively, till date. It invests only in AAA-rated PSUs

It has a target maturity structure that ensures predictability of returns

If you hold it for three or more years, you pay only 20 per cent tax, and that too post indexation

Should be held till maturity, but in an emergency, you can sell in the secondary market

Invest some amount in each series to reduce interest rate risk

Bond Fund With a Difference

BHARAT BOND ETFs ARE AN OPPORTUNITY TO INVEST IN AAA-RATED PSUs AT LOW COST WITH PREDICTABLE RETURNS AND EQUITIES-LIKE LIQUIDITY

BY APRAJITA SHARMA
ILLUSTRATION BY RAJ VERMA

Investors are jittery about corporate bonds and debt mutual funds due to huge corporate defaults over the last couple of years. That's understandable.

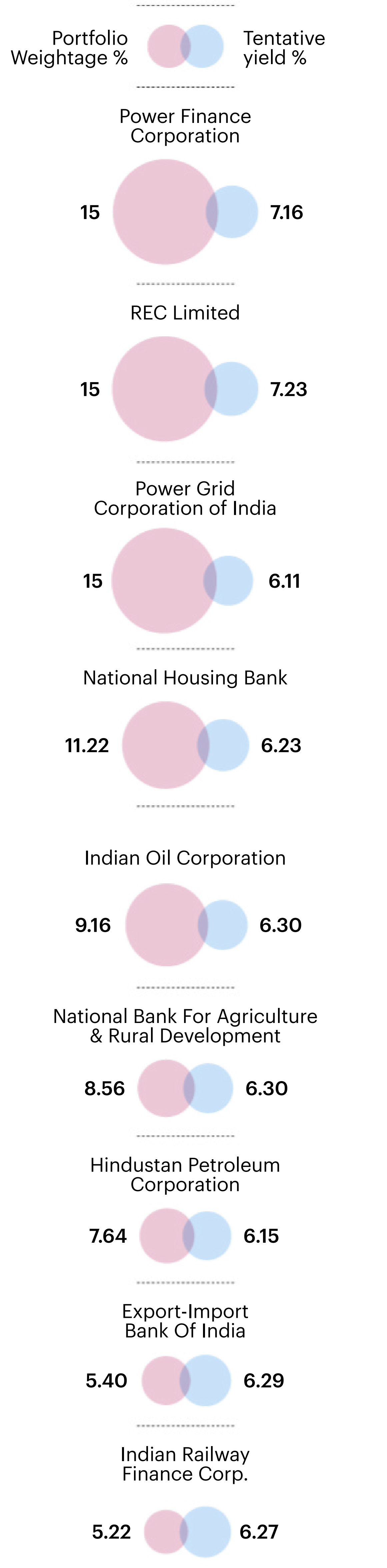
But what if these risks can be minimised by investing in, say, bonds issued by government companies? Banking and PSU debt funds do that to a large extent but still carry credit risk as they also invest in papers lower than AAA-rated. Some may even have exposure to equities-like risky AT1 bonds such as the ones issued by YES Bank where investors lost all their money.

However, there is one investment that can help you take exposure to a basket of AAA-rated PSUs. Bharat Bond ETF, which tracks the Nifty Bharat Bond Target Maturity Indices, is a low-cost passive debt investment, India's first corporate bond exchange-traded fund (ETF), for up to 20-odd PSUs. The investment can start from as less as ₹1,000.

Edelweiss AMC, which has a mandate to manage the ETF, launched two variants – Bharat Bond ETF April 2023 and Bharat Bond ETF April 2030 – in December with a maturity of three years and 10 years, respectively. It is set to roll out two more series in July that will mature in April 2025 and April 2031. The offer period is between July 14 and July 17. The fund-raising target is ₹3,000 crore with a green shoe option of ₹11,000 crore.

The demand for Bharat Bond ETFs has risen sharply since their launch. Edel-

Bharat Bond ETF 2025
Top 9 Tentative Index Constituents



Yields as on May 4, 2020, Source: Edelweiss Asset Management Company

Bharat Bond ETF 2031

Total 8 Tentative Index Constituents

	Portfolio Weightage (%)	Tentative Yield (%)
Power Finance Corporation	15	7.60
REC Limited	15	7.62
Power Grid Corp. of India	15	6.89
National Highways Authority of India	15	6.98

weiss AMC, which mobilised over ₹12,000 crore through ETF during the new fund offer period, has more than doubled the assets under management to over ₹30,000 crore (ETF and FoF combined). "Much of the growth, especially in the 10-year segment, has happened after March, when the credit crisis deepened. This is encouraging as long-term money is coming in," says Radhika Gupta, CEO, Edelweiss Asset Management.

April 2023 and April 2030 series have returned 5.39 per cent and 6.72 per cent, respectively, since inception. On annualised basis, it amounts to 12.54 per cent and 15.96 per cent, respectively, for the same period. The indicative yields for the next two series – April 2025 and April 2031 – have been fixed at 6.04 per cent and 7.04 per cent, respectively.

Stable Returns

Most investors like fixed deposits (FDs) due to assurance that they will get their principal back after maturity with interest. Bharat Bond, with its target maturity structure, also offers predictable returns. Target maturity means it invests in bonds whose maturity is the same (as closely as possible) as the maturity of the fund, unlike other funds that may invest in long-term papers but have a short-term maturity or vice versa.

Bharat Bond does not give regular income as the fund house reinvests coupon payments. At maturity, you receive an amount similar to the yield to maturity mentioned during the NFO period. Yields may go up or down during the investment period due to interest rate changes but holding on till maturity will give returns that align with the yield to maturity mentioned in the beginning of the investment.

Since it is a passive investment, fund management costs are a low 0.0005 per cent (₹1 for a ₹2,00,000 investment). It is marginally more (0.0515 per cent) for fund of funds (FoF).

Mid-way Sale

These ETFs are traded on exchanges, so the units can be sold in the secondary market. Liquidity can be low, but Edelweiss has appointed market makers who provide quotes and liquidity in the absence of other market participants. However, a bulk sale may force you to sell at a discount. In case of FoF, there is an exit load of 0.10 per cent if you withdraw within 30 days of the investment. There is no exit load after 30 days. If you take the FoF route, you can redeem your units any time you want.

Bharat Bond ETF

How existing series have fared

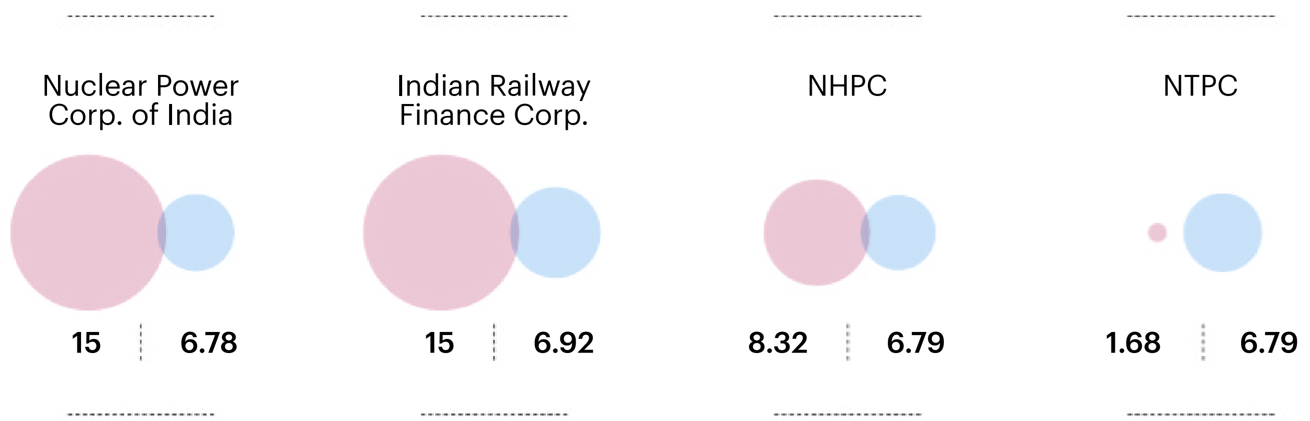
Group/ Investment	Fund Size (₹ cr)*	3-Month Cumulative Return (%)**	Since Inception Cumulative Return (%)**
Bharat Bond ETF April 2023 Gr	**5,157.3**	3.93	5.39
Bharat Bond ETF April 2030 Gr	**8,584.7**	3.99	6.72

*As on May, 2020, **Data as on June 12, 2020, Source: Morningstar

Bharat Bond Fund of Fund

Group/Investment	Fund size (₹ cr)*	3-Month Cumulative Return (%)**	Since Inception Cumulative Return**
Bharat Bond FoF April 2023 Reg Gr	**8,096.5**	3.84	5.36
Bharat Bond FoF April 2030 Reg Gr	**9,623**	4.04	6.71

*As on May, 2020, **Data as on June 12, 2020, Source: Morningstar



Yields as on May 4, 2020, Source: Edelweiss Asset Management Company

Tax-efficient

The ETF is taxed like a debt mutual fund. Units held for less than three years attract short-term capital gains tax as per your income tax slab rate. Long-term capital gains after three years are taxed at 20 per cent with indexation benefit. Since fixed deposits are taxed as per your tax slab, people in higher tax bracket may find this investment better than a fixed deposit. "On investing till maturity, post-tax returns from Bharat Bond ETFs can be expected to be higher (due to indexation benefit) than returns from a fixed deposit of the same tenure for investors in higher tax brackets. However, in the interim, Bharat Bond ETFs will be subject to market volatility and interest rate risk," says Himanshu Srivastava, Associate Director and Manager, Research, Morningstar India.

There are two ways to invest in these bonds. One is the demat account. If you don't have one, you can take the FoF route through an asset management company.

The Risk Factor

Bharat Bond ETFs are market-linked products. They do not offer assured returns, unlike bank fixed deposits, where you are sure that your principal and interest up to ₹5 lakh is safe even if the bank goes bust. In these unusual times, when the coronavirus crisis has hit business across the board, an AAA-rated PSU may also face repayment challenges. Debt fund expert and former CEO of Essel Mutual Fund Rajiv Shastri says: "If a PSU is downgraded by a ratings agency and the index has to offload it, will there be enough buyers for these downgraded papers? Investing in AAA-rated PSUs is fine, but what happens after borrowing is what matters. What if the government sells a PSU or divests its stake in it?"

Morningstar India's Srivastava says impact of coronavirus on these companies will be much less compared to similar private sector entities or bonds with a lower credit rating. "In case of disinvestment, the issuer will be excluded from the index-effective next rebalancing/reconstitution, once the disinvestment process has been completed. In effect, the fund also has to rebalance the portfolio accordingly. Given that these are liquid entities, rebalancing will not be an issue. But if the issuer is downgraded and is no longer eligible to be part of the index, the demand for its bonds can fall and there can be challenges in liquidating such assets. Given that these are good quality government-backed entities with strong foothold, the chances of them facing such challenges are limited," says Srivastava. The index is reviewed and rebalanced at the end of each quarter. As per the Securities and Exchange Board of India, exposure to a single bond cannot go more than 15 per cent of the assets.

Besides, just like fixed deposits or most other debt instruments, the returns on Bharat Bonds are influenced by the policy rate in the economy. Edelweiss wants to create a ladder of Bond ETFs with different maturities to minimise the interest rate risk.

Should You Invest?

If your taxable income falls in a lower tax bracket, there are several other options with attractive interest rates that you can consider. However, if you are in a higher income tax bracket and have a long-term horizon, you can consider this as a good option for the debt part of your portfolio. If you are a moderate risk taker and investing with a long-term horizon, Bharat Bonds can provide you FD-like assured returns (if held till maturity), equities-like liquidity and mutual funds-like diversification, especially in the ongoing high credit risk scenario.

"Initially, I did have apprehensions that it may give a rude shock to investors in case of a downgrade. However, PSU bonds are the only trusted investment bonds now. So, it has turned out to be a good investment, especially the 10-year series. I suggest going for April 2031 series since shorter end of the yield curve has rallied too much, so margin of safety lies in longer end of the curve. For a six-year gap, if you are getting 1 per cent higher yield, why not take it," says Shastri. BT

@apri_sharma

Network

THE COIN COLLECTOR

The love for travel helped Manu Kumar Jain further develop his passion for numismatics. Jain, MD, Xiaomi India, owns over 2,000 coins spanning 200-plus years and over 50 countries, including Canada, Russia, Hong Kong, South Africa, Egypt, Qatar, the US, Zambia and Denmark. His collection also includes some less-circulated currencies such as the Finnish markka and the Swedish krona. He even has a euro for every single European country he has travelled to. "Coin-collecting can be traced back to thousands of years. It is an exciting hobby that I have been investing in for a long time now. I have been able to collect numerous coins from across the globe due to my travel."

Almost 50-60 per cent of his coins are from post-Independence India while 15-20 per cent are from the period before Independence. The rest have been collected from different countries. "I have been collecting these for over 30 years and even today my passion is undimmed. Coins hold great symbolic and historic significance, and with them, I always feel that I can travel back in time and witness the evolution of time," says Jain.

Jain also loves to collect stamps. He started this around the same time he discovered his interest in numismatics. He owns over a thousand stamps from various countries. – NIDHI SINGAL

Bridge to Future

What do some of the sharpest minds in the world do in the middle of a pandemic? Well, they play Bridge, online. Billionaires Bill Gates, Founder, Microsoft, and Warren Buffett, Chairman and CEO, Berkshire Hathaway, regularly play the game (which requires brainpower and strategy) with each other. It is believed that playing Bridge keeps people sharper for longer.

In his blog, GatesNotes, Gates writes, "I have been playing bridge for years — Warren Buffett is my favourite partner. We don't get together in person now that we're sheltering in place, but we still play online." It is believed that people who engage in mentally stimulating activities experience slower memory decline than those who do not.

Buffett reportedly plays Bridge for close to eight hours a week. To win the game, one needs to know when to hold the cards and when to exit. That's what investors, too, need to know. The Oracle of Omaha definitely knows that.

A CALIFORNIAN HIPPIE

As an intern with Microsoft in California, Archit Gupta, CEO, Cleartax, used to represent Microsoft in the Ultimate Frisbee tournament with Yahoo. "Interesting people, including Yahoo Co-founder David Filo, would come to join the game. When I heard about it, I thought let's give it a shot, and became a regular player."

Ultimate Frisbee, quite popular in the Bay Area, was considered a game for hippies but has gained global popularity now. Unlike rugby or football, it is a no-contact, seven-on-seven sport, in which men and women play together.

A series of coincidences enabled him to continue playing the Ultimate (as the game is popularly called). After returning to India, he started throwing the disc with a close friend who used to play with the Delhi Ultimate team, called 'Stray Dogs in Sweaters'. He, in fact, joined the team too.

Gupta takes pride in calling himself and other Ultimate lovers the Californian hippies. What he loves the most is the 'spirit of the game'. "It's a no-referee game in which players have to call out their own foul." Sharing an anecdote, Gupta says once a 19-year old captain of the team, which had lost the tournament, huddled with team mates and analysed what went wrong. He had shouted at a player but was humble enough to accept his mistake. "The way he led the team and analysed it was impressive. Even captains who are directors in companies are not so good in leading their teams. It was a lesson for me on leading my team," says Gupta. – APRAJITA SHARMA

Best Advice I Ever Got

"BEST BIZ LEADERS ARE MISSIONARIES FIRST, BEFORE BEING MERCENARIES"

NIKHIL ARORA, VICE PRESIDENT AND MD, GODADDY INDIA

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

A: When GoDaddy first started operations in India in 2012, one of the biggest challenges we faced was debunking misconceptions around creating a website. Most small businesses in India, even today, see building a website as a complex and intimidating task, one that requires massive financial investment. Lack of awareness about benefits of having an effective online presence was another barrier for us.

Q: Who did you approach and why?

A: To help overcome initial challenges, we relied on listening to our customers. We host regular customer forums with customer councils and fireside chats to get feedback on our products and services. We also conduct educational marketing campaigns aimed at creating awareness about ease and affordability of building an online presence for a particular business. In addition, we get feedback from our care agents, who are continuously in touch with our customers, learning about their requirements and providing guidance, 24x7, free of charge, in Hindi, Marathi, Tamil, Telugu, and English languages.

Q: What was the best advice you ever received?

A: I am very inspired by billionaire investor John Doerr's quote about the best business leaders being missionaries first, before being mercenaries.

Q: How effective was it in resolving your problem?

A: This life mantra, of being a missionary first, has made me more passionate about identifying new ways to help Indian entrepreneurs and small business owners turn their ideas into reality online. In my job, I get to connect with people to raise awareness about benefits of bringing their businesses online to help their ventures grow, and show how we can help them get results. BT

–NIDHI SINGAL

Vol. 29, No. 14 for the fortnight June 29 to July 12, 2020. Released on June 29, 2020. Total number of pages 92 (including cover)