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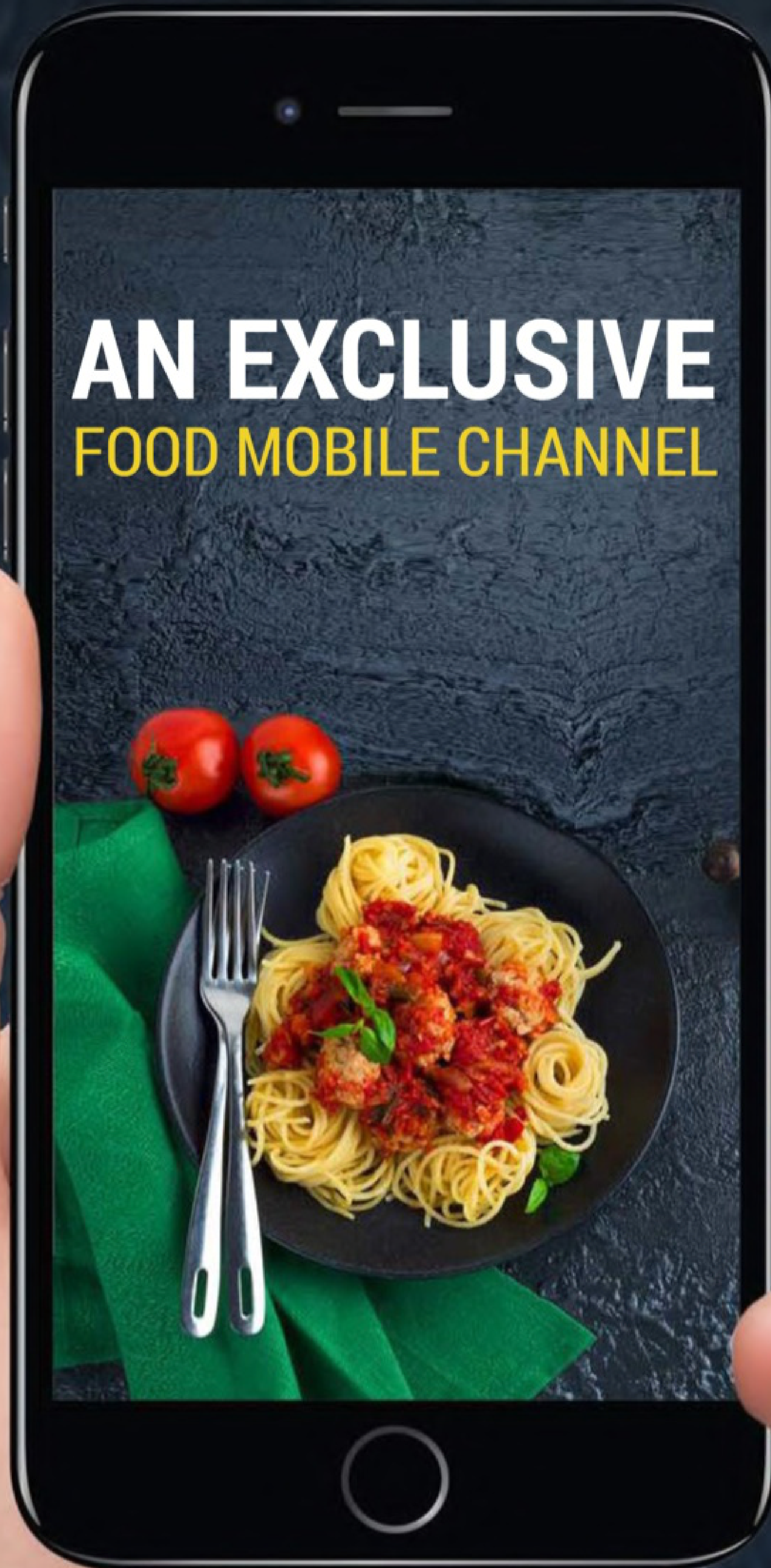

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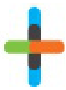
Business Today

NBFCs: Crisis Worsens



SECTOR REPORT: Steel Challenges

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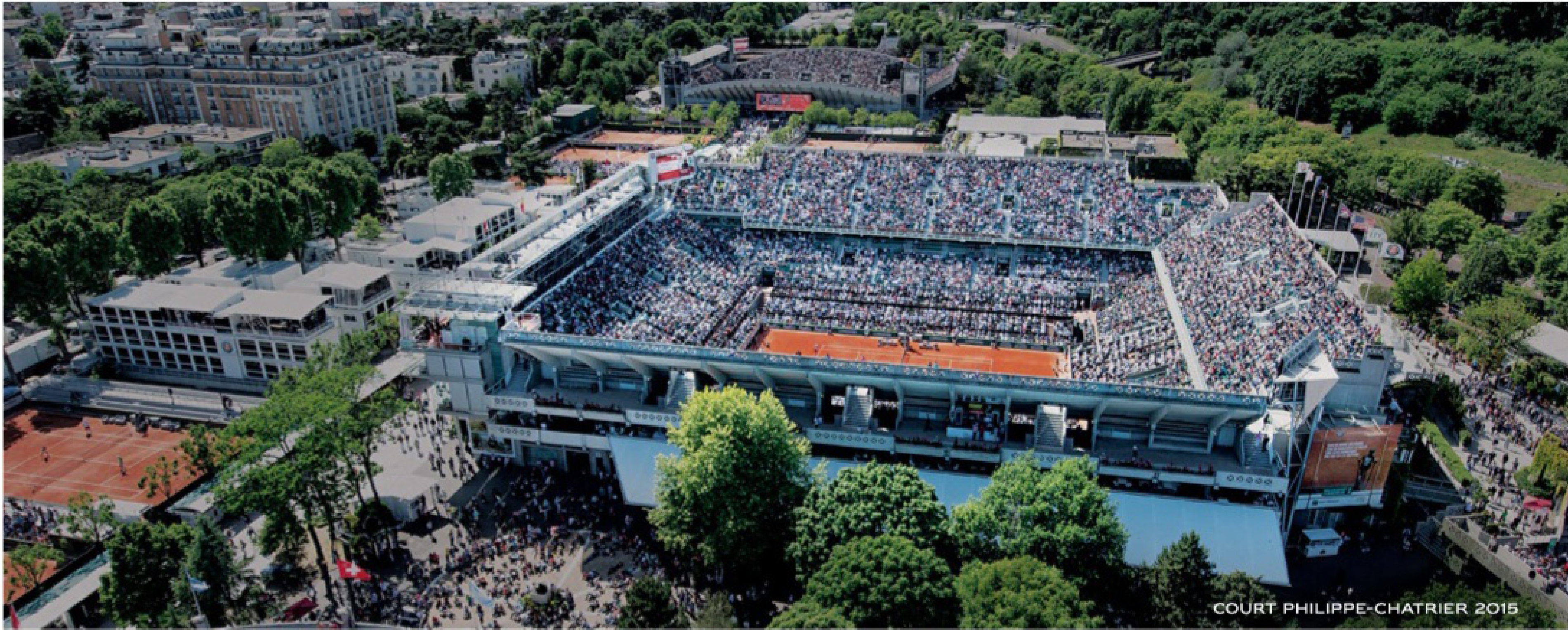
AGENDA FOR MODI 2.0

TOP ECONOMIC EXPERTS DEBATE HOW THE GOVERNMENT CAN HIT THE GROUND RUNNING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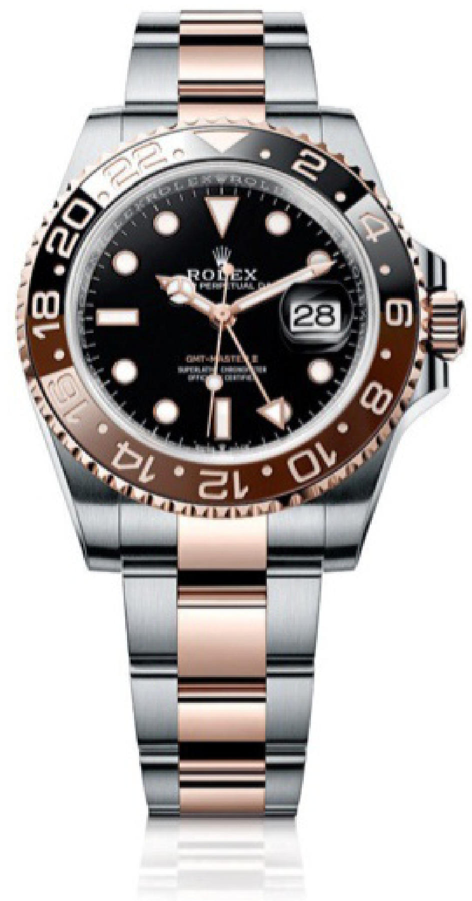

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For Your Attention, Mr PM

AS THE NEW GOVERNMENT takes charge, the economic issues it needs to tackle are pretty clear. In the past six months, a number of worrying signals have been apparent. First, agricultural and rural distress have been growing despite many steps the first Modi government took in order to fix the problems. The announcement of higher Minimum Support Price (MSP) and the focus on rural infrastructure does not seem to have helped increase real rural incomes by much. Given that this year, the monsoon predictions are not particularly heartening, the rural distress is expected to increase. The PM Kisan scheme announced in the Budget helps a bit, but to solve the problem of stagnating rural and agricultural incomes, the government needs to think of other solutions as well.

Second, throughout the first term of Prime Minister Modi, private investment into new projects remained low. Despite the confidence that corporate sector has voiced publicly for the Modi government and its budgets and other policies, they have failed to back it up with investments on the ground. There are three factors that have been hindering fresh investments in new projects. First, the capacity utilisation in most sectors has refused to go beyond 75-80 per cent. Second, most balance sheets were heavily leveraged and after IBC, no businessman wants to load himself with debt. Finally, even where corporates have money, they often found it easier to pick up good assets at cheap prices in the IBC process than go for a greenfield one – whether in steel or in textiles.

The third problem facing the new government has to do with the country's export performance. In absolute terms, Indian exports are just about crossing 2014 levels, after falling for the first few years. And in terms of exports to GDP ratio, it is still below the 2014 figures. Despite better focus on infrastructure and a host of other measures, this has been one of India's major failures. To keep growing fast, exports need to fire as well.

Fourth, private consumption is slowing. In the past five years, private consumption and government spending have been the primary drivers of economic growth, and this slowdown is quite worrisome, especially as the government's ability to keep spending on infrastructure and other projects is finite.

Fifth, unemployment is rising. And it is going to keep rising because of multiple reasons, including a drive for higher productivity in most industries as well as increase in automation. The fact that manufacturing growth has been anaemic and other sectors like real estate, telecom and power have not managed to create too many new jobs has been a dampener.

There are other issues as well. Public sector banks are still grappling with the bad loans mess. The non-banking financial sector is feeling the heat of the IL&FS defaults. Household savings rate is down. All these need attention. Also, our cover story package focusses on the economic priorities for the second term of Prime Minister Modi.

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Top economic experts debate how the government can hit the ground running

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A five-member panel, in its report to the RBI, has suggested ways to strengthen the safety and security of digital payments to boost customer confidence

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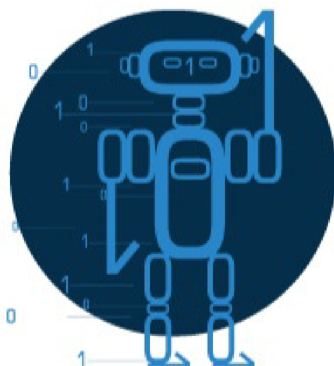

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BT Buzz: Consumer Companies Are Bracing Themselves for the Worst
After witnessing a robust quarter-on-quarter growth post the rollout of goods and services tax (GST), the slowdown has come as a surprise to most consumer companies
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PERSPECTIVES

How SBI Hopes to Topple Market Leader in Credit Card Business With Ola Tie-up
Currently, with over 82 lakh credit cards, SBI is the second largest in the market and this tie-up is a move to augment its co-branded portfolios
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Financial Services Agenda for Next 5 Years: Consolidation, Recapitalisation and More
The banking industry is cleaning up the balance sheets. But the NBFC sector, which had supported consumption, is now facing asset-liability mismatches
businesstoday.in/financialservices.agenda-nbfc

NEWS

₹3,900 Crore Bonds by Essel, DHFL, RelianceCap Coming up for Repayment by September
The Essel Group, which has already sought time from investors until September 2019, has to repay debt worth ₹1,029 crore by the end of that month
businesstoday.in/esselgroup-repayment

COLUMN

After TsuNamo II, India Now Awaits TsuNomy I – A Rapid Economic Turnaround
This job is as intense, because there's steam left in the ongoing deceleration. Indian economy has been in slowdown mode for at least three quarters, says Businesstoday.in Editor Rajeev Dubey.
businesstoday.in/tsunamo.II-jobs

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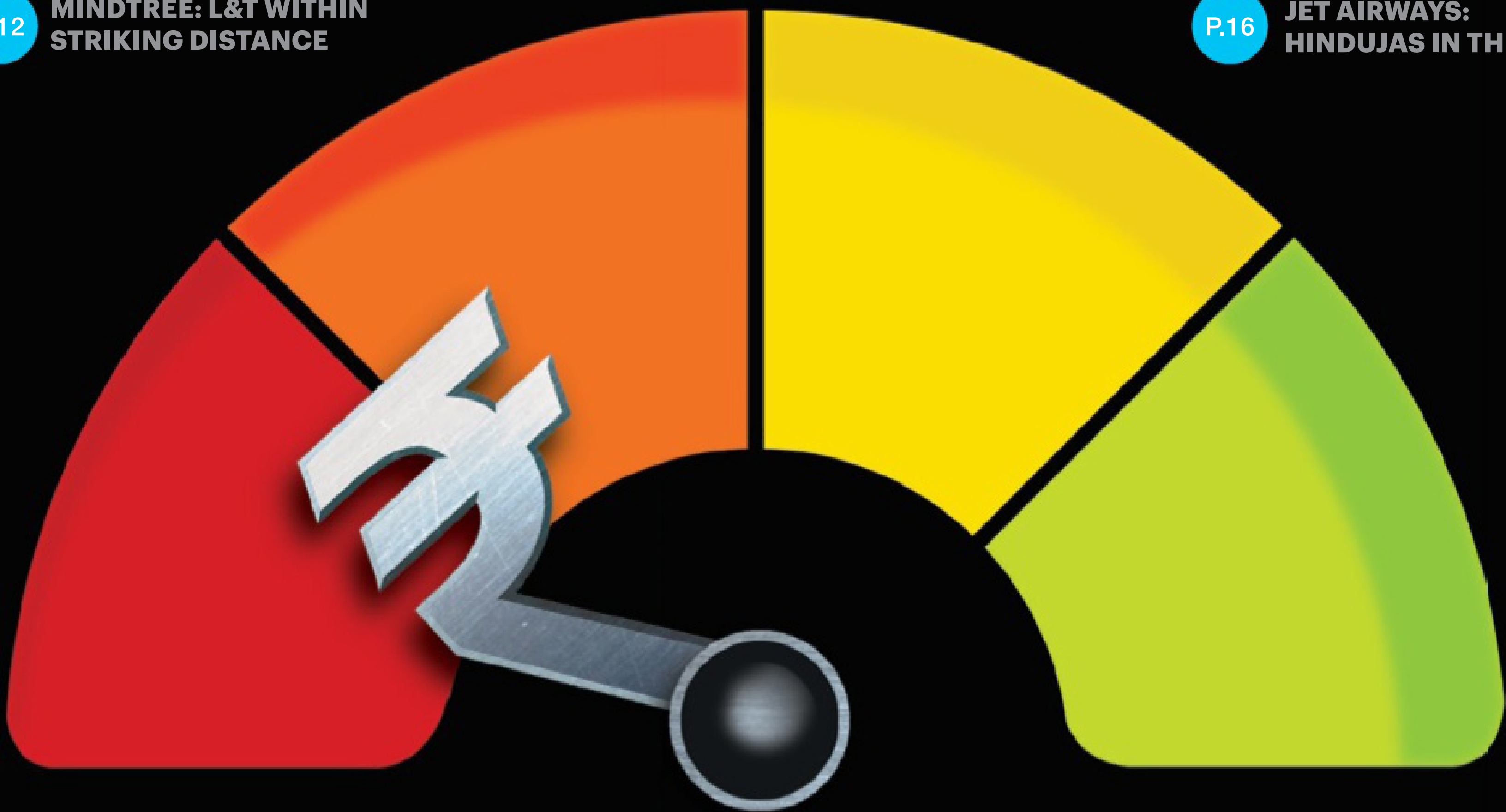

Q4 RESULTS

WEAK SENTIMENT

SLOWDOWN, GLOBAL CONDITIONS PULL DOWN VOLUME GROWTH.

By NITI KIRAN

ILLUSTRATION BY RAJ VERMA

THE DUST ON political uncertainty has settled as Prime Minister Narendra Modi is set for a second term. However, the elections, coupled with slowing consumption trends in rural markets, are bothering consumption-oriented sectors, weighing heavily on fourth quarter results.

The last quarter of financial year 2018/19 is turning out to be a damp squib with close to 500 BSE comapnies registering a three-quarter low top-line growth amid poor demand, tough global macro environment and liquidity crunch. In the fourth quarter of FY19, the year-on-year (y-o-y) net sales growth for the sample of 488 BSE-listed companies was 10 per cent, the slowest in the last three quarters.

Excluding BFSI firms, the volume growth comes to just 7.6 per cent. Marred with slow revenue growth, bottom-line numbers were a disappointment, too. Operating profits of the ex-BFSI sample grew 3.5 per cent, again the slowest over the past three quarters. However, profit after tax grew 5.4 per cent compared to 1.3 per cent and -2.9 per cent growth (y-o-y) in the previous two quarters.

The sectoral show was a mix bag with a majority of them going with the tide of de-accelerated volume growth. The worst hit were diamond and jewellery, infrastructure, retailing and healthcare sectors as their revenue growth slid over eight percentage points in the last two quarters. By the end of this month, most companies will come out with their fourth quarter results, affirming our stance of a weaker-than-expected earnings season. BT

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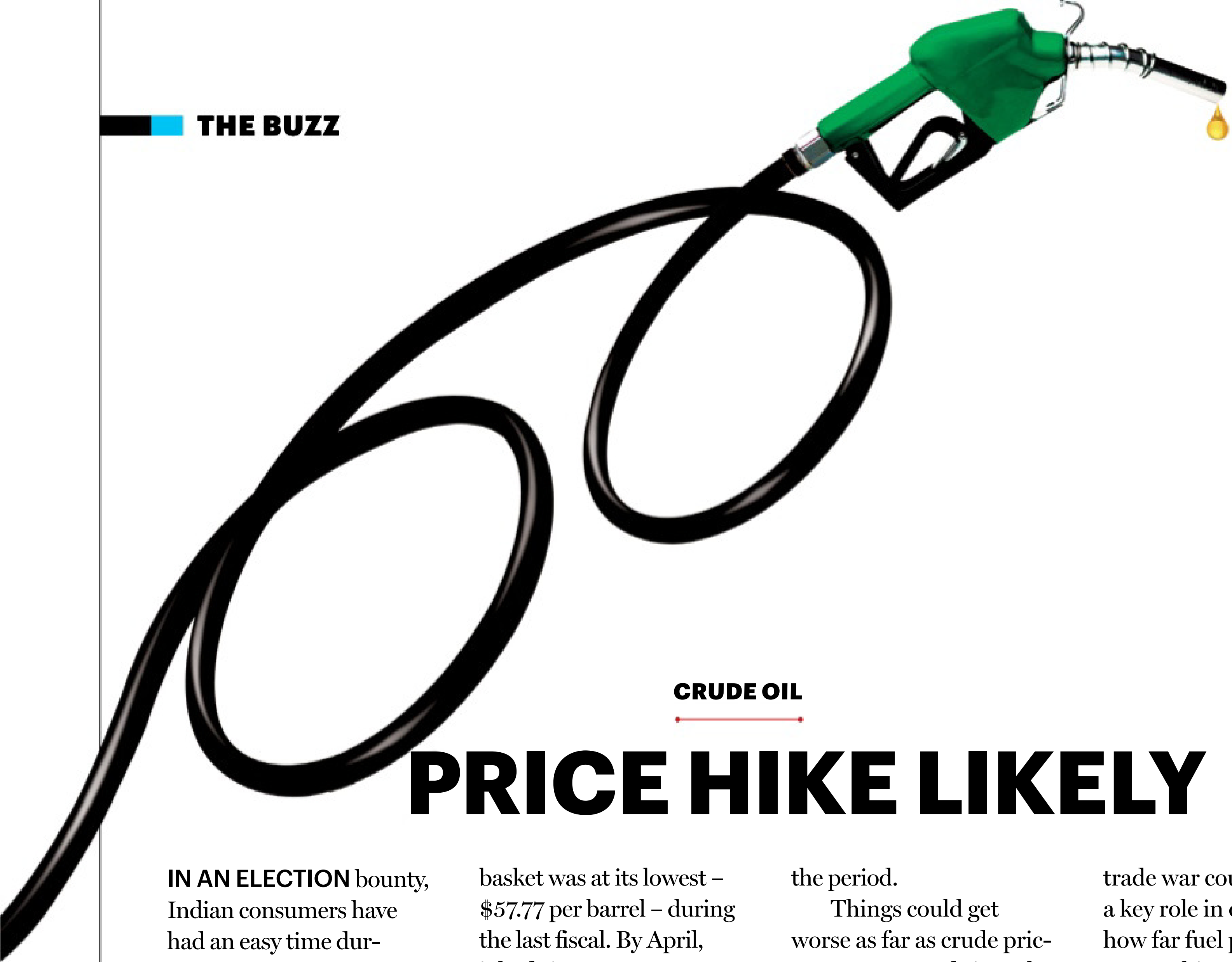

CRUDE OIL

PRICE HIKE LIKELY

IN AN ELECTION bounty, Indian consumers have had an easy time during 2019 as far as petrol and diesel prices are concerned. Now that the election party is over, brace yourself for a hike in prices. The reasons are clear. At the end of December 2018, the India crude basket was at its lowest – $57.77 per barrel – during the last fiscal. By April, it had risen 23 per cent to $71 a barrel. Starting January 1 till May 24, petrol prices in Mumbai rose a mere 3.63 per cent from ₹74.30 to ₹77 a litre. Diesel prices, on the other hand, rose 6.20 per cent during the period.

Things could get worse as far as crude prices are concerned since the supply of cheaper Iranian crude has stopped after the US refused to extend the waiver it had offered to India. OPEC nations' decision on production cuts and the US-China trade war could also play a key role in determining how far fuel prices go.

As things stand, be prepared for a sharp hike in fuel prices over the next few days as oil companies look set to cut the losses they incurred on retailing fuel during the election season. -Aprajita Sharma

MINDTREE

L&T Within Striking Distance

THE SECURITIES & Exchange Board of India threw a spanner in the works of an imminent takeover of Mindtree by Larsen & Toubro by raising queries on the intended deal which led to L&T not carrying out an open offer on the original date – May 14. Meanwhile, L&T has been able to mop up shares from the market, becoming the single largest shareholder in the company with over 26.5 per cent stake in Mindtree. This move gains significance as it provides L&T enough ammunition to seek a board seat and block any resolution that Mindtree could move to change the capital structure or allocation of funds. While the fresh date for the open offer is yet to be announced, the earlier announcement of a 200 per cent dividend by Mindtree, which could have significantly eroded the cash on books, will in all likelihood be countered by L&T to protect its interests.

-Rukmini Rao

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DIGITAL PAYMENTS

RBI Stress on Safety

THE HIGH-LEVEL committee set up by the Reserve Bank of India on Deepening of Digital Payments has submitted its recommendations to the governor. The five-member team, under the chairmanship of former UIDAI chairman Nandan Nilekani, worked for three months holding deliberations and consultations with various stakeholders to review the status of digitisation of payments and identify gaps in the ecosystem. While the RBI is yet to make the report public, according to sources, the committee is believed to have made several suggestions to strengthen safety and security of digital payments that could increase customer confidence, and follow best practices to increase faster adoption of digital payments. However, the RBI has said that it will study the recommendations and make an action plan that aligns with the five-year vision document on payments and settlement systems in India that was recently released. **-Rukmini Rao**

LIQUIDITY

NBFCs FACE A FUNDS CRISIS

THE DEFAULT by IL&FS last September dried up liquidity for the shadow banking sector, forcing NBFCs to look for alternative sources of funding. As mutual funds are pulling back, NBFCs are now opting for securitisation (conversion of loans into debt instruments), external commercial borrowings and public bond issuances to raise money. While securitisation reached a 10-year-high of ₹1.9 lakh crore in 2018/19, public bond issuances last fiscal (till January) were up over six times year-on-year to ₹33,700 crore. But these measures are not enough to support the disbursement growth. ICRA has noted that NBFCs' assets under management growth slowed to 3.3 per cent quarter-on-quarter in Q3 2018/19, the slowest in the last 10 quarters. It had grown 21.5 per cent in the December 2018 quarter.
With continuing likelihood of defaults by some players, adequate liquidity for NBFCs will remain a mirage, at least for the next few quarters.
-Rashmi Pratap

STOCK MARKET

TREND REVERSAL

IF YOU FIND polarisation between performance of large-cap and mid-cap stocks (the Nifty Midcap index is down 4 per cent while Nifty50 has jumped 12 per cent in last one year), chances are you have also seen the same in the large-cap pack too. A few stocks driving the index, while the rest of the market remains a meek spectator, is a common sight these days. The top 10 Nifty stocks have contributed 75 per cent to the rally in the index since its lows in February. However, the trend may soon reverse.

The holdings of mutual funds in such stocks have breached historical averages, while allocation by foreign portfolio investors is close to the record high. In the past, whenever such a thing has happened, it was followed by under performance in these stocks and outperformance of the lowest weighted 30 Nifty stocks, according to a report by Elara Capital. In the broader market, polarisation has in the past continued for longer before a broadening took place at a larger scale. The same may happen this time as well.**-Aprajita Sharma**

75%
CONTRIBUTION OF TOP 10 NIFTY STOCKS TO THE RALLY IN THE INDEX SINCE ITS FEBRUARY LOWS

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JET AIRWAYS

Hindujas in the Fray

HOPE IS KNOCKING at the doors of Jet Airways, yet again. Weeks after Etihad Airways submitted its bid to acquire the ailing airline, reports suggest that London-based Hinduja Group is planning to bid for the airline that ceased operations last month due to paucity of funds. The group, led by Srichand P. Hinduja and his three brothers, is reportedly evaluating the opportunity to acquire stake after receiving approval from key shareholders like Jet's former chairman Naresh Goyal and Etihad Airways. The group has engaged investment bankers for due diligence. For the Hinduja Group, which has interests in banking, transport, energy and technology, diversifying into the aviation sector can be tricky since it has no experience in operating a commercial airline, and acquiring a struggling carrier like Jet will come with challenges. The recent senior management exits, such as of CEO Vinay Dube and CFO Amit Agarwal, would only add to the burden of the new owner.**-Manu Kaushik**

FPIs

Quality Focussed

FOREIGN PORTFOLIO Investors (FPIs) have been among the largest non-promoter shareholders in Indian stocks for a long time. While markets witnessed consistent inflows, with a 6.4 per cent ownership (by number of shares) in all-NSE listed companies, FPIs' possession has largely remained stable over the years.

It is difficult to build a strong case of optimism about the general elections driving FPIs' investments as they tend to be very quality focussed. Data sourced from Prime Database reveals that during the last elections when the model code of conduct came into force in March 2014, FPI investments in all NSE-listed companies increased to 963 from 953 in the previous quarter. Their ownership (in value terms) inched up from 19.5 per cent to 19.7 per cent during the period. However, this year, in the March 2019 quarter, when the election schedule was announced, FPIs invested in 1,181 NSE-listed companies, down from 1,197 in December 2018 quarter. Their stakes (in value terms) marginally reduced to 6.42 per cent from 6.47 per cent during the period.**-Niti Kiran**

NPPA

CANCER DRUG PRICE CUTS

INDIA'S DRUG pricing regulator, National Pharmaceutical Pricing Authority (NPPA) recently capped prices of nine more cancer drugs by up to 87 per cent. This caps trade margin at 30 per cent. Early this year, the government capped prices of 42 cancer drugs at 30 per cent to reduce prices by 85 per cent, which covered 72 formulations and 355 brands. These drugs cover about ₹3,500-4,000 crore of India's pharma market, with a turnover of nearly ₹1,30,000 crore in 2018. Domestic cancer drug sales are growing at 20 per cent annually for the past few years, while global growth is half of that. It is estimated that many of these drugs are sold at 7-8 times the manufacturing price. India has about 2.2-2.5 million cancer patients and over 1.1 million new cases are detected every year. Since most Indians are not covered by health insurance, capping profits is a welcome move.

-P.B. Jayakumar

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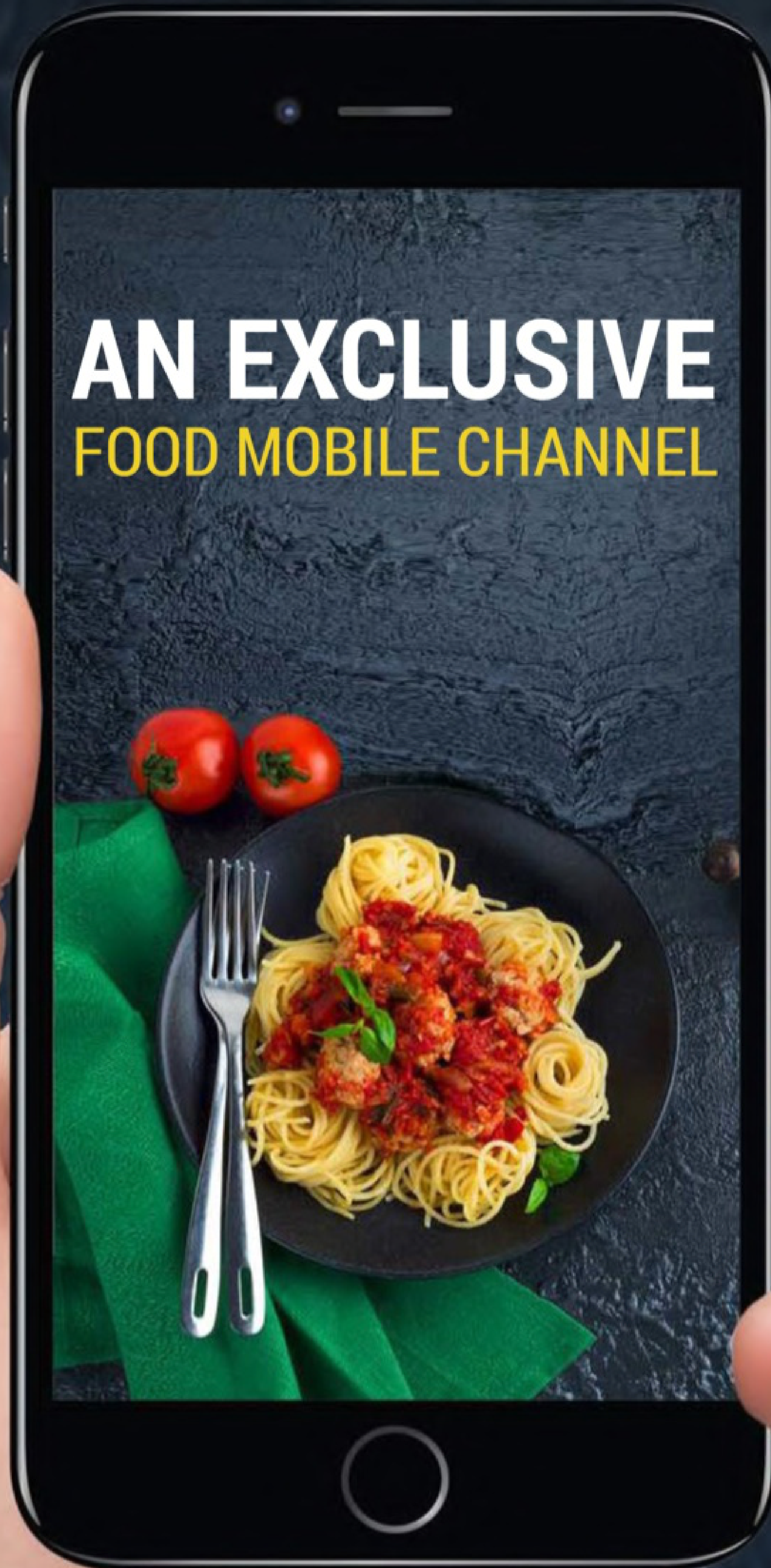

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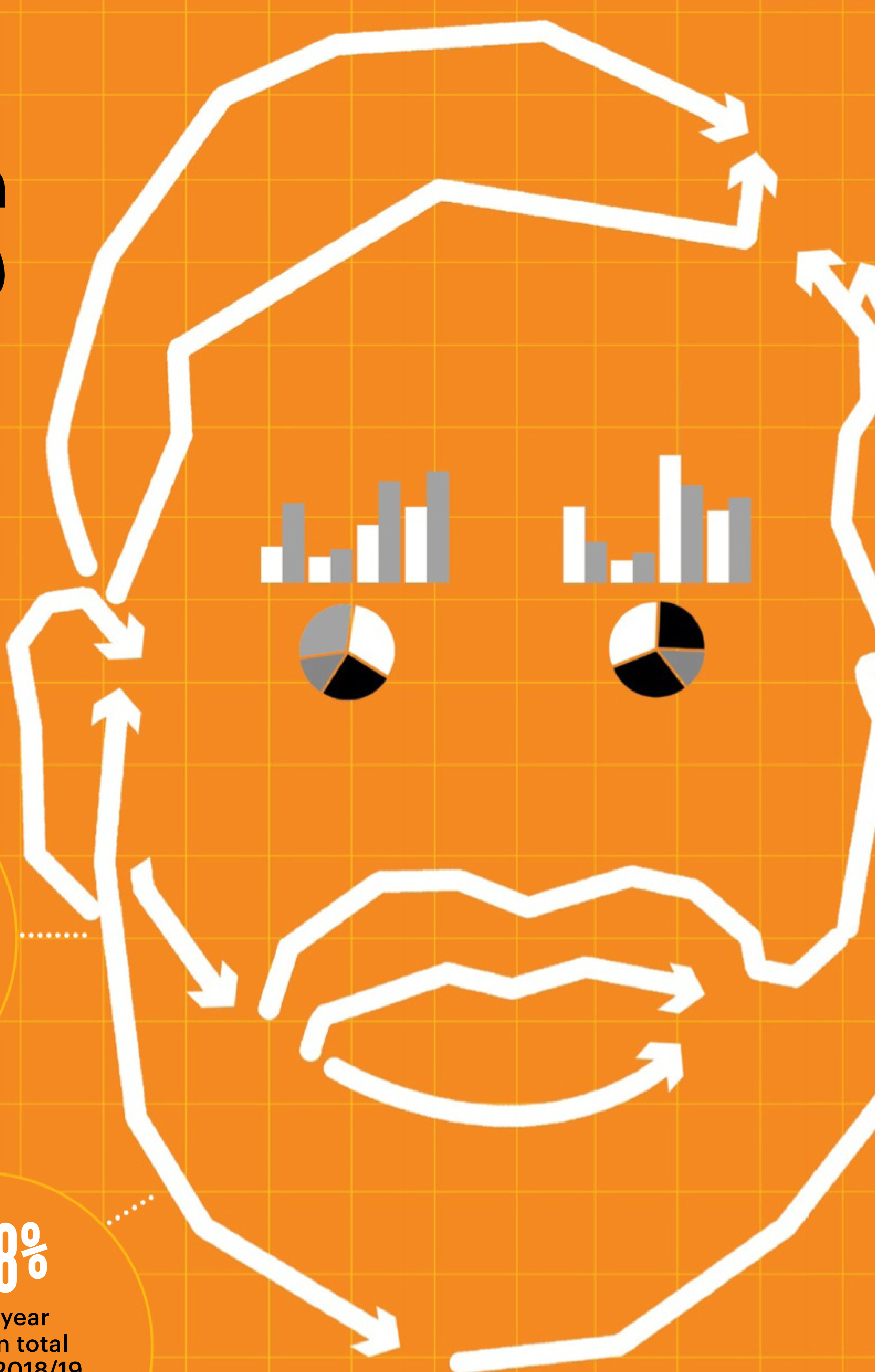
GRAPHITI

MIXED SIGNALS

MARKETS FOLLOWED DIFFERENT PATHS DURING THE FIVE YEARS OF THE NDA GOVERNMENT, BUT DOMESTIC INVESTORS' PRESENCE WAS STEADY.

Graphic by
Nilanjan Das
Research by
Shivani Sharma



₹124 LAKH CRORE

Market cap of BSE 500 companies (as of May 15, 2019) has grown significantly since May 2014, when it was ₹72 lakh crore

13.08%

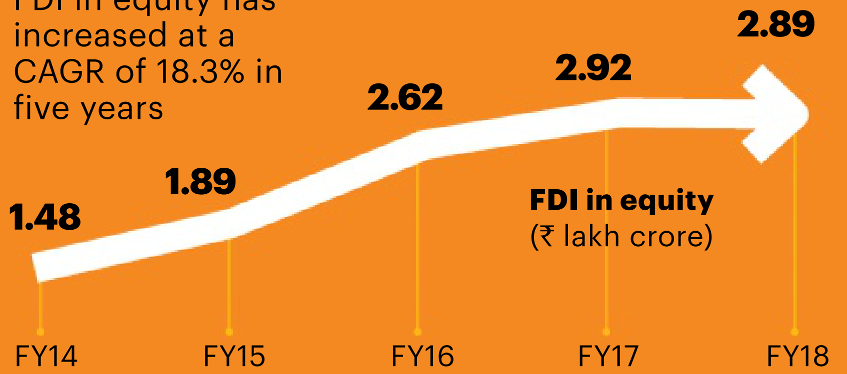
Year-on-year increase in total imports in 2018/19 versus the previous year; it was 0.80% in 2013/14

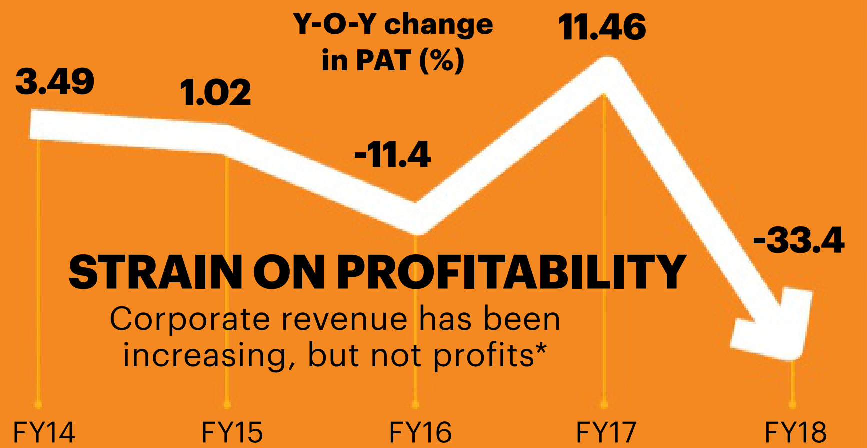
₹13,214
CRORE
Investments by Foreign Portfolio Investors and Foreign Institutional Investors in 2018/19 as against ₹2,77,459 crore in 2013/14

$21,449
MILLION
Total outward Foreign Direct Investment (FDI) from India in 2018/19. This was higher in 2013/14 ($49,617 million), an indication of India's falling investment appetite

₹23.8
LAKH CRORE
Assets under management of mutual funds at the end of 2018/19 as compared to ₹8.25 lakh crore in 2013/14. The increase is due to savings moving to financial instruments

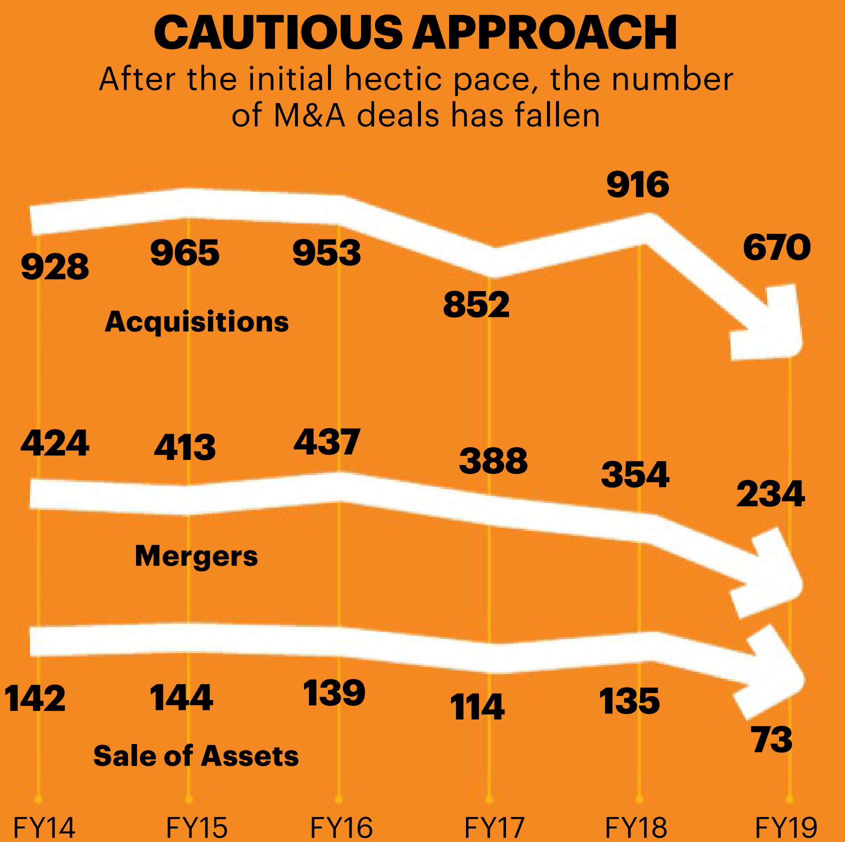
REDUCED PACE
FDI in equity has increased at a CAGR of 18.3% in five years



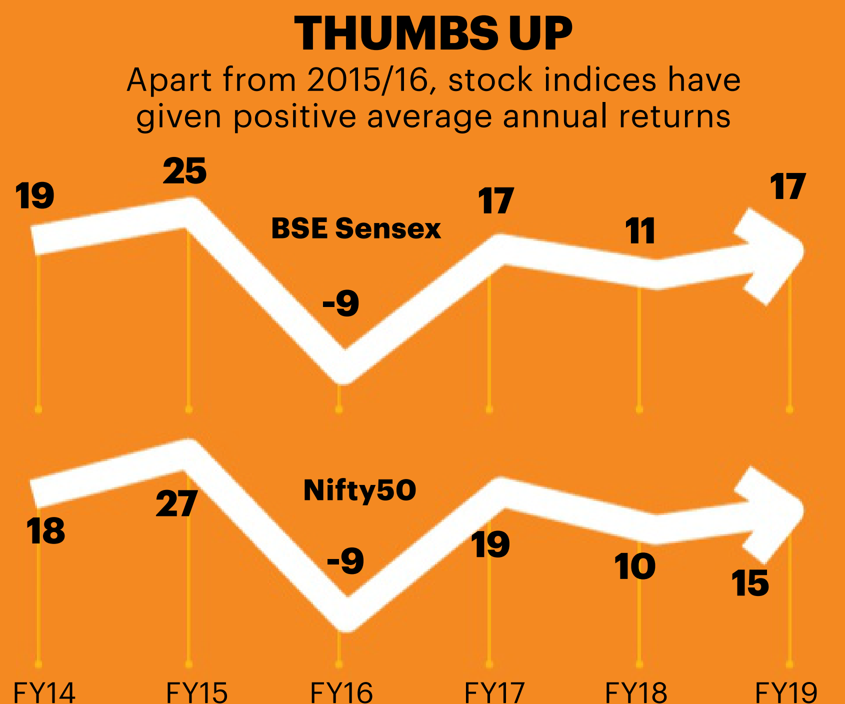


STRAIN ON PROFITABILITY
Corporate revenue has been increasing, but not profits*

CAUTIOUS APPROACH
After the initial hectic pace, the number of M&A deals has fallen



THUMBS UP
Apart from 2015/16, stock indices have given positive average annual returns



* Performance data of more than 25,000 companies; Sources: Industry Outlook; Prowess; CMIE; RBI; BSE

AGRI POWER

WHAT: Agrochemicals Conference 2019

WHEN: July 16, Delhi

WHAT TO LOOK FOR: The 8th edition, organised by FICCI and the Department of Chemicals and Petrochemicals, will focus on the role of agrochemicals in sustainable farming. The participants will learn how sustainable agriculture can improve farmer livelihoods and conserve non-renewable energy

IDEATE AND INNOVATE

WHAT: Entrepreneur Summit

WHEN: 17-18 July, Delhi

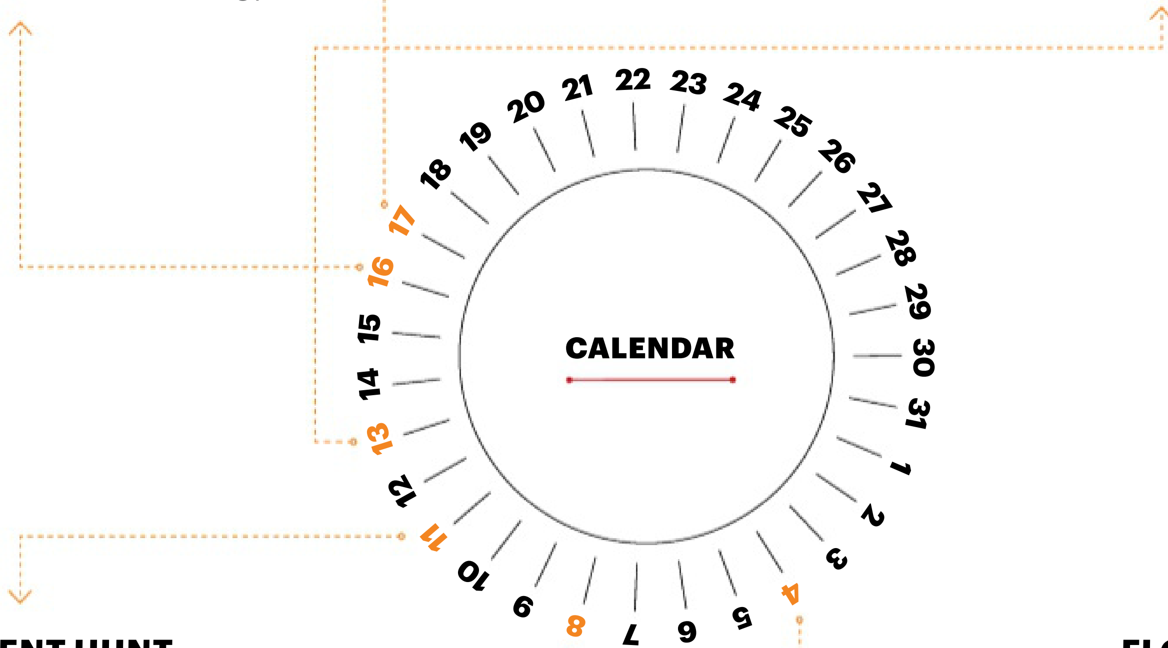
In its 9th edition, the summit will bring together inspiring entrepreneurs and investors to discover and unleash breakthrough ideas, innovations and insights needed to address some of the most intractable social challenges.

MEET AND GROW

WHAT: National Franchise and Retail Show

WHEN: 13-14 July, Pune

The event will host qualified investors and entrepreneurs from India, neighbouring countries and delegations from other parts of the world to meet face-to-face and learn more about India's fast-growing MSME industry.



TALENT HUNT

WHAT: RecFest

WHEN: 11 July, London

Over 3,000 talent acquisition professionals from all over the world will come together to discuss the future of recruitment. They will also get to bond and network with their industry peers.

LICENSING ECOSYSTEM

WHAT: India Licensing Expo

WHEN: 8-9 July, Mumbai

The event is an opportunity for the budding licensing fraternity to experience the full range of licensing products to explore opportunities in multiple product categories.

FLOW OF INFO

WHAT: International Conference on Economics and Business Management

WHEN: 4-5 July, Seoul

WHAT TO LOOK FOR: Researchers, developers, engineers, students and practitioners working in and around the world in the field of economics and business management will share views and exchange information.

GLOBAL BUSINESS

BOEING'S BILLION-DOLLAR WOES

Regulators are still mulling whether Boeing's 737 Max should take off again, but each grounded jet in the US (a total of 34 are operated by Southwest Airlines and sealed since) could be costing around $2,000 a month for maintenance, a *Bloomberg* report reveals. The number of grounded aircraft extends to nearly 500 across the globe, including 100 planes fresh out of the factory, which could not be delivered due to the flying ban imposed from March onwards after two fatal crashes in five months. Chicago-based Boeing has already lost $41.5 billion in market value and faces an estimated $1.4 billion bill for cancelled flights and lost operating profits. Its inventory of 737 Max would swell too by nearly $12 billion by the end of September if regulators fail to give a go-ahead and production continues at the current pace

BRITISH STEEL IN DIRE STRAITS

British Steel, the UK's second-biggest steelmaker, has asked the government for an emergency loan of $38 million to ward off bankruptcy. But there is no guarantee that the UK government will oblige even though 25,000 jobs are at risk. The government has already granted the company a separate $153 million emergency loan to cover a Brexit-related emissions bill. As per experts, the company may no longer be commercially viable as steel producers like China had added to the supply glut. British Steel blames Brexit for the crisis as European orders have slowed down due to uncertainties and the falling pound makes raw material imports more expensive.

MERCK TO ACQUIRE PELOTON FOR $1.5 BN

U.S. pharmaceutical giant Merck will buy Peloton Therapeutics, a cancer drug developer, for $1.05 billion in cash and up to $1.15 billion in potential milestone payments. The deal will strengthen Merck's oncology portfolio as Peloton will soon start the late-stage trial of its kidney cancer treatment. Founded in 2010, Dallas-based Peloton previously raised more than $240 million in venture funding. The deal came just a day before it was to begin trading on the stock market. Drugmakers around the world are shopping for new cancer treatments, one of the hottest markets with about $133 billion in global sales.

CHINA'S DEBT-RIDDEN BANK TAKEN OVER

China's banking and insurance regulator will take control of Inner Mongolia-based Baoshang Bank for a year as the domestic lender poses serious credit risks, a Reuters report says. China Construction Bank will handle its business operations. Baoshang had outstanding loans of $22.68 billion by the end of 2016, a 65 per cent jump from 2014-end, while non-performing loan ratio stood at 1.68 per cent according to the bank's last filing on its assets and liabilities. The rare takeover of a bank could be a sign of volatility as Sino-US trade spat escalates and the country witnesses an economic slowdown.

WOW AIR COLLAPSE MELTS ICELAND

Iceland, the European island nation whose economy thrived on tourism for the past 15 years, is feeling the heat after its popular and far-reaching budget carrier Wow Air went out of business in March this year, considerably lessening the flow of global tourists. As per *Bloomberg*, its central bank cut main interest rate by half a point to 4 per cent and said that the economy could shrink 0.4 per cent compared to a previous growth estimate of 1.8 per cent. Unemployment forecast for 2019 has gone up to 3.9 per cent from 3.1 per cent while inflation may peak at 3.4 per cent before it slows towards the 2.5 per cent target over the next two years.

The Big Picture

THE US BAN ON HUAWEI ON SECURITY GROUNDS MAY HAVE AN UNENVIABLE IMPACT, BUT SUCH CHALLENGES CAN ONLY BE RESOLVED IF NATIONS OPT FOR GREATER COOPERATION AND COORDINATION.

KAZIM RIZVI MRITTIKA SARKAR

On May 15, 2019, the US government signed an executive order to ban American companies from using telecommunication products developed by Huawei, a premier telecom company in China. This comes on the heels of the US intelligence community, private firms and scholarly circles voicing their concerns against Chinese espionage.

Although the Chinese government does not own the company, it is believed that the Chinese State exercises significant influence over its operations. This development comes amid a growing trade war between the US and China and confirms that the 'tech cold war' is now in full swing between the two leading economies. This could give rise to a digital iron curtain that might end up separating the world into two distinct and exclusive technological ecosystems. The move is certainly unprecedented and raises questions on governments interfering with business models globally, but at the same time, explains the need to secure the digital infrastructure from potential external threats.

AS THE WORLD IS GETTING MORE CONNECTED WITH THE RISE OF DIGITAL ECONOMIES, HAVING A COHERENT STRATEGY ON CYBERSECURITY IS A MUST TO MOVE FORWARD ECONOMICALLY

Chinese Tech a Security Threat?

The year 2019 witnessed unprecedented moves against Chinese technology companies as a result of security concerns triggered by Chinese equipment, products or services. Earlier, India banned Tik Tok (it was since lifted), and now Japan and the UK are following the US. The US ban is set to affect the company and the tech environment in a bigger way, but it is yet to be seen whether the world will be divided into two major technology fronts in the coming decade. With the Internet and the digital ecosystem pervading every aspect of human life, one should wait and see the impact of such blacklisting on the economies.

Global Co-operation Required

The US move throws light on the growing realm of cybercrimes, their perilous implications and the need to up cybersecurity initiatives across the entire global community. Although countries may be divided on how to secure networks, cybersecurity remains a top challenge that can only be resolved with greater co-operation and co-ordination. Securing the cyberspace has become fundamental to protect democratic institutions, economy, free speech and idea flow, as well as privacy, safety and security of people. Countries should come forward and work together to protect international cyberspace. The Paris Call for Trust and Security is one such step, a political declaration that attempts to bring nations together to enhance cyberspace stability, applicability of international laws and the ability to prevent cyberattacks. Rather than harbouring scepticism, we need greater trust and confidence among nations to prevent cyberattacks and safeguard our critical infrastructure against hacks.

India Needs New Policy

With the coming of the new government, India must revise its cybersecurity policy that came out in 2013 – too long an interlude in this era of the Internet. Also, cybersecurity is closely linked with national security. As the world is getting more connected with the rise of digital economies, having a coherent strategy on cybersecurity is a must to move forward economically. As the new government takes charge, India needs a revised approach towards securing its cyberspace from threats, which should have an institutional framework to ensure the country's digital safety.

From a mere statement of principles and ideas, the new policy must evolve to operationalise cybersecurity and involve training, standard enhancements, a greater number of private-public partnerships and civil-military co-operation within the government. Moreover, security, by default, must become the norm for digital products and services in India. BT

Kazim Rizvi is Founding Director, The Dialogue, a think tank working at the intersection of technology, society and public policy. Mrittika Sarkar is a Policy Consultant at The Dialogue

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AGENDA FOR MODI 2.0

TOP ECONOMIC EXPERTS DEBATE HOW THE GOVERNMENT CAN HIT THE GROUND RUNNING

Photograph by VIKRAM SHARMA

s Prime Minister Narendra Modi prepares to start his second five-year term, what should his economic priorities be? In some ways, the challenge he is facing is perhaps bigger than when he took charge in his first term. In May 2014, the economy was slowly beginning to recover and there was hope a decisive government with full majority could bring in the kind of reforms that the past two coalition governments had failed to deliver.

The Prime Minister and his economic team did manage to bring most things under control in the first two years of the tenure, with some help from benign crude prices. Inflation and fiscal deficit were both tamed. Current account deficit started to narrow. Growth shot up as the government spent heavily on infrastructure.

However, despite reforms such as the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC), the second half of the term was plagued with multiple problems. Growth has once again started to slow down. That in itself is not worrisome because even now India is growing faster than all major economies. The problems that confront the new government are agricultural and rural distress, rising unemployment, the lack of appetite in the private sector for investing in new projects, and finally, both low consumption and low household savings rate. Then there are exports where India has never performed well and where the report of the past five years is mediocre.

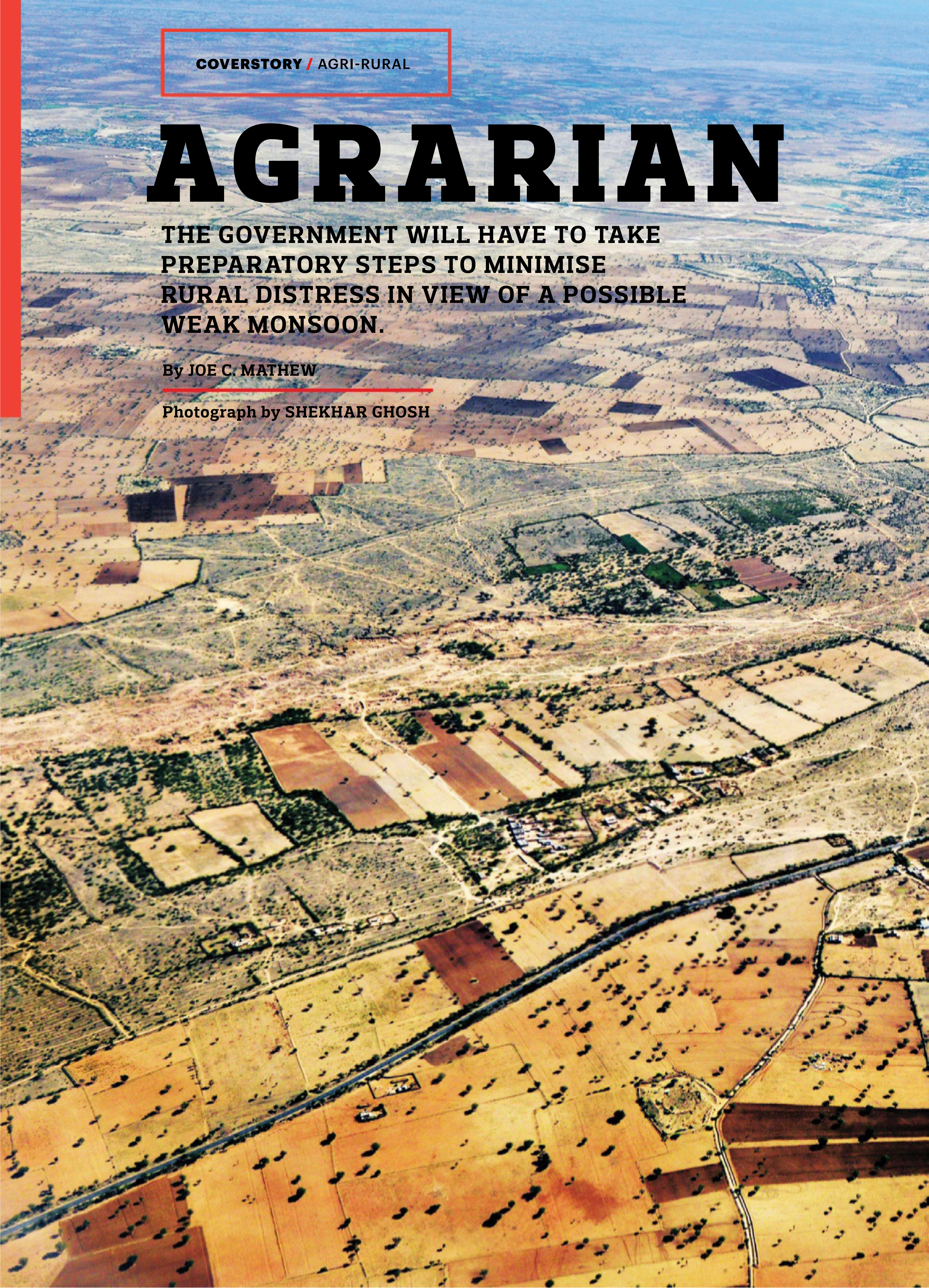
On all these, the new economic team of Prime Minister Modi will have to come up with short-term as well as medium- and long-term plans that can be acted upon. In the following pages, we look at each of the issues in detail. BT

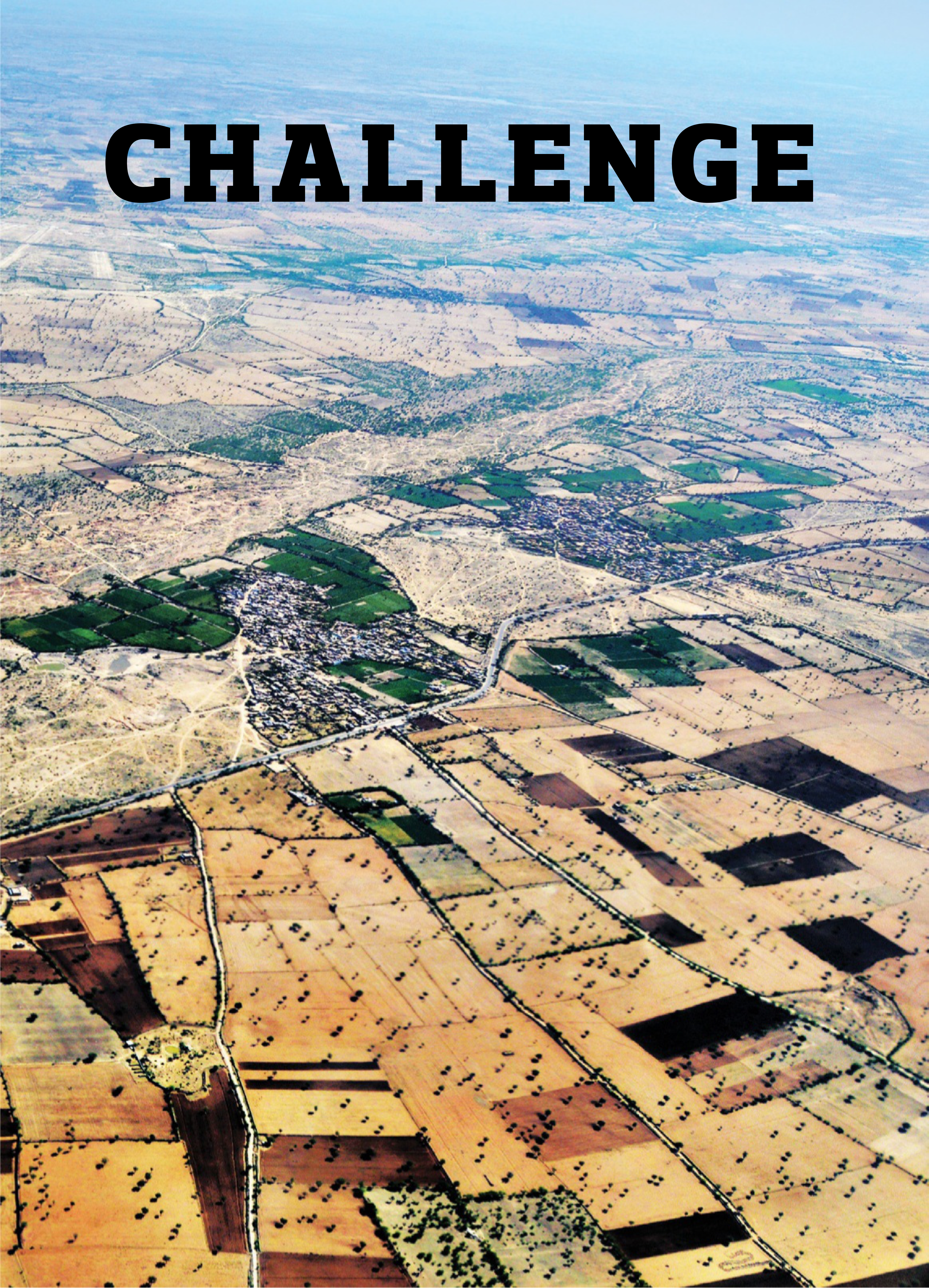
AGRARIAN

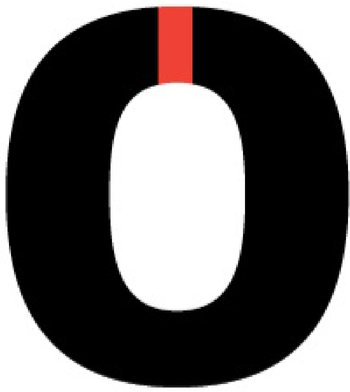
THE GOVERNMENT WILL HAVE TO TAKE PREPARATORY STEPS TO MINIMISE RURAL DISTRESS IN VIEW OF A POSSIBLE WEAK MONSOON.

By JOE C. MATHEW

Photograph by SHEKHAR GHOSH




CHALLENGE



n May 21 this year, Haryana Chief Minister Manohar Lal Khattar announced a major step to address the state's depleting water table problem. From now on, the state government will give an incentive of ₹10,000 per hectare to selected farmers in seven districts to help them shift from paddy cultivation to maize, pulses and oilseeds. The crop diversification plan, initially covering 50,000 hectares, is expected to save electricity and water, and improve soil health.

Khattar's project could be a boon for the Narendra Modi-led NDA government assuming power at the Centre for the second time. The scheme offers a possible solution to one of the biggest problems plaguing Indian agriculture – drought and water crisis leading to low productivity, growing debts and farmer suicides. Crop diversification can deal with water shortage as water-intensive crops, and the kind of irrigation they require, will no longer take a heavy toll on water resources. It will also ensure irrigation efficiency in rain-fed areas when rainfall is scarce. Better still, when other crops replace major products such as paddy and wheat, limited volumes of production will help realise better prices. This is a major issue as subdued prices of agri products have aggravated farmers' woes. Of course, the new government may not adopt the BJP CM's plan across states, but addressing farm and rural distress will be one of its priorities. Drought is one of the biggest issues; lower price realisation for farm products, often below the cost of production, is second, and managing unproductive cattle is another key problem.

DROUGHT & DRAFT ANIMALS

Jatin Singh, Managing Director of private weather forecasting agency Skymet, hits the nail on the head when he explains how prolonged dry spells hinder farming across the country. "All four regions are going to witness less-than-normal rainfall this season. In fact, we barely get a normal monsoon now. The only normal monsoon we had was in 2013. Both 2014 and 2015 were drought years; 2016 and 2017 saw below-normal rainfall and 2018 was technically a drought year as eight states, including Maharashtra, Karnataka, Tamil Nadu and Odisha among others, are still struggling," he says

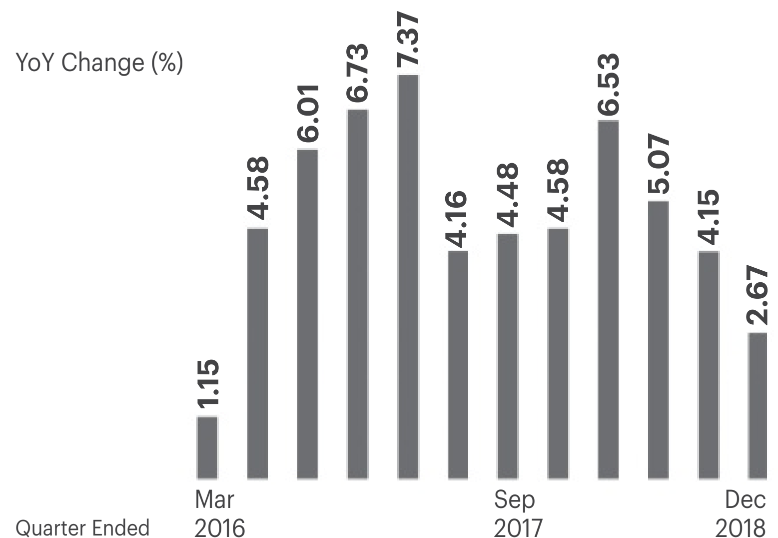
"There is huge agrarian distress due to drought in many parts. So, the top priority should be providing immediate relief through MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act)," says Harsh Mander, Director, Centre for Equity Studies. Shweta Saini, a researcher at the Indian Council for Research on International Economic Relations (ICRIER), agrees, but she wants job creation in areas such as micro-irrigation and water management. "We should have systems in place in anticipation of dry spells. Another important thing is to have a cattle policy to help farmers with unproductive draft animals. Unless the government has a clear stand, it will hamper the business cycle of dairy farming. A huge stock of foodgrain lying in FCI godowns and large amounts of pulses procured by State-run co-operative NAFED are problematic unless you have a strategy to offload them."

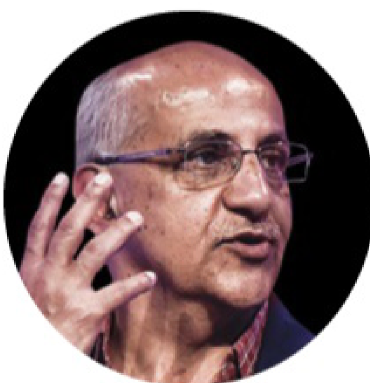
ACCESS TO MANDIs & OTHER MEASURES

The structural issues in agriculture must be addressed for maximum profit and long-term sustainability, says Chief Economic Advisor Krishnamurthy Subramanian. "We must connect farmers with the *mandi*s

GVA SLOWING DOWN

The growth in agri sector's output is falling



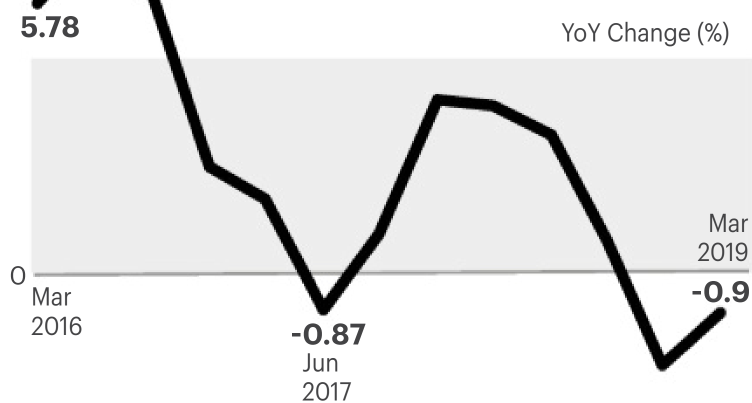


"There is huge agrarian distress due to drought in many parts. The top priority should be providing immediate relief through MGNREGA"

Harsh Mander
Director, Centre for Equity Studies

CONSUMER PRICE INDEX (Urban+Rural)

Lower inflation has also meant lower prices of agri produce



Inflation for food and its sub-groups. Base year 2012
Source: CMIE Economic Outlook

PLAN OF ACTION

- **Improve storage** and farmers' access to *mandis*
- **In drought situations,** provide alternate employment through schemes like MGNREGA
- **Push crop diversification** so that water resources are better used, and limited volumes help realise higher prices
- **Ensure irrigation** efficiency in rain-fed areas when rainfall is scarce

(wholesale markets) to make price discovery easier. India is home to 30,000 *mandis*, but these are not integrated. As a result, farmers do not get a large chunk of the profits flowing in. The only way to deal with this is to increase competition (among *mandis*) and keep the farmers informed (about prices and other benefits). Both are critical. Moreover, we have to provide storage. Expanding the eNAM and focussing on rural hubs are also essential," he says. Incidentally, eNAM was launched in 2016 by the Centre as a unified national electronics agriculture market which would provide a host of facilities such as quality testing and grading of agricultural produce, single licensing for a state-wide market, single-point fee collection and fair auctioning for the benefit of the entire sector. But the system's pan-India reach is quite limited as very few farmers and *mandis* have registered on the platform.

Subramanian, however, does not believe in excessive control. "In markets, prices come down and go up. The government need not intervene every time the prices go down. Neither should it step in when the prices go up. Policymakers should take this Hippocratic Oath: If you cannot create benefit, at least, do not do any damage."

Sachchidanand Shukla, Chief Economist at Mahindra and Mahindra, is not in favour of short-term measures. "We should not go with the 100-day prescriptions. Long-term structural reforms are needed here." According to him, agriculture is still in the clutches of hugely restrictive laws and this has hindered the development of an efficient marketplace for agricultural produce. "This is an area where the central government can continue to play a lead role. Here we see a maze of laws, including the Essential Commodities Act, the Land Ceiling Act, the APMC Act and the Foreign Trade (Development and Regulation) Act, 1992. The latter enables arbitrary slapping of export restrictions, minimum export prices and unfair imports. Unless this maze is gone, sporadic measures to spur prices or forgive loans cannot cure agri distress."

Rajesh Aggarwal, Managing Director of Delhi-based Insecticides India, wants the new government to train farmers on agrochemicals and pest management, which will help increase yield and income."

S. Sivakumar, Head-Agri business, ITC, suggests a three-pronged strategy. "The first should promote demand-driven production in tune with changing food habits. Then there is climate-resilient farming, dealing with changing climate and depleting natural resources. Next, there should be farmer-centric interventions, given a single solution cannot serve all. It will go a long way in making agriculture a remunerative enterprise."

Hannan Mollah, General Secretary of the All India Kisan Sabha (AIKS), an organisation that brought together around 200 farmers' organisations for a massive protest march in Delhi last year, says that the protests will continue if the government does not listen to the farmers. "We brought agriculture to the national agenda, and it became a political issue after the Assembly poll losses in Madhya Pradesh, Rajasthan and Chhattisgarh. At the time, the Modi government was compelled to announce an income support scheme for farmers. Now, we need to take it forward."

A separate farm budget (announced by the Indian National Congress in its 2019 election manifesto), legislation for loan waiver and remunerative pricing, and a joint session of the Parliament to discuss agrarian issues are what the AIKS demands. It is up to the new government to decide the best way forward, but definitive action is urgently needed to tackle rural distress and farmers' plight. BT

@joecmathew

"We must connect farmers with the mandis... Expanding the eNAM and focussing on rural hubs are also essential"

Krishnamurthy Subramanian
Chief Economic Advisor

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WANTED: AN ACTION PLAN FOR JOBS

SETTING UP LABOUR INTENSIVE INDUSTRIES AND MAKING IT EASIER TO START AND RUN BUSINESSES HAVE TO BE ON **THE NEW GOVERNMENT'S PRIORITY LIST.**

By GOUTAM DAS

Photograph by REUBEN SINGH

B

etween clinking of glasses and finger food, there were moments of chest-thumping: "We are the largest industry in the services sector, after retail and insurance; 20x the film industry, 4.7x hotels, 1.5x of the pharmaceutical sector."

Restaurateurs at this National Restaurant Association of India (NRAI) meet, in Delhi, would also break into moments of despondency. Instead of much-used term 'EoDB' (ease of doing business), there was 'FoDB' (fear of doing business). The association's new food services report, in fact, has a statutory warning for aspiring entrepreneurs. "For the restaurant industry in India, obtaining various licences is a time consuming and cumbersome exercise. This involves significant documentation and imposes a high and avoidable cost of compliance," the report stated.

On an average, a restaurant in India needs 12-17 licences, compared to four in Singapore and China. An Indian restaurant, depending on the state, may have to wait six months before bagging all these licences.

India is about such excesses. Rituparna Chakraborty, Co-Founder of employment services company TeamLease, stresses on the need to introduce an Universal Enterprise Number to replace the over 25 numbers that enterprises currently get from the government. These include a Corporate Identity Number (unique 21 digits); a Taxpayer Identification Number for commercial taxes (unique 11 digits); GST (15 digits); PAN (10-digit alphanumeric); a Provident Fund Number (11-digit alphanumeric); a Professional Tax Registration Certificate (9 digits); a Profession Tax Enrolment Certificate (9 digits); and an Income Tax Deduction and Calculation Number (10-digit alphanumeric), among many others. A Universal Enterprise Number would make life easier for a company while enabling better enforcement by the government.

Chakraborty would also like to see a GST-like council of state and centre that commits to "rationalisation, simplification and digitisation of the 60,000 compliance rules, 3,100 filings and 5,500 changes a year any average sized company needs to comply with today".

The fact is that the difficulty of doing business impacts jobs. In fact, the World Bank's *Doing Business* report of 2018, was sub-titled *Reforming to Create Jobs*. If more companies find it easy to do business, they can potentially grow faster and generate more jobs. If regulations are simple, there would be more inflows of investment. Although India ranks 77 in the Doing Business rankings of 2019 – it has jumped 65 ranks in the last four years – the work is only partly done. This ought to be among the new government's priorities, apart from a new industrial policy to boost manufacturing, a sector that has been stuck at 16-17 per cent of India's gross value added (GVA) mix for many years.

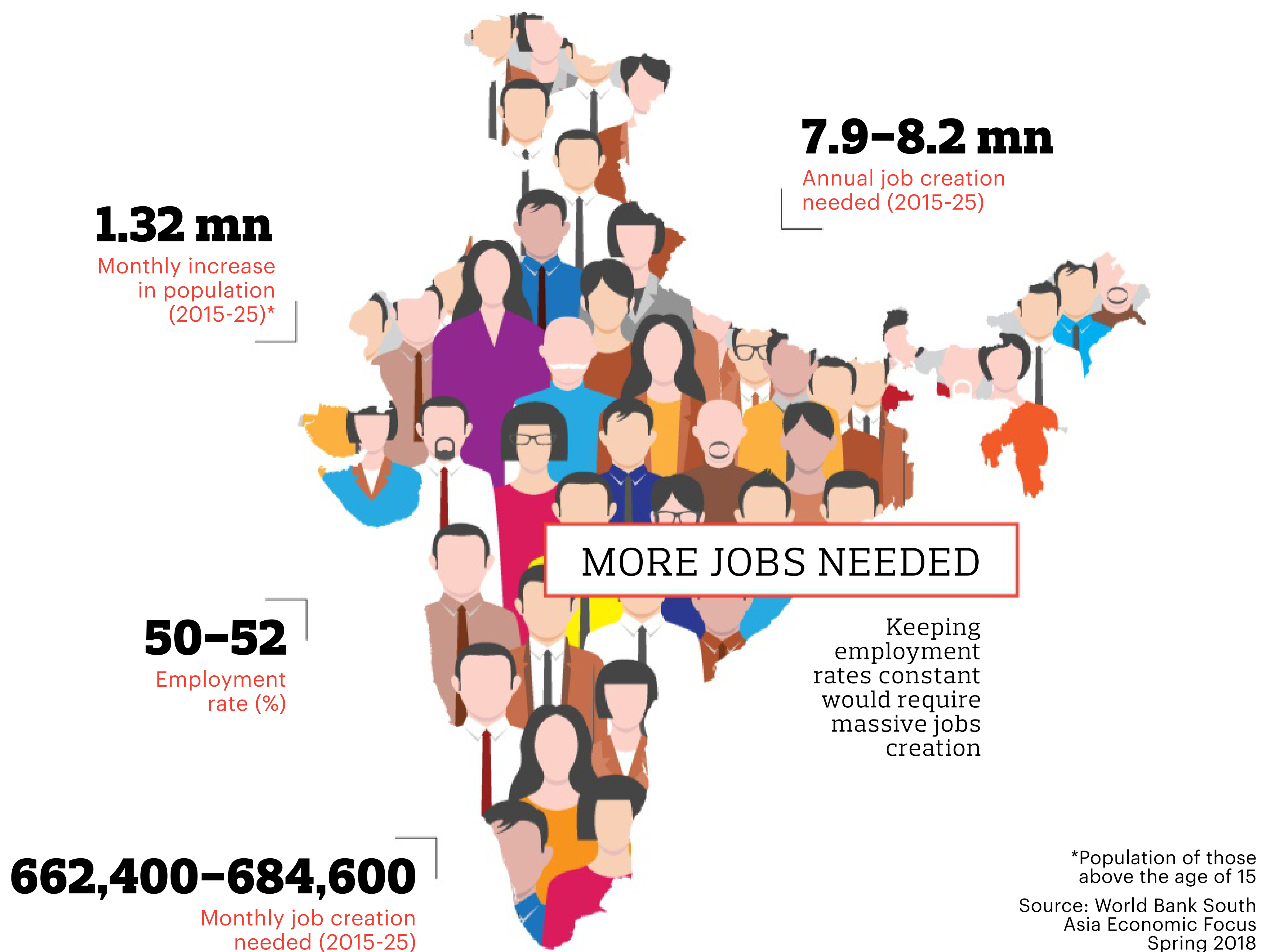
There is large-scale farm to non-farm migration. A robust skilling ecosystem, together with a more competitive manufacturing sector can mop up much of this manpower. In India's sectoral mix, services is the largest chunk contributing 54 per cent of the GVA today. But the country needs its manufacturing engine to fire given the pressure of its demography. The World Bank's *South Asia Economic Focus Spring 2018* report stated that between 2015 and 2025, India's working age population (those above the age of 15) is expanding by 1.3 million a month. India, therefore, needs to create millions of jobs a year. How many millions depends on the employment estimates. According to the World Bank, 50 per cent of the working-age population is at work. India, the report stated, would need to create more than eight million jobs a year to maintain the same level of employment rate. That's the pressure the new government braces up to.

AN INDUSTRIAL POLICY

Santosh Mehrotra, Professor of Economics, and Chairperson, Centre for Informal Sector and Labour Studies, Jawaharlal Nehru University, has thought through and written about, a new industrial policy that India needs. "A major reason why manufacturing has never been the

"Expand consumption by targeting the 200 poorest districts; **upgrade infrastructure, schooling, and police stations**"

Mohandas Pai
Chairman, Manipal Global



lead sector in our economy, driving the growth, is that we haven't had an industrial policy since 1991. There are seven components of what I believe the country needs by way of an industrial policy," he says.

The first element would be to correct India's inverted duty structure (IDS). In many sectors, the tariff rates on imported finished products are lower than the tariffs imposed on raw material. "The GST talks of getting the benefit of an input tax credit in a situation where IDS is applicable. This somewhat offsets the IDS but at best, it might create a level playing field. An infant industry – for instance, a solar module manufacturing or microchip industry – needs a field that favours them. We need a trade policy aligned to the industrial policy."

The new industrial policy also needs to develop special packages for five sectors that contribute to half of all manufacturing jobs, or about 30 million. Apparel and garments, wooden furniture, leather and footwear, textiles and food processing.

The third leg of Mehrotra's suggestion has to do with cluster development. Most of the manufacturing in the country exists in the form of clusters. There are 5,500 clusters. "Our cluster programmes are poorly designed, under-funded, and split between different ministries. There are no service providers at the local level. India needs an integrated programme, a package of services (credit, technology support, market development, skills) at the cluster level," he says.

An interlocking policy suggestion is the Atal Mission for Rejuvenation and Urban Transformation programme, which intends to cover 500 cities, ₹100 crore for each city. "Bring the money to improve infrastructure where the clusters are because that's where the jobs are," Mehrotra says.

Fifth, cluster development along the coast. "We have been completely left out of the global value chains because we didn't have manufacturing bases along our coast. We have five industrial corridors, one of which is the Visakhapatnam Chennai Industrial Corridor (VCIC). This can be considered for a global value chains-based approach. If you have large plants along the coast, the transportation costs for exporters are lower and they are more competitive," he says.

Mehrotra's sixth pillar is mineral development (India needs to begin processing its vast resources of minerals, which would increase the size of the manufacturing sector and create jobs) and the seventh is about building up a research, development, and design capacity or more R&D as a share of GDP, and more by private firms.

Mohandas Pai, Chairman of Manipal Global, suggests that the central government, in partnership with states such as Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan, set up labour intensive industries near small towns linked to major roads. To incentivise industries to move to these locations, governments must offer ready-made infrastructure. "Industry will be interested if they don't have to invest much capital. They don't want to take the risk of going to a different area. Governments, therefore, have to develop ready-made infrastructure like factory sheds with power, water connection etc.," Pai says.

The bigger cities have no capacity to expand, and the government must increase minimum wages in these cities so that labour-intensive industries are forced to shift to smaller towns, adds Pai.

"Make long-term investments in human capital; spend more on improving quality of school education; build a continuum from education to skills"

Sabina Dewan
President and Executive Director, JustJobs Network

CONSUMPTION: A JOB DRIVER

Economic migration has its own challenges such as high attrition. Well paying local jobs seem more sustainable. Attacking unemployment in smaller towns would mean a boost to consumption. "Once you generate a lot of jobs in these towns, the money will go into consumption. That will generate more demand," Pai says.

The new government can also pick the 200 poorest districts and target every central government scheme at these, apart from upgrading their infrastructure. "By doing this, there would be a direct assault on poverty. A large number of jobs will be created and consumption will go up," Pai says.

Another idea to boost consumption in smaller towns comes from economists at Azim Premji University's Centre for Sustainable Employment, who propose creation of a National Urban Employment Guarantee Programme, similar to MGNREGA that guarantees 100 days of work to any rural household that chooses to avail of it. The pan-India scheme could cover towns with population less than one million – there are about 4,000 such towns with 126 million people of working age. Workers with varying levels of education up to standard 12 could be made eligible for 100 days of guaranteed employment a year at ₹500 per day.

PLAN OF ACTION

- **A new industrial policy** and a trade policy aligned to industrial goals
- **Labour intensive industries** near small towns linked to major roads
- **Creation of a** National Urban Employment Guarantee Programme that cover towns with population less than one million
- **Policy on Ease of Doing Business;** labour reforms around formalisation; formation of a National Apprenticeship Corporation

In addition, there is a range of emerging 'green jobs' – creation, restoration, and maintenance of urban common spaces, green spaces and parks, forested or woody areas, rejuvenation of degraded or waste land, cleaning of water bodies, and others. "Work that can be undertaken here includes water conservation and harvesting, flood control, micro-irrigation, preventing coastal and hillside erosion, disaster management, and so on. These will not only create jobs but also improve the livelihoods of communities that are dependent on urban commons," the paper states.

There are newer job engines emerging that engage both blue-collar and the white-collar professionals. For instance, digital marketplaces. But these workers are mostly gig employees who have no social protection and face uncertainty of income. "The platform economy only employs a small share of the labour force at the moment, but the share is growing exponentially," says Sabina Dewan, President and Executive Director at JustJobs Network, a think tank. "The critical question here is how to ensure that self-employed or contractual workers on these platforms have adequate levels of worker and social protections."

Participating in the platform economy also requires higher skills, which means the new government has to scale up the work around Skill India, a campaign launched in 2015, besides making investments in the quality of school education.

"As technology restructures employment, eliminating some jobs and creating others, the question is who has access to these new jobs. Technology is skill biased and we need to make sure that people – especially the youth – have requisite education and appropriate skills to participate in the digital economy," Dewan says.

Improving the quality of education is a long haul. So are some of the ideas mentioned here. But a start must be made if India hopes to avoid a demographic nightmare. BT

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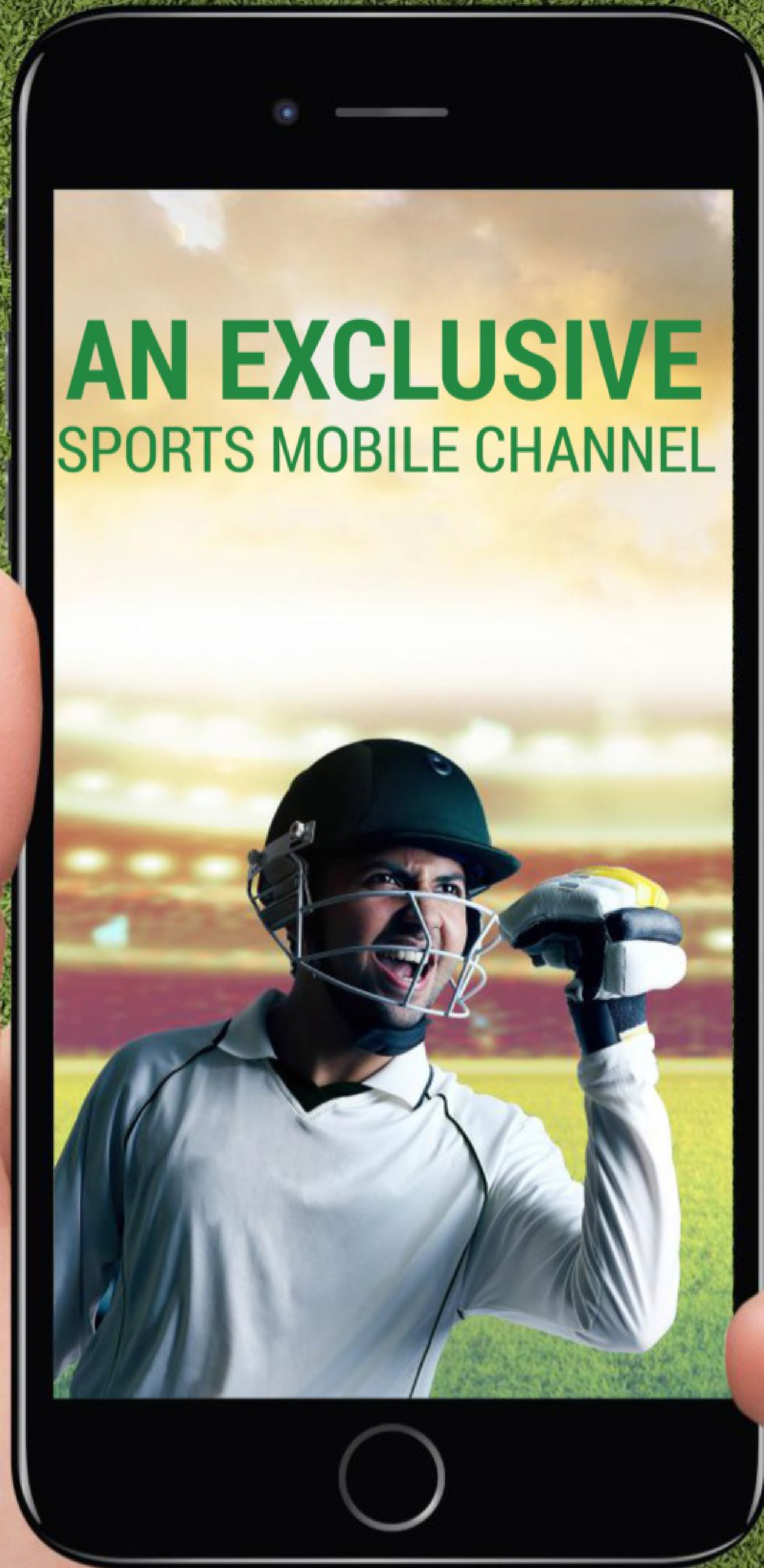

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BEING CAUTIOUS

UNEMPLOYMENT, LIQUIDITY CRUNCH AND SCEPTICISM AROUND MONSOONS MAY HAVE RESULTED IN A CONSUMPTION DIP, BUT THE APPETITE TO CONSUME VERY MUCH EXISTS.

By AJITA SHASHIDHAR

Photograph by RACHIT GOSWAMI

Prabhakar Badlerao, who owns a grape farm on 10 hectares in the village of Vadnerbhairav near Nashik, is perturbed despite a bumper yield this year. The rain gods have not been kind during the last year and the 50-year-old is wondering whether he should postpone his much awaited SUV purchase by a few more months. "Last season, I spent close to ₹50,000 buying water for irrigation and another ₹50,000 on hiring a generator. The monsoon prediction this year is not very encouraging either; you never know, I may have to invest in water and generator again," remarks Badlerao in chaste Marathi, as he puts an anti-humidity spray on his crop.

Minutes away from Badlerao's home is Rushi Ruhare's consumer durable store. His sales have halved in the past few months. "Last year, I sold around 20 refrigerators; this year, barely eight. It's not that people don't have money; they are being cautious," he explains.

Up North, in the town of Aakera in Rewari, Haryana, Shravan Singh, who runs a general store, an apparel store and a home appliance store, says sales have dipped by 30 per cent in the past few months. "My Deepawali sales were good, but there has been a sharp dip after that." Aakera used to have many iron and steel workshops, but those have gone away post the introduction of GST, and migrant labourers have moved out. "Earlier, before they went to their villages, they would buy new clothes, deodorants, belts and hair gels for their family. That demand has stopped completely," says Singh. Rahul Goyal, who runs a bathroom fittings

store in Bulandshahr in Uttar Pradesh, says almost 50 per cent of his clientele is from the adjoining rural markets and he wonders why they have stopped consuming despite a good harvest of rabi and kharif crops.

Rural markets across the country have been facing an imminent slowdown for the past few months. Apart from an all-time high unemployment rate of 7.2 per cent and general scepticism around the Lok Sabha elections which has led to a consumption slowdown, an agrarian crisis due to surplus yields has added to the woes. Surplus production has led to over-supply and lower minimum support prices (MSPs). In Pimpalgaon, on the outskirts of Nashik, and known for its red onions, a bumper crop meant onion prices falling from ₹3,000 per quintal to about ₹800-1,000 per quintal.

average or lower than average started flowing in. These are important aspects from a point of view of rural consumption," says Iyer of Mahindra Finance, which has experienced a dip in business. "People aren't feeling the urgency to acquire even if there is a need to buy. If I wanted to buy a car, I would say why can't I wait for some more time," he says.

Rural consumers (850 million) contribute about 50 per cent to the country's GDP. A dip in consumption is bound to hurt earnings of companies. The country's biggest FMCG company, Hindustan Unilever, posted a 7 per cent volume growth in the last quarter of 2018/19, as opposed to growth rates between 12 per cent and 15 per cent in the earlier quarters. Dabur India and Godrej Consumer Products posted volume growth rates

Shrinking Consumption

Consumer Products

Most consumer products companies have witnessed low volume growth for the past two quarters. Hindustan Unilever saw a 7% growth as opposed to the strong double-digit growth it had registered in the past few quarters. Dabur India volumes grew by just 4% while Godrej Consumer grew by 1%.

Auto

Passenger vehicle sales have declined for six consecutive months. In fiscal 2019, sales grew by just 2.7%, slowest in five years.

Over 25 per cent of the onions used to be exported to Pakistan, but this has stopped. Farmers have had no choice but to sell at a lower price in the local market. "The only reason for the agrarian crisis is a problem of plenty, which has dipped prices, affecting farmers' profitability," says Balram Yadav, MD, Godrej Agrovet.

A consumption slowdown in an election year is not uncommon. But Ramesh Iyer, Vice-Chairman and MD, Mahindra Finance, says the duration has been longer this time. A slowdown in an election year typically kicks in a couple of months prior to the polls, but this time the mood has been damp for close to a year.

Policies such as GST had an impact on a lot of unorganised local businesses. Government spending also reduced closer to elections. The government had announced ₹6,000 a year in three equal instalments to an estimated 120 million farmers with less than 2 hectares of land, but at the time of polls less than half of the farmers had got the first instalment.

"In the last two quarters, people suddenly got into the wait and watch mode, in view of elections being around the corner and as predictions of monsoon being

of just 4 per cent and 1 per cent, respectively.

Roopchand Bagmar, who runs a grocery store in Nashik, says people have been buying smaller pack sizes of soaps, shampoos and even snacks. "Consumers have not altogether stopped buying bigger packs, but I am left with quite a bit of stock of bigger packs." Biscuit maker, Parle Products, for instance, sees at least 2-3 per cent incremental sales during elections when political parties buy biscuits in bulk for the party workers, but this time around there was no such trend, says Mayank Shah, Senior Category Head, Parle Products. "Growth at an industry level has tapered from 12-15 per cent to 8-9 per cent."

URBAN SLOWDOWN

The slowdown has severely impacted the growth of automobile and consumer durable companies too. And this time, it is not just a rural phenomenon. Anirban Bose, an administrative clerk at a prominent South Kolkata hospital, has been looking to upgrade his 6-year-old Wagon R for the last 15 months. He has deferred his plans multiple times as he is not sure if he

can afford to pay the EMI for a new car. "I am not sure if I will get a decent hike this year and my expenses are not going down. So it's better to wait," he says.

Rashid Ali in Jalore, a small town in Rajasthan, had to postpone buying a motorcycle due to a slowdown in his field of work – providing logistics services to numerous granite mines in the vicinity.

Auto sales in 2018/19 grew by just 2.7 per cent, the slowest in five years. "In three of the four quarters of fiscal 2019, we registered a decline in sales in the urban pockets where our overall sales for the fiscal was down by 2 per cent," says R.C. Bhargava, Chairman, Maruti Suzuki India Ltd, which sells one of every two cars in the country. "For us, rural markets were more resilient but there has been a slowdown there as well. In the first three quarters, that segment grew in double digits for us, but it has come down to just 2 per cent in the last quarter (January-March 2019)," he adds.

Lower urban consumption has been equally painful as rural consumption for consumer durable companies such as Godrej Appliances. While the company saw a healthy growth of 18 per cent in a category like refrigerators in rural markets, in urban markets, this has been barely 2 per cent in the past few months.

"The behaviour of spending less has been felt in both urban and rural markets. Economic volatility and frequent reports of job loss have created a sentiment of uncertainty in urban markets too," says Kamal Nandi, Business Head, Godrej Appliances.

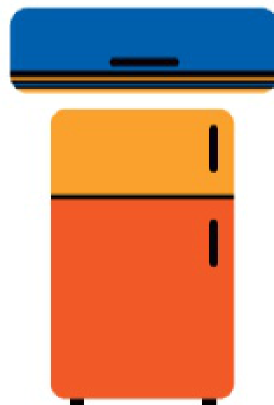
But the sector to have suffered the most is real estate. Supply of houses and prices kept increasing till 2014, while sales declined. Between 2009 and 2018, while housing sales grew 1.28 times, the inventory increased 3.3 times. "Had sales grown in tandem with supply, the market would have been healthy. But supply moved up and sales remained almost static due to almost doubling of property prices. Combined with an economic slowdown, consumption took a severe beating," says Pankaj Kapoor, Founder and MD of real estate consultancy Liases Foras.

Today, there are over 940,000 unsold houses in India's top eight cities. With growth of jobs, corporate earnings as well as household savings reducing, consumer sentiment towards housing will not revive soon. The government has been trying to incentivise housing sales by offering sops for second homes as well as slashing GST to just 1 per cent for affordable homes, but this has not helped lift sentiment.

Five out of eight tier-I cities witnessed a drop in sales in the March quarter, with the maximum decline in NCR (9 per cent) followed by Pune (per cent) and Mumbai Metropolitan Region at 7 per cent.

Real Estate

Between 2009 and 2018, while housing sales grew 1.28 times, the inventory increased 3.3 times, leading to oversupply. Today, there are over 9,40,000 unsold houses in India's top eight cities



Consumer Durables

Sales of refrigerators in urban markets in the past one year have grown by just 6%, while rural markets saw lower growth at 4%. Similarly air conditioner sales have been in the region of 5% in urban markets; rural and semi-urban markets saw a meagre 1% growth.

BRACING UP

Anuj Sethi, Senior Director, Crisil, expects the consumption growth rate to moderate by 200 basis points in 2019-20. "If the monsoons are not satisfactory, the growth rates we have predicted will reduce by a few more points." Companies are preparing to face the challenge. FMCG companies are not just promoting smaller SKUs, they are also strengthening direct distribution in even smaller locations. Yogesh Khanapara, owner of Raj Kirana store in the village of Lasangaon, in the Nashik district, says P&G's fabric whitener brand, Vanish, an aspirational product, was earlier not made available at his store. Shah of Parle Products says the company has increased direct distribution in rural markets by over 8 per cent last year. Lalit Malik, CFO, Dabur India, says, "We have aligned our inventory so that we don't lose sales, but at the same time, we are investing in improving our direct reach. From 46,000 villages we currently service, the plan is to reach out to 56,000 villages."

Pidilite, makers of Fevicol, has kicked off a rural programme to train consumers, says the company's

"In the last two quarters, people suddenly got into the wait and watch mode... **People aren't feeling the urgency to acquire even if there is a need to buy"**

Ramesh Iyer
Vice Chairman and MD, Mahindra Finance

"When struggling with non–consumption, you make double the effort in **getting more people to consume your products, rather than on taking away market from others"**

Bharat Puri
MD, Pidilite

MD, Bharat Puri. He says that since a large part of their consumers especially in rural markets have never used their products, the company's focus even in a slow market is more on building the category. "When you are struggling with non-consumption, you make double the effort in getting more people to consume your products rather than focussing on taking away market from others."

Fashion retail chain V-Mart, which has a large presence in Tier III and IV markets has witnessed a 15 per cent dip in same store sales in the past few months. An offer of shopping voucher worth ₹500 on a bill of ₹500 helped pull in consumers, but "after the scheme got over, there was a dip in sales again. So, we have restarted the scheme and the sale numbers have started to improve," claims Lalit Agarwal, MD, V-Mart.

GROWTH AGENDA

The big question now is whether consumption will see a revival after the formation of the new government. Yadav of Godrej Agrovet believes the real challenge for the government would be to create employment outside of agriculture. "Which ever government has been able to move big populations from agriculture has been able to make agriculture more sustainable. If you have a 10-acre farm, your ability to take a loan and access to government schemes is better. There will always be a problem with sub-five acres of land. You have to eliminate them from agriculture and put them in manufacturing or infrastructure," he says.

Sonal Verma, MD and Chief India Economist, Nomura, says consumption can be revived through short-term measures or more durable steps. "Shortcuts could be through fiscal and monetary measures but if we want a more long-term improvement, it has to be backed by job creation and rural income picking up."

PLAN OF ACTION

- **Focus on creating employment** outside of agriculture
- **Revive consumption** by increasing government spends in rural India
- **Increase spending on infrastructure**, and encourage new businesses that generate employment

According to Madan Sabnavis, Chief Economist, Care Ratings, the government cannot generate consumption for households unless it provides an enabling environment for business es. "Spending power has to be created first. It has to be at all income levels. E-commerce and retail along with construction can provide these opportunities and are growing at a good pace."

The writing on the wall for the new government is clear. It has to urgently create jobs and increase the ability to spend. More importantly, the job creation has to be outside of agriculture. Optimists such as Iyer of Mahindra Finance are already hoping for a boom in consumption in the second half of this fiscal once the new government loosens its purse strings. BT

With inputs from Dipak Mondal, Rashmi Pratap, Sonal Khetarpal and Sumant Banerji.

@AjitaShashidhar

A BIG THANKS AND COMMITMENT TO ADD VALUE TO OUR RECRUITERS!!!

MIET Group of Institutions

The academic year of 2018-19 has been a year of accomplishment for the MIET Group of Institutions, which comprises of multiple education institutions of higher learning with locations in Meerut and Haldwani and affiliations to multiple state governed public universities. More than 200 corporates and NGOs have been directly associated with the recruitment process of more than 1000 students studying in 3 different environment-friendly campuses of the MIET Group and the numbers are still counting. The segmentation of these organizations displays diversity in terms of turnover, geographical location, operations and manpower.

For the purpose of hiring fresh talent, the organizations have offered different roles and job profiles with appropriate career paths and suitable compensations. The students have been inquisitive about the companies and the job profiles being offered to them. They have meticulously evaluated the same before going ahead to offer their candidature to the recruiting companies. The number of positions available for offers at the campus recruitment has been much higher than the candidates who have expressed interest in being considered for the position. This has created a situation where students have multiple offers in their hands. In many cases, multiple offers to the student have been very similar in nature in terms of corporate's business positioning, job profiles and offered compensation. We are witnessing situations where this has created a dilemma for the students as to which offer to accept and which ones to reject. The career counsellors at the educational institution have been helping them in building up criteria and parameters for finalization of an offer.

Recently a trend is being observed where the students are shunning the offers from large corporate houses with plush career paths starting as "Trainee" to take up assignments in smaller organizations but with better job profiles and higher responsibilities. Students are going through specialized trainings, taking up internships and working on live or value-added projects to acquire knowledge during their final years. This brings them in close association with corporates working in selected technologies, who offer them value-added job profiles. Some students prefer these job profiles without even considering the long-term career prospects or commercial implications associated with taking up such assignments.

We have also started working closely with Human Resources Department of selected corporates in identifying their skillset requirements in the near future, based on which we have been providing training and project work to the students shortlisted by them. This helps in making students ready for industry and immediate deployment for value addition.

Students are also exploring career opportunities in Research & Development by opting for post graduation or project work extending their learnings acquired during the projects taken up in their final year of graduation. These opportunities are available with leading Indian and international laboratories.

Another welcoming trend being observed is that some students in their early years of graduation, start working on new ideas individually or in a group. These ideas start taking up business shape during their graduation and by the time they are ready to move out, they have developed a start-up. Such students prefer becoming entrepreneurs rather than joining corporates. Some of these start-ups grow and also end up becoming potential recruiters at the campus. With cloud computing and the latest technologies, this trend is likely to pick up only.

During the process of campus recruitments, we have come across requirements from many of our recruiters which involve skills different from those available with students of our educational institutions. In such cases, we have organized pool campus and job fairs at our educational institutions from time to time where we have brought recruiters and candidates belonging to other institutions (basic graduate colleges, polytechnics, ITI and PMKVY institutions) on one platform. Such initiatives have been taken up under ISR (Institute Social Responsibility) by the MIET Group and have been well received by our recruiters, students from other colleges and society at large.

Going forward, the age of specialization is coming where after acquiring basic knowledge, students need to develop specialized skillsets. Recruiters will be visiting campus to hire candidates with special skill sets for specific roles and better compensation. Candidates with skillsets in niche technologies will also have a chance to work on their own as entrepreneurs or independent consultants. Thus as educational institutions in space of higher learning, it is our duty to provide platforms to the students for exposure to the latest technologies and specific skillsets.

"At MIET Group of Institutions, we are committed to providing value to our recruiters by providing them with candidates ready to generate value from day one itself."

AKANKSHA AGARWAL
Director (Training and Placement)

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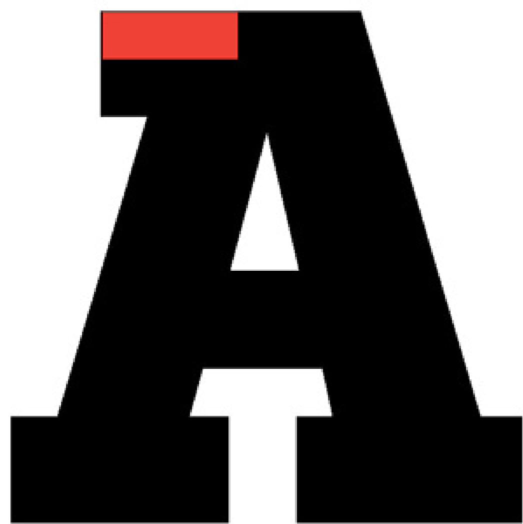
GROUP OF INSTITUTIONS

TRADE IMBALANCE

THE NEW GOVERNMENT WILL HAVE TO OVERHAUL THE TRADE FRAMEWORK IF INDIA IS TO PLAY ANY MEANINGFUL ROLE ON THE WORLD STAGE.

By ANILESH S. MAHAJAN

Illustration by AJAY THAKURI



s the government starts its second term, it will have to focus on one area where it did not deliver in the last term – boosting exports. In 2018/19, India's merchandise exports hit a record $331 billion, but did not cross the government's target of $350 billion. More importantly, they were just 5.3 per cent over the $314.4 billion achieved in 2013/14. Also, the export to GDP ratio in 2018/19 was 12.2 per cent, almost half the 23 per cent achieved in 2013/14. What should the government do this time round?

It needs to overhaul the trade policy. The focus has to be on goods and services where India is competitive. There is a need to widen the portfolio of products in the export basket and enter newer markets. These products can be part of the global value chain-led trade. Doing that requires not just backward integration of export policies and agreements but also a fresh look at how new opportunities are approached.

Arvind Panagariya, former Vice Chairman of NITI Aayog, has suggested creation of a new entity that will negotiate trade agreements. This department should be placed with the Prime Minister's Office, quite like the Office of the United States Trade Representative. The

commerce ministry is contemplating setting up an autonomous body on the lines of Australia's National Productivity Commission, accountable to Parliament. The Australian authority not only vets bilateral and multilateral agreements but also monitors their implementation. These ideas have merit as they are outward looking and coordinate with stakeholder ministries. But implementing them requires a radical change in outlook.

NEW TERRITORIES, NEWER PRODUCTS

The first Narendra Modi government did some work in tapping new markets. This included getting trade infrastructure ready to reach out to Central Asia via Iran and Asean nations via road through the North East.

There was an exercise to identify new products as well. For example, the UAE and Saudi Arabia negotiated to set up export-oriented food processing units in India. The talks couldn't fructify because of challenges of acquiring land, and the tedious Agriculture Produce Market Committee Act. Various companies are pushing for changes in laws governing agricultural produce. "The way the GST Council ironed out glitches in implementation, there is a case for having an APMC council or an agriculture council," says Ajay Shriram, Chairman and Senior Managing Director, DCM Shriram Group.

To test waters, the Exim Bank conducted a study for the commerce ministry to understand requirements in some African and Latin American countries. These were the first steps in shifting the ministry's approach towards the demand side, a senior official in the commerce ministry says. The report, however, was not accepted.

Another challenge for India has been the lack of trade agreements. The commerce ministry is negotiating with the African block on the Comprehensive Economic Cooperation Agreement. In the last fiscal, India's trade with Africa alone was $63 billion. In 2018, the countries that comprise the Africa block had free trade agreements among themselves, which makes the region a lucrative market. Moreover, their concerns about falling in a debt trap with China works to India's advantage. "The newer free trade agreements are back-loaded and a win-win for both India and Africa," Suresh Prabhu, Minister of Commerce & Industry in the first Modi government, told *Business Today*. "The plan is to make the manufacturing sector worth $1 trillion by 2025, and exports play a pivotal role in this strategy."

To achieve this, changes are needed in the way diplomats are trained. There is also a need to develop skillsets needed to identify opportunities. It is easier said than done. A senior official said this requires not only policy changes but alteration in the structures as well. The to-do list includes better trade negotiations, preparing domestic players to take advantage of opportunities and removing bottlenecks in policies.

Plan of Action

- **Creation of an office** like the US Trade Representative, directly reporting to the Prime Minister
- **Publication** of a strategic paper on trade
- **Setting up of an Australia-like Productivity Commission** to study trade agreements
- **Institutional linkage** of Make in India with trade strategy
- **Change in focus** from markets to products

Problem Areas

- The BIS Act was passed in 2016 but standards for products have not been finalised yet. This encourages low-quality imports and impacts India's export competitiveness
- Factory gate to port logistics cost is 14-15 per cent, nearly 50 per cent more than in China
- Trade infrastructure like Dedicated Freight Corridors, Industrial Corridors will not be ready before 2022
- Complexity of taxes, shortage of capital/land, archaic labour laws make various products uncompetitive
- There is a lack of synergy between trade and manufacturing policies

The Multilateral Challenge

- India needs to decide on signing the Regional Comprehensive Economic Partnership (RCEP) agreement with China, Australia, New Zealand and ASEAN countries
- WTO deadlock continues; in the next ministerial conference, India will be pushed to allow discussion on eCommerce and Investment Facilitation
- After SAFTA's failure, India attempted to revive BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) but this hasn't shown results
- A large number of trade agreements are not working in favour of Indian exports; most FTAs don't have provisions for audit of safety and quality standards; this leads to dumping

Amid global trade wars, the biggest opportunity for India is the global value chain (GVC) led trade. This requires India to put in place its global integration strategy.

In the last decade, manufacturing centres in the European Union and North America were the traditional hubs of GVC-oriented production. But the EU is yet to recover from the shocks of the global crisis, and production has moved to China. However, with China's manufacturing slowing down, there are emerging opportunities for East Asian and South Asian countries.

"The plan is to make the manufacturing sector worth $1 trillion by 2025, **and exports play a pivotal role in this strategy"**

Suresh Prabhu
Minister of Commerce and Industry in the first Modi government

"The way the GST Council ironed out glitches in implementation, there is a case for an APMC council or an agriculture council"

Ajay Shriram
Chairman and Senior Managing Director, DCM Shriram Group

TIGHTROPE WALK

Can the new government prepare India to take advantage of this? Globally, the emphasis is now on domestic integration. But there will be a price to it. China is pushing India to join the Regional Comprehensive Economic Partnership (RCEP). India is reluctant, because there are 74 products on which it will have to reduce import tariff to zero; of these, 40 products are being dumped in India by Chinese companies.

India is seeking differential and lower levels of preferential market access for its non-FTA partners. Those who back RCEP say India must not view this group with the prism of bilateral trade deficit with China. Pradeep S. Mehta, Director General of think tank CUTS International, argues that the RCEP has to be seen as a mega-regional trade agreement which is a means to both trade liberalisation and integration with regional value chains. Those opposing it say this can be achieved via existing FTAs itself.

Many Chinese textile and apparel players are moving to Vietnam, the Philippines and Bangladesh. India will have to compete as well as integrate with them.

Economist Rathin Roy, a member of the PM's Economic Advisory Council, says, "India's demographic distribution can offer solutions. Relocation of labour intensive units to eastern India can cut labour costs. For this, the government will have to come forward."

India's contribution in global textile and apparel exports is a dismal 4-5 per cent, whereas Bangladesh's has risen from 4.5 per cent in 2001/02 to 8.1 per cent now. China leads the pack at 37 per cent. "The biggest threat is that China is working on robotics and artificial intelligence in this segment. If we don't move quickly, forget gains, it will be difficult to even compete for export markets," cautions another trade expert.

On his recent tour to New Delhi, US Commerce Secretary Wilbur Ross said, "India has overly restrictive market access barriers and the average applied tariff rate is the highest of any major world economy."

India is closing its markets with moves like the e-commerce policy, data localisation, and by raising tariffs on several manufactured products such as auto parts and mobile phones. In return, the US has withdrawn duty-free access to over 3,000 Indian products under the Generalized System of Preferences trade programme. India can't brush off America's concerns as it has to negotiate with it on H1B visas and sanctions on Iran, which is affecting crude oil imports.

The commerce ministry has come out with a strategic paper on methods to bring balance to India's trade with China. The plan includes increasing tariff to permissible rates and introduction of standards for products.

"There's nothing against MNCs, but the law of the land should not be changed to accommodate them. They must change their ways to do business in India," says Ashwani Mahajan, National Co-convenor of the Swadeshi Jagran Manch, an RSS think tank.

India's new export policy is due in March 2020. The wish list is long, and the market expects the new government to bring changes quickly. BT

@anileshmahajan

THE ROAD AHEAD

RESTARTING INFRASTRUCTURE WILL BE AMONG THE BIG CHALLENGES FOR THE NEW GOVERNMENT.

By SUMANT BANERJI

Photograph by SHEKHAR GHOSH

₹66,450
CRORE

The value of 183 projects commissioned by the government directly in 2017/18 fell to a decade low

t was a historic event on Christmas day last year when Prime Minister Narendra Modi inaugurated the Bogibeel bridge in Assam. The 4.9-km bridge over the mighty Brahmaputra is the second-longest rail-cum-road bridge in Asia. It reduces travel time between Tinsukia in Assam to Naharlagun in Arunachal Pradesh by more than 10 hours, while shaving off three hours of train travel time between Dibrugarh and Delhi. It reduces the distance between Rupai (Assam) to Roing (Arunachal Pradesh) by 165 km, a daily fuel saving of ₹10 lakh. The cascading economic benefit to the region is even greater.

At the same time, it also highlights the trials and tribulations that large projects face in India. Part of the Assam Accord of 1985, Bogibeel was sanctioned in 1997/98, but construction began only in April 2002. Multiple missed deadlines resulted in project cost rising 85 per cent to ₹5,900 crore.

Delays and cost escalations have become the norm in Indian infrastructure projects. Any large project requires over two dozen clearances from Central and state governments. Add to that the issue of acquiring land, and the average delay for any large project of over ₹150 crore in India as on October 2018 was a jaw-dropping 44 months. This has begun to take a toll on investment. It has also bruised both private sector companies with protracted debt overhang and banks that lent money to them, leading to the twin balance sheet problem and rise in non-performing assets or NPAs.

In Nitin Gadkari, the NDA government had one of the most efficient ministers who pushed infrastructure development. Despite the government pumping money into the sector, its problems have not been resolved. With the government slowing funding of projects in the final year of its term, things are only expected to become worse.

Various indicators show the stress in the infrastructure sector. Power generation grew 3.56 per cent in 2018/19, the lowest in five years. Finished steel production grew 3.72 per cent, the slowest in three years. Sales of heavy commercial vehicles slumped 13.6 per cent in April. The overall debt of the industry rose 6 per cent in 2017/18, after declining nearly 5 per cent in 2016/17. In 2018/19, it is estimated to have increased even more.

"There are challenges as the liquidity crunch is there and demand is not forthcoming, except in retail, which gets a push due to elections. Project construction or big infrastructure projects have come to a standstill," says Anil K. Chaudhary, Chairman, Steel Authority of India. "People don't have money to make purchases even though they are out of stock and want to, but are impacted by liquidity constraint. They are waiting for the right time."

The long-drawn out election has shifted focus towards agrarian distress and unemployment. The task of building infrastructure has taken a backseat.

LACKLUSTRE PPP

The big worry is the fall of the Public Private Partnerships (PPP). Since 1991, of the 9,293 infrastructure projects awarded so far less than a fifth or only 1,756 projects have been granted through the PPP route. The majority have been routed through the traditional government procurement route and the remaining by direct private sector investment. But PPPs made up for the lack of numbers by the size of the investments. Of the total ₹65.4 lakh crore worth of projects commissioned in the last quarter century, almost 40 per cent or more than ₹24 lakh crore have been through this route. Between 2007 and 2012, when companies were taking bets on infrastructure projects, PPP projects hit a high of 161 worth ₹1,26,655 crore in 2010/11. Since 2012/13, there has been a decline that became grave in 2017/18 – just 12 projects worth ₹4,675 crore, the lowest in more than a decade.

"Long-term finance for infra- structure projects cannot be funded by commercial banks. It requires a gestation period of 15-20 years"

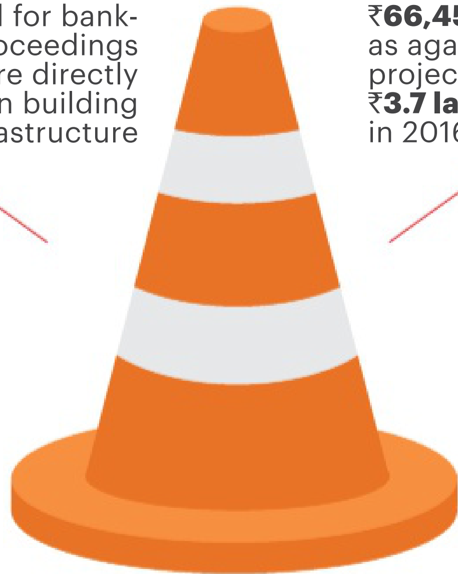
Vinayak Chatterjee
Chairman, Feedback Infra

THE ROADBLOCKS

PPPs have taken a hit; such projects peaked at ₹**1.26 lakh crore** in 2010/11. Year 2017/18 saw just 12 projects worth ₹**4,675 crore;** the private sector's appetite for investment in long gestation projects has disappeared

The new government will have to grapple with the huge debt on books of infra companies; **10 of the 12 companies** that RBI identified for bankruptcy proceedings in 2017 were directly involved in building infrastructure

Number of projects commissioned by government directly in 2017/18 fell to a decade low at **183,** worth ₹**66,450 crore,** as against **932** projects worth ₹**3.7 lakh crore** in 2016/17



"On the domestic side, PPPs have taken a nosedive. In a situation where the private sector could have bid for PPP projects, the balance sheet and liquidity position is under strain due to the current situation in the banking and NBFC sector," says Vinayak Chatterjee, Chairman, Feedback Infra. "It is actually good that domestic companies are not bidding for any projects because a lot of restructuring of balance sheets is going on."

The distress is real. Ten of the 12 companies identified by the RBI for bankruptcy proceedings in 2017 were directly involved in infrastructure. "There are few sectors where private sector could have put in money. Between 2008 and 2012, private players were bullish on power. A lot of fresh capacity was coming up and the government supported them saying new capacity will find buyers," says Ashish Nainan, Research Analyst at Care Ratings. "A lot of foreign capital flowed into telecom. In roads, there was buoyancy in investment. Post 2012, we saw these as the worst-performing sectors."

It is likely that once the NPA mess is cleared, private players will return, but getting confidence back may not be easy. Yet, it needs to happen fast as public sector spending seems to be at an end. The number of projects commissioned by the government directly in 2017/18 has fallen to a decade low of 183 worth ₹66,450 crore against 929 projects worth ₹3.7 lakh crore in 2016/17.

Retrieving the Vijay Kelkar Committee report on PPP from the dustbin and implementing the recommendations could bring private players back in the game. Some reforms suggested by it were protection to private parties against abrupt changes in economic or policy environment, revisiting the model concession agreement to incorporate project-specific risk assessment, issuance of deep discount or zero coupon bonds to reduce debt servicing charges in the initial period of a project, setting up independent sectoral regulators to reduce bureaucratic and political interference, and the option to offer equity to long-term investors after completion of a project.

"Even after the balance sheet is restored, I do not think the Indian private sector will invest unless it sees some very big reform in the way PPPs are structured," says Chatterjee.

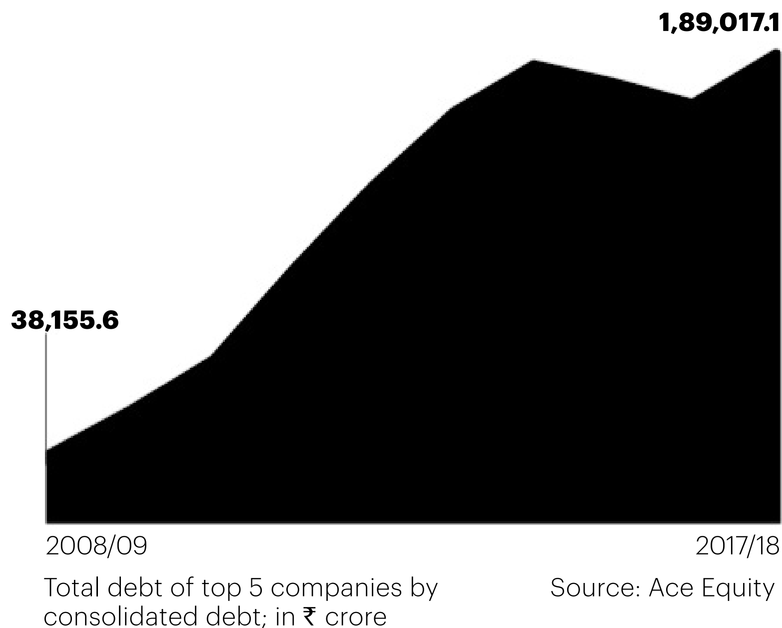
THE BIG HIGHWAY

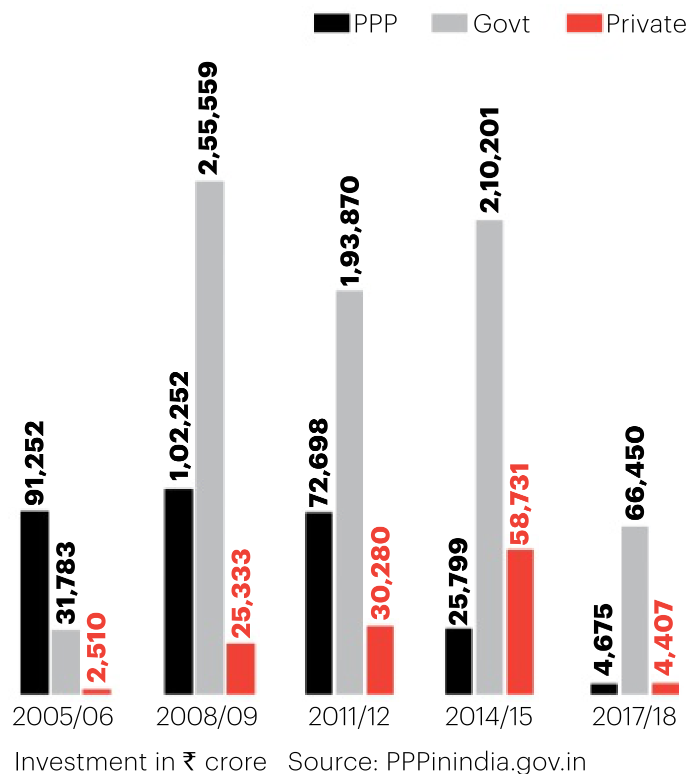
In this logjam, construction of roads and highways provides a silver lining, and a template for other projects to emulate. India is building highways at a frenetic pace right now. In December, 956 km were constructed at an all-time high 31.87 km per day. This is a far cry from the 8.7 km per day in 2013/14. The government has fixed a record target of building 16,420 km of highways in 2018/19. This has been on the back of higher spending by government that has more than doubled from ₹34,345 crore in 2014/15 to ₹83,016 crore in 2019/20.

According to a November 2018 study by Care Ratings, only 2 per cent of roads and highways projects are

PLAN OF ACTION

- **Avoid abrupt changes** in economic or policy environment
- **Issue deep discount** or zero coupon bonds to reduce debt servicing charges in the initial period of a project
- **Set up independent sectoral** regulators to reduce bureaucratic and political interference
- **Convince lenders** to lend to infrastructure players after due diligence





facing cost over-run and less than 10 per cent are delayed. This is far lower than power where 60 per cent projects are delayed and 20 per cent are facing cost over-runs.

Not everything is bleak, though. Government data indicates that India is creating infrastructure like never before. A record 1,452 large infrastructure projects with an outlay of over ₹150 crore each were in various stages of completion as on October 2018. This is 20 per cent growth on an average over the last four years.

According to Crisil Ratings, projects under hybrid annuity model (HAM) worth over ₹1 lakh crore offered by NHAI have achieved debt funding. The tie-ups have been driven by low risks in HAM, prudent bids and track record of execution by strong sponsors. "The roads sector has seen significant improvement in completion time and cost escalation due to government intervention in land acquisition," says Nainan of Care Ratings.

Financial closure of projects is taking centre stage. Convincing a banker to lend has become a challenge for any infrastructure player. High NPAs and a vigilant RBI made the banking community nervous about lending to big-ticket infrastructure projects. In 2018, the RBI put 11 banks under Prompt Corrective Action, restricting their ability to lend to big projects. This further dried up the already shrunken pool of funding sources for the industry.

"With the kind of problems banks are facing, they may have to abort financing infra projects," Dinesh Khara, Managing Director, SBI, said in August 2018.

The default crisis at IL&FS further spooked the lenders. With a debt of ₹90,000 crore – ₹60,000 crore tied up in on-going projects – the near-collapse of IL&FS has put the fate of many infrastructure projects in jeopardy.

Many private infrastructure players pointed out reluctance of banks to lend as a worry. The decline in investment in 2017/18 is partly due to that. "It is not a problem of liquidity or interest rate. It is the fear of NPAs. Bankers told me they are happy to fund me but not infrastructure," says a promoter of an infrastructure firm who wished to remain anonymous.

Experts say there is a need for alternative ways of lending for infrastructure as commercial banking is not structured to deal with risks. Globally, countries use long-term funding mechanisms like Infrastructure Investment Trusts, Real Estate Investment Trusts and pension funds. "Long-term finance for infrastructure projects cannot be funded by commercial banks. It requires a gestation period of 15-20 years which the financial structure of a commercial bank is not prepared to handle," says Chatterjee of Feedback Infra. "We need to develop new sources of long-term funding. That was the mistake we made in the last decade."

The private sector is disinterested, the government has its hands full and the bankers are in a shell. The Indian infrastructure sector is waiting for a dash of inspiration. BT

@sumantbanerji

A DECADE OF EXCELLENCE IN EDUCATION

The Lexicon Group of Institutes has become a name to be reckoned with in the field of education in Pune. The Lexicon Group's Management Institute, known as the Lexicon Management Institute of Leadership and Excellence, has achieved a reputation for providing value-based management education and nurturing the most refined corporate graduates of the industry.

As we embark upon our tenth year in the Management Education sector, we take pride in ensuring that we are growing to meet the needs of all our students aspiring to excel in the fiercely competitive multinational companies, who are seeking globally aware and effective management leaders. Innovation in today's increasingly competitive economic environment is considered to be the engine of economic and business growth; The Lexicon Management Institute of Leadership & Excellence has thus strived to perform the role of a catalyst for innovation, by not only retaining a lineage of a successful PGDM program since 2009, but also by introducing a new association with the University of South Wales, UK this year for the Global MBA program.

The UK and its universities have an undisputed reputation for academic excellence and quality. They offer hundreds of courses for their students and have also become an ideal destination for thousands of international students to pursue their higher education. The Global MBA Program and our association with the University of South Wales (USW) will allow our students to receive an unprecedented global exposure with both theoretical and practical learning experiences. Furthermore, this degree will be recognized and respected by employers across the world, as the USW is accredited and recognized by the Privy Council, where the enrolment of students ranges from 25,000-29,999.

Global MBA Program is accepted worldwide from University of South Wales -UK, for offering creative and challenging environments that help our students push themselves to achieve an incredibly high standard of academic and industrial performance. The first year of our Global MBA is a Certificate program approved by the AICTE at Lexicon MILE, Pune and the final year is an approved program by USW, where the students get to spend the year at the UK campus. The students will be attending classes conducted by international faculty and intern at world-renowned multinational companies spread across the US, UK and EU.

The United Kingdom is the gateway for the rest of Europe, with internationally prominent universities providing quality education. This association with the University of South Wales came easy to the Lexicon Management Institute of Leadership & Excellence, as we have created a successful record of providing quality management education, year after year, consistently over the last decade.

A crucial element of innovative education is the immersion of students in the field of research and development. The latest report of the Research Excellence Framework (REF) declares that 30% of the UK University researches are classified as 'world leading' and 46% as 'internationally excellent'. With our association with the USW, students will not only engage in a multicultural study environment with the unrivalled cultural diversity of life in the UK, but will also develop critical thinking and problem-solving skills in the best research environment through the unique USW Business Clinics. These Business Clinics are designed to train all Management students through various simulation exercises mimicking the real world corporate industry.

With the increasing amount of cooperation between both nations, it has now become relatively easy for Indian students to obtain a UK visa with the projection of the required funding available. Topped by a simple, transparent and user-friendly application process, the transition for a student to study abroad in the UK has become both beneficial and convenient.

In conclusion, I would like to quote the Minister of State for Universities, Science, Research and Innovation, Mr Chris Skidmore, "International students help to generate jobs and support local businesses in the area they study, sustaining over 2,00,000 jobs in all parts of the UK. They bring cultural diversity and enrich the learning experience of domestic students."

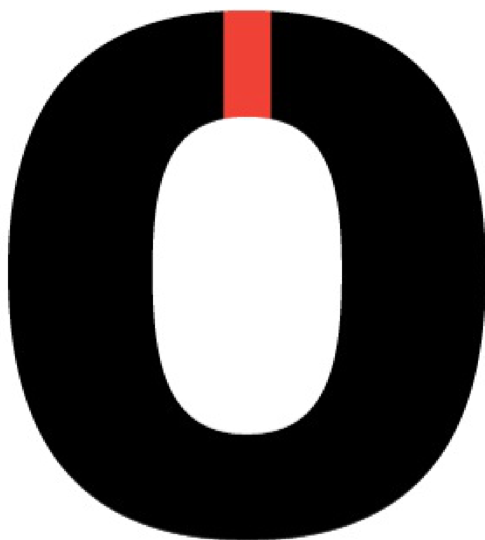
Our Global MBA Program is an incredible opportunity for all Management students seeking an established, rigorous, multicultural and international education experience.

UNFINISHED TASK

WILL RE-INTRODUCTION OF LAPSED BILLS BE HIGH ON THE AGENDA OF THE NEW GOVERNMENT?

BY JOE C. MATHEW

PHOTOGRAPH BY YASBANT NEGI



On March 2, the President of India promulgated an ordinance to amend three laws to facilitate the use of the 12-digit unique identification number Aadhaar for purposes beyond delivery of social sector benefits to the country's citizens. The Aadhaar and Other Laws (Amendment) Ordinance, 2019, was necessitated after a Bill by the same name lapsed without the approval of both Houses (it was passed by the Lok Sabha but not the Rajya Sabha) of Parliament after the last session of the 16th Lok Sabha (2014-19) came to a close last month. The amendment was meant to undo a Supreme Court order restricting the use of Aadhaar. The ordinance ensured that these changes remain valid until the next government takes charge after the ongoing Lok Sabha elections and either re-introduces the Bill or dumps it.

Unlike Bills introduced in the Rajya Sabha, which live on, Bills cleared by the Lok Sabha but not introduced in the Rajya Sabha (as in the Aadhaar Bill) lapse at the end of the Lok Sabha's tenure. The Aadhaar Amendment Bill was one of the 46 Bills that lapsed and one among the 10 that would remain in force through last-minute ordinances.

The Bills that lapsed but were temporarily revived through ordinances are indicative of the government's preferences.

Focus Areas

Gopal Krishna, Convener, Citizens Forum for Civil Liberties, a group that opposes the biometric-linked generation and use of Aadhaar, says the Aadhaar ordinance was clearly meant to undo the Supreme Court order restricting the use of Aadhaar. The government, however, said that the Aadhaar and Other Laws (Amendment) Ordinance, 2019, which makes changes to the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, the Indian Telegraph Act, 1885, and the Prevention of Money Laundering Act, 2002, would enable the Aadhaar issuing authority, the Unique Identification Authority of India, to create a more robust mechanism to serve public interest and stop the misuse of Aadhaar.

The Special Economic Zones (Amendment) Ordinance, 2019, is even more interesting. While the government says the ordinance to amend the Special Economic Zones Act, 2005, allows trusts to set up a unit in SEZs and thereby increases investment opportunities, the decision has left several stakeholders perplexed.

"I don't know how this will make investments in SEZs interesting. The sunset clause (to end all tax sops enjoyed by SEZs) is coming up in 11 months. The GST (goods and services tax) is a problem for everybody – developers, co-developers and units in SEZs – because despite (these entities) being zero rated, there is a legal

16TH LOK SABHA'S BIG NUMBERS

26% of all Bills passed were financial

30% of health-related Bills introduced were passed

40% of transport sector-related Bills introduced became law

KEY BILLS THAT WERE PASSED

GST BILL

INSOLVENCY AND BANKRUPTCY CODE (AMENDMENT) BILL

INSURANCE LAWS (AMENDMENT) BILL

FUGITIVE ECONOMIC OFFENDERS BILL

ORDINANCES ON ECONOMIC SECTORS THAT ARE IN FORCE

The New Delhi International Arbitration Centre Ordinance, 2019	**The Companies (Second Amendment) Ordinance, 2019**
The Special Economic Zones (Amendment) Ordinance, 2019	**The Indian Medical Council (Second Amendment) Ordinance, 2019**
The Aadhaar and Other Laws (Amendment) Ordinance, 2019	**The Banning of Unregulated Deposit Schemes Ordinance, 2019**

Source: PRS Legislative Research

hurdle as what is there in the GST Act has not been incorporated in the SEZ Act. If somebody is coming to set up a unit under a trust, he must be very bold," says Vinay Sharma, Officiating Chairman of the EPCES Export Promotion Council for EOUs & SEZs. A zero-rated good/service does not attract tax but is eligible for credits for the tax paid on inputs. According to Sharma, the amendments may benefit some individual trusts but not impact others.

The Indian Medical Council (Amendment) Second Ordinance, 2019, has also failed to enthuse stakeholders. While the government says the ordinance has been promulgated to give continuity to the work already done by the Board of Governors as per the provisions of the earlier ordinance, the doctors are not happy with this route to supersede the Medical Council of India (MCI). K.K. Aggarwal, President, Heart Care Foundation of India, called it the "takeover of MCI, going on for several years". "Professionals have been opposing the Bill. They have been opposing any bureaucratic takeover of the autonomous body," he adds.

The Companies (Amendment) Second Ordinance, 2019, is, among other things, aimed at allowing certain companies with subsidiaries abroad to have a different financial year for consolidating accounts in India. The government calls it an "ease of doing business" measure.

The ordinance also addresses the need to impose civil liability for technical and procedural defaults of a minor nature and to plug the corporate governance and enforcement framework through re-categorisation of 16 minor offences as civil defaults. This will de-clog special courts and transfer certain routine functions such as permitting conversion of a public company into a private company from the National Company Law Tribunal to the Central government. The Banning of Unregulated Deposit Schemes Ordinance, 2019, criticised for its timing as it may impact the fund raising abilities of some political parties, is seen as a central legislation to tackle the menace of illicit deposits-taking activities in the country. The ordinance ensures a comprehensive ban on unregulated deposit-taking activity and its effective enforcement. "It aims to prevent such unregulated deposit schemes or arrangements at their inception and at the same time makes soliciting, inviting or accepting deposits pursuant to an unregulated deposited scheme a punishable offence," says the official explanation.

Bills Lapsed

New Delhi-based think-tank PRS Legislative Research says the Narendra Modi government has shown a preference for enacting financial laws over its five-year term. It says 26 per cent Bills passed in the 16th Lok Sabha (2014-19) have been financial. This includes the GST Bill, the Insolvency and Bankruptcy Code Bill, the Insurance Amendment Bill and the Fugitive Economic Offenders Bill.

Key Bills that have lapsed during the period include the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Amendment) Bill, 2015; The Whistle Blowers Protection (Amendment) Bill, 2015; The Consumer Protection Bill, 2018; The New Delhi International Arbitration Centre Bill, 2018; The DNA Technology (Use and Application) Regulation Bill, 2018; and the National Medical Commission Bill.

At least half a dozen Bills that were introduced in the Rajya Sabha, and hence pending despite the dissolution of the 16th Lok Sabha, may be introduced after the next government takes charge. These include the International Finance Centres Authority Bill, 2019.

All ordinances are valid for a maximum period of six months, though they will have to be considered in the very first session of the 17th Lok Sabha. The legislative process will be on predictable lines as the Narendra Modi government has got a fresh mandate in the general elections. BT

@joecmathew

KEY BILLS THAT LAPSED

RIGHT TO FAIR COMPENSATION AND TRANSPARENCY IN LAND ACQUISITION, Rehabilitation and Resettlement (Amendment) Bill, 2015

THE WHISTLE BLOWERS PROTECTION (Amendment) Bill, 2015

THE NEW DELHI INTERNATIONAL ARBITRATION CENTRE Bill, 2018

THE DNA TECHNOLOGY (USE AND APPLICATION) REGULATION Bill, 2018

ON A

SLIPPERY SLOPE

THE INDIAN ECONOMY IS **NOT IN GREAT SHAPE.** WHAT ARE THE OPTIONS BEFORE **THE NEW GOVERNMENT** TO KICKSTART GROWTH?

Photographs by REUBEN SINGH

From left to right: Ajit Ranade, President and Chief Economist, Aditya Birla Group; D.K. Joshi, Chief Economist, Crisil; Sachidanand Shukla, Chief Economist, Mahindra & Mahindra; Biswajit Dhar, Professor of Economics, JNU; Devendra Pant, Chief Economist and Head-Public Finance, India Ratings; and Shweta Saini, Senior Consultant, ICRIER

s a new government takes charge, the fastest growing large economy globally seems to be headed for a slowdown. The signs are all there. There is rural and farmer distress; the fiscal noose is tightening; tax collections are well short of target; automobile sales are down to a seven-year low; credit offtake is low; and consumption too is slowing. Trade is also moving is the slow lane.

These are some of the challenges that the new government has to handle. To discuss this, *Business Today* organised a roundtable. The participants included Ajit Ranade, President and Chief Economist, Aditya Birla Group; Shweta Saini, Senior Consultant, ICRIER; Sachidanand Shukla, Chief Economist, Mahindra & Mahindra; D.K. Joshi, Chief Economist, Crisil; Devendra Pant, Chief Economist and Head-Public Finance, India Ratings; and Biswajit Dhar, Professor of Economics, JNU. The discussion was moderated by Prosenjit Datta, Editor, *Business Today*. Edited excerpts:

Prosenjit Datta: The government is going to inherit an economy with problems – a tight fiscal position, severe rural and farmer distress and lower-than-target tax collections. Commentators have said we are heading towards the middle income trap, and the most worrisome thing is that the two things that pushed up economic growth, government spending and consumption, are coming down, if reports are true.

Ajit Ranade: The immediate concern is rainfall. We are looking at a situation where at least 42 per cent of the area is under drought, although that will change in the coming months. There is concern about how severe the drought will be.

Shweta Saini: Our calculations say that never in the past 100 years have we had five consecutive years of negative long period average deviation of monsoon, as we have had now. This will be the sixth year running. So, we are looking at not just a drought year, but something that has accumulated over years. Another big crisis that we are looking at is on the market side where they had anticipated that increasing MSPs (minimum support prices) and running the PM-AASHA (the Pradhan Mantri Annadata Aay Sanrakshan Abhiyan) would curtail the crisis.

Sachidanand Shukla: There are challenges every single year, every single cycle. If you continue to approach problems with the same old mindset, you will run out of policy options and responses. We are geared to thinking of ourselves as a supply constrained economy but are facing what typical developed economies have been facing. Sector after sector, we are witnessing demand challenges. A policy response is needed. Look at production versus demand. We need a paradigm shift in our response function.

D.K. Joshi: In terms of global issues, trade is a major factor. We are moving from open to closed economies. The second aspect is the kind of monetary policy responses from advanced countries. Recently, the European Central Bank said that one takes small steps in a dark room. We are in a benign scenario because at least they are not tightening policy and that has led to capital flows back into India. A lot will depend on how lucky or unlucky we are this year, in oil and monsoons. If oil prices shoot up, we are in trouble. If monsoons are bad, we are in trouble. If you get these

"If there is a severely deficient monsoon outlook, we will have to consider the scale of MGNREGA"

Ajit Ranade, President and Chief Economist, Aditya Birla Group

two things right, then you can easily sail out of this situation because low oil prices have fiscal, inflationary and growth implications.

Devendra Pant: We have overlooked the sharp decline in household savings. Households are the only sector that has a positive saving-investment gap. Unfortunately, in 2017/18, household savings were lower than even government demand. Until and unless household savings improve, we are not going to see a decline in interest rates. For interest rates to come down, structurally, or in a medium to long run, the savings rate has to go up. So, we have to look at how household savings are going to behave or if we can give it a boost.

Biswajit Dhar: We have some serious challenges and I don't think we can stand up to international competition. In agriculture, we are in a bind. We can't decrease tariffs because inefficiencies are spilling over and because of the demand factor, we are facing in a deflationary situation. There is no incentive because we have been surviving on the domestic economy. We had no ambitions of going into the international arena. For India to be part of the global economy and not withdraw is going to be the major challenge.

Datta: What can be the government's agenda in the first 100 days, or in the medium and longer term? Let's start with agriculture...

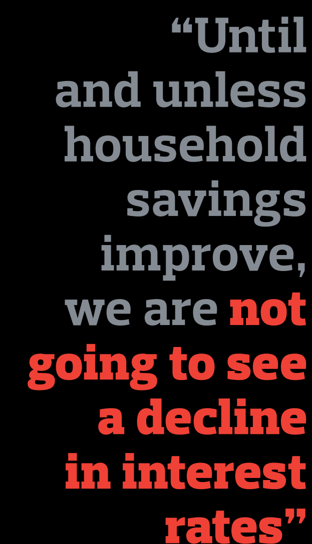
Ranade: If there is a severely deficient monsoon, we will have to consider the scale of MGNREGA. When it was first enacted, it was supposed to focus on 200 most backward districts. Then it got expanded. We should go back to the targeted approach and focus on the financially vulnerable districts. One specific area we can look at in the first 100 days is farmer producer organisations (FPOs). There are multiple tax issues.

Saini: Every time we had deficit rains, foodgrain production fell, 2015/16 being a recent case. Even though numbers showed that production went up, we imported 5.6 million tonnes of wheat. We have to look at sustaining that surplus. There are surpluses, but will they continue in the future? There are large grain stocks in FCI godowns and large pulses stocks with NAFED. They have dedicated resources in the budget to offload it through PDS, but these numbers are unprecedented. We need a strategy to ensure grains are offloaded in time. The over-reliance on MSP for ensuring prices has to be subdued. They have to look at FPOs.

In the first 100 days, NREGA is important. I see NREGA's role as very important in micro irrigation and water management. We can create water storages at micro levels in fields in anticipation of dry spells. Next, unproductive cattle will be a top concern in the coming few months, as it breaks the economic cycle of a dairy farmer. There is an urgent need for an answer to what they wish to do with unproductive cattle. Can we visualise a situation where there are no cows and everybody only buys buffaloes?

"Over-reliance on MSP for ensuring prices has to be subdued. They have to look at Farmer Producer Organisations"

Shweta Saini
Senior Consultant
ICRIER



"Until and unless household savings improve, we are not going to see a decline in interest rates"

Devendra Pant
Chief Economist and Head-Public Finance, India Ratings

Shukla: The best way to not solve agriculture problems is to start with a 100-day agenda. This is a 100-year-old issue. Look at the real GVA or GDP growth in agriculture. Look at food output, horticultural output or non-food output. It has been 4-7 per cent, right? But incomes have not grown. In the past four or five years, the average WPI would be close to 1 per cent. In the past two years, hardly 1 per cent. If agricultural GVA in nominal terms had the same level of inflation that we had three years back, agri GVA would be close to ₹37 lakh crore. But because inflation has fallen, GVA is about ₹28.5 lakh crore. This means farmers have lost an equivalent of around ₹8 lakh crore worth of income.

Politicians have been smart at understanding this. They have announced farm loan waivers worth ₹2 lakh crore. So, against a notional loss of ₹8-9 lakh crore, you have given or promised ₹2 lakh crore worth of farm loan waivers. The point is that you need to undo that loss.

Shukla: We need a big liberalisation drive in agriculture. We need to free these markets from the clutches of the government. In any market, the basic thing is price. But if you are the person who is going to procure the most through MSP, and you only are going to set prices, that is the surest way

of harming that sector. The government has to get out of the sector. We have been talking about APMC for the past 20 years. Some states have done things, but it is time that we focus holistically on agriculture.

Joshi: I am not sure whether we are in a complete oversupply situation. Between 2000 and 2006, food inflation was below 2 per cent, and overall inflation was 3.9 per cent - the current target - and farmers were not suffering. Input costs have risen much more sharply while output has remained the same. And, whatever be the output price, the margins of middlemen don't change. It's the farmer who gets a short shrift.

Saini: In Maharashtra, fruits and vegetables were outside APMC, but traders wanted to sell in the APMC market yard because intermediaries delivered services. For example, access to credit, which you otherwise don't get from institutional credit. These are the people who assure purchase of the quantity you bring and access to credit. Second, results from the ICRIER-OECD work show that on an average, from 2000 to 2016/17, farmers suffered net losses on output prices also because of lower realisation in recent years.

Every time prices go up, they announce MEP (minimum export price), export bans or restrictions. So, farmers are not able to get prices they would have realised from international markets. On an average, in 16 years, farmers received about 14.5 per cent lower gross farm receipts, amounting to a loss of ₹45 lakh crore, and not just ₹8 lakh crore.

Pant: I would be very afraid to suggest any short-term solution to agriculture. It is like giving Brufen to a patient suffering from cancer for temporary relief. And in the process, we tend to overlook the long-term solutions. We don't need a situation where food prices are growing at 10 per cent and we don't need a situation where food inflation is negative or growing at 0.8 per cent. We need somewhere in between. Unfortunately, the entire monetary policy is so fixated on headline inflation. If headline inflation is coming down because of deflation in food prices, we must take some action.

"If oil prices shoot up, we are in trouble. If monsoons are bad, we are in trouble"

D.K. Joshi
Chief Economist,
Crisil

"We need a big liberalisation drive in agriculture. We need to free these markets from the clutches of the government"

Sachidanand Shukla
Chief Economist,
Mahindra & Mahindra

Datta: What is the long-term solution, or at least, what is the solution that can be moved forward for five years?

Dhar: Unfortunately, that will get into the problem of Centre and states because most things fall in the state' domain, like the APMC Act.

Shukla: There are some pieces – horticulture, for example – where we are doing fine. There are some crops where we need to raise yields, but at the same time, we have enough success stories within agriculture. Get more involvement from the corporate sector, let them bring in new technology, and let the government focus only on regulation. Crop insurance began to work but failed because questions were raised in Parliament about companies profiteering. Get corporates involved by getting the market at the doorstep of the farmer. As long as you have MSPs, you will continue to distort markets.

Datta: Apart from agriculture, private investment and consumption are also down.

Ranade: There is a concern on why private investment spending has stagnated or declined as a percentage of total investment for several years now. Overall investment spending and its proportion in GDP have also declined. The problem is more severe if I could aggregate the investment.

Datta: This NDA government did not manage to create a new industrial policy.

Pant: A draft has been hanging around. Investment and consumption are related to each other. We are looking at a situation where IIP growth is coming down and capacity is going up. This gives an impression that some of the existing capacities have gone out of the system.

From FY12 to FY18, contribution of households to investment and gross fixed capital formation was highest, even higher than private corporates. And this is the sector where both savings and investments are falling. The household savings rate has fallen to around 17.5 per cent from 22-23 per cent. This is the sector where investments are falling. Growth of bank credit to

“We've gone horribly wrong because the goalpost is growth. The goalpost has to be employment”

Biswajit Dhar
Professor of Economics, JNU

MSMEs is falling. In the last few years, it was negative. In terms of GDP, it is two percentage points less than what it used to be in 2014/15. Until issues related to this sector are addressed, it will be difficult to have sustained improvement in investment and consumption.

Joshi: There is no doubt capacity utilisation has improved. Corporates don't have to wait for capacity use to hit 80 per cent and then start investing. Many corporates are sitting on cash right now. They are in a position to leverage. So, when there is an opportunity, private investment will go up.

According to the latest RBI survey, consumer sentiment is going up sharply and business sentiment is down. Some sectors still have excess capacity, because in 2010/11, they created a lot of capacity expecting 8 per cent growth, but growth actually fell. Bankruptcy proceedings also free up spare capacity. That's happening in steel.

Datta: The *Business Today*-C fore Business Confidence Survey actually showed this to be slightly lower. The last round was lower than what it was before we went for elections in 2014.

Shukla: The entire focus in India is on cost of capital but availability of capital is an issue. People who need capital don't readily get it. In private capex, think of the linkage of India's economy with the rest of the world. We are linked to the global cost of capital much more than before. Profitability is squeezed, it is not growing. Look at retail, realty, banking, telecom and IT. These are the poster boys of economic growth in India.

Dhar: We have not been able to attract foreign investment. We are fond of comparing ourselves with China. Despite slowing down, China is growing. And Hong Kong is being leveraged even more now. China and Hong Kong are getting about $260 billion foreign investment and the US is getting $275 billion, while we are languishing at $33-38 billion. Something has gone wrong drastically. Indian investors are not interested. Our outflows have increased. The finance minister was happy that India has become an investor abroad. We should be unhappy because our country needs investments.

In auto, two-wheeler sales have come down. And jobs are not being created. The problem is that we have a demand constant economy and if we don't do anything about demand, we won't get profits. If we don't have the market, no one is going to get interested.

We are saying that manufacturing is not competitive, and every sector is asking for more tariffs. This is a big issue. So how can we stop this finger pointing: the government saying that the industry doesn't tell me what it wants, and industry saying that the government doesn't listen?

Shukla: Industry hasn't thought beyond the domestic market. When I analysed three major FTAs (free trade agreements) that we entered into, trade deficits have gone beyond our control. We are not exporting to them but imports have gone up. In IT/ITeS, we have got stuck at the low value-added level. We don't seem to realise that when Industry 4.0 kicks in, many of these call centres will be out of business. We will always be a country with huge potential in everything. We have to find industry-specific solutions and then take it forward.

Saini: We are a food insecure country and are concerned about rising domestic prices, but unless policy assures a stable and predictable environment, backward investments don't happen. We need predictability in policy. There is a need to identify areas that can specialise in production and then create a value chain – domestic and international – connecting them to the markets. In Orissa, the entire agriculture export is marine. There is Paradip port, but no marine exports go from Paradip; everything goes from Vizag.

Joshi: Manufacturing is a tough nut to crack and its share in GDP doesn't seem to rise. There is opportunity because people want to move production bases out of China. But think of all the problems one faces when setting up a factory, and then compare it with com-

petitors. Labour inflexibility and shortage of power comes into play. Once you produce, you need to ship it to ports. That's where logistics comes in. Split into these components and compare with competitors. How can you export if you don't fix these? In the last decade, Vietnam's share in garment exports has risen from 1.7 per cent to 5.3 per cent and Bangladesh from 2.5 to 6.7 per cent. India's share rose only 0.8 per cent.

Datta: Was it because of neglect as industry grew or was it because of regulations?

Shukla: The government has been helpful in the auto sector. It's not been excessively regulatory and therefore it's not a constraint. Acquisition of land is a real constraint and labour laws are an issue.

> **"There is a need to identify areas that can specialise in production and then create a value chain to markets"**
> **Shweta Saini,** ICRIER

Dhar: Pharma has become a sunset industry. Tomorrow even formulations will be imported from China. Twenty years back, we were exporting bulk drugs; today, we are at the threshold of importing formulations. Forget about growth; it's actually retrogression.

Joshi: I am not going to the 2017/18 data. But if you look at the latest data that is acceptable (2011/12), 51 per cent of the labour force is self-employed. Technology has been a great disrupter in the production process also. Even in construction, which has the highest employment elasticity, gone are the days when people used to make roads using shovels. So employment growth is likely to be lesser and lesser. There are still certain sectors where employment elasticity is higher than in others. For example, the textile sector. People are talking about IIP growth being at a 21-month low on a quarterly basis.

Access to credit or credit growth to such sectors is declining. Some 36-odd per cent are casual workers and the remaining are salaried or have fixed kinds of jobs. We are looking at a situation where 81 per cent jobs that were there in 2011/12 are not growing. We have to grow much faster so that we are able to take care of those people who are coming in the job market with 'adverse' conditions. Artificial intelligence and block chain technology are going to be big disruptors for employment generation.

Dhar: We've gone horribly wrong because the goalpost is growth. The goalpost has to be employment, and we can work backwards from that and identify the sectors such as industry or agriculture, and what the government can do. The reality is that public investment actually drives private investment. Even in the US, there's a huge amount of federal funding going into basic research. Industry then takes over.

Industry will have to point out to the government that these sectors are job creators. I could never understand how textiles and clothing, which have huge employment potential, could be treated as sunset sectors. A number of research reports have been written about Tirupur and Jalandhar. I did two studies for ITC on Brandi and Pochampally. The industry needs to bang at the door and say this is what I want.

Shukla: We have enough macroeconomics. We need to pay enough attention to micro ingredients. Can GST be a big driver of job growth? The whole idea was that it is a generational reform to unify markets. If you formalise, there are gains to be made. But execution is important. Smart cities, for example, haven't taken off simply because there is no brief. We are going through a great churn. We are trying to formalise the economy, and by definition, you will be shedding jobs as long as this process is not complete. Be it demonetisation, GST, RERA (Real Estate (Regulation and Development) Act) or IBC (Insolvency and Bankruptcy Code), when you formalise an informal system or an economy, you will be shedding jobs for a period of time.

Apart from that, there is confidence or sentiment. We must understand that employment elasticity has gone down. In the 90s or early 2000s, it used to be 0.4 for every percentage point in GDP, now it is roughly 0.2. There's a World Bank report that says that with every percentage point (of GDP growth) you will add about 75 million jobs. So, even at 10 per cent growth, you will not be able to absorb the 10-12 million numbers that they keep talking about.

If we are able to get inflation in a narrow band, it will impart stability. Rupee volatility and interest rate volatility will come down dramatically. So the cost of funds will go down over a period of time. If you implement IBC correctly, cost of funds will come down structurally, and you will be able to bring down the rate of interest. Steps like GST and IBC can be big drivers, as they will free up entrepreneurial capital, time and money. BT

THE HUB

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NBFC SQUEEZE

NBFCs are scurrying around for funds to cope with falling market valuations, asset-liability mismatches and rising delinquencies.

By **VARSHA SANTOSH**
Illustration by **AJAY THAKURI**

Dewan Housing Finance is going the IL&FS way or will be eventually sold if the problem is not fixed expeditiously," says a CEO of a Mumbai-based non-banking finance company or NBFC. The company has been struggling with asset-liability mismatches. So far, it has taken a decision to divest two group businesses (education loan and affordable housing finance companies), sold a part of its assets and claims to have repaid over ₹30,000 crore to creditors, including fixed deposit holders. But the mismatches refuse to go away. It desperately needs to raise longer-term funds, ensure faster sell-down of loans to builders and bring strategic investors. Any delay will push the company, which has a bank loan exposure of close to ₹40,000 crore, in the danger zone. The recent credit rating downgrade has already closed the fixed deposit window.

Another NBFC, Reliance Capital, with interest in a host of financial services, including insurance, is facing repayment issues with two of its financial services arms — home finance and commercial finance units. This Anil Ambani-owned company has already decided to sell its non-core investments in media and entertainment, private equity, radio, etc. This week, it decided to sell the entire stake in the mutual fund business. Another fast-growing NBFC, Indiabulls Housing Finance Ltd, has also come under pressure due to its risky large ticket commercial real estate and loan against property portfolio. The company claimed to have raised ₹50,000 crore in the last six months to improve its liquidity and liability profile. Luckily, Indiabulls Finance has got a prize catch in terms of the proposed merger with private sector Lakshmi Vilas Bank.

Dewan Housing and Reliance Capital are just some examples of how the mismatch between long-term assets and short-term liabilities has completely exposed the NBFC business model dealing with secured mortgages. Exactly a year ago, IL&FS was caught in a similar situation — it did not have enough money to meet its repayment obligations. The crisis — whose roots lie in the fact that

NBFCs get access to only short-term funds that they have to keep rolling over, leading to asset-liability mismatches when liquidity becomes scarce — is affecting the entire NBFC sector. The trouble had started when the Reserve Bank of India, or RBI, moved in to clean up bank balance sheets four years ago. As skeletons started tumbling out from the cupboard of corporate India, money from banks and mutual funds, the two big sources of funds for NBFCs, started drying up. That is why those who lent to the riskiest part of the corporate universe — real estate players, home finance companies and those giving loan against property — are getting hit the most. The unaffected NBFCs such as HDFC and Bajaj Finance have the backing of a strong promoter or group, rely less on builder loans and have a much more diversified asset and funding profile.

Analysts predict a sluggish market for at least the next one year. "Liquidity management will be tough for many players," says Jaikishan Parmar, Senior Equity Research Analyst at domestic brokerage firm Angel Broking.

The stock market is expecting margin compression as the cost of new funds is higher, asset quality has deteriorated and loan book is seeing low to moderate growth. NBFCs are doing everything they can to get out of the situation.

Asset Sale

During good times, high valuations had allowed NBFCs to raise capital at a premium. Now, falling valuations are their biggest source of pain. For instance, the Dewan Housing stock has plunged from a 52-week high of ₹690 to ₹129, Reliance Home Finance is down from ₹76 to ₹20, GIC Housing Finance from ₹417 to ₹259, JM Financial from ₹140 to ₹84 and Motilal Oswal Financial Services from ₹962 to ₹740. This has closed the option of share pledging too and has, in fact, put more pressure on overleveraged promoters, who are getting margin calls.

The NBFCs are resorting to securitisation deals to mobilise resources.

PROBLEM AREAS FOR NBFCs

- Falling market valuations mean equity route for mobilising resources almost shut
- Ratings under watch-list, there has been a downgrade in some cases
- Difficulty in raising money from banks and mutual funds
- Cost of borrowing up, to hit margins
- Slowing down of growth in the wholesale portfolio

AND HOW THEY ARE COPING

- Most are moderating loan growth to conserve cash
- Sale/securitisation of assets to create liquidity
- Borrowing at a higher rate, shifting from short-term CPs to long-term instruments
- Reducing exposure to riskier assets like developer loans
- Pledging of shares by promoters

Under securitisation, one pools assets (home loans, MSME loans, etc) into marketable securities and sells in the market. In the last one year, Indiabulls Housing Finance has sold over ₹22,000 crore assets across segment such as home loans, plot loans and developer loans. The company recently told investors that the portfolio sell-down will contribute a larger proportion to its funds in 2019/20 than the 22 per cent at present. Of late, big banks such as State Bank of India and ICICI Bank have been aggressively buying such securitised portfolios. SBI alone has set aside ₹40,000 crore for buying retail assets of NBFCs. According to ratings agency CRISIL, the industry's retail securitisation volumes more than doubled to an all-time high of ₹1.9 lakh crore in 2018/19 as against ₹85,000 crore in the previous year. "Three asset classes, mortgages, vehicle loans and microfinance, accounted for 84 per cent securitisation volumes....we also saw relatively newer asset classes such as gold loans, SME loans and personal loans getting securitised, underscoring a potential broad-basing of the market," says Krishnan Sitaraman, Senior Director at CRISIL Ratings, in a recent report. Securitisation was particularly high in the second half of 2018/19, says Vibhor Mittal, Group Head (structured products) at ICRA Ratings. NBFCs are hoping for a special liquidity window from the RBI but so far there has been no such support. The central bank, however, is providing liquidity support to banks which, in turn, can support NBFCs. "The RBI will step in if it becomes a system-wide problem. These weak NBFCs have enough assets that they can sell to generate liquidity," says a banker.

Loan Growth/Asset Quality Risk

Asset quality risk for NBFCs with real estate sector (especially large builder loans), home loan and loan against property exposure is very high while those into infrastructure financing, unsecured loans, vehicle financing, gold loans, etc, are in the moderate to low risk bracket. Some fear hidden NPAs. In fact, former Chief Economic Advisor Arvind Subramanian had suggested an asset quality review of NBFCs, akin to the one done for banks, to clean up balance sheets.

Vinay Shah, CEO, LIC Housing Finance, has been surprised to see defaults in a category like retail home loans. There are reports of delays in EMI payments because of tighter liquidity and economic slowdown. Mahindra Rural Housing Finance saw its

gross NPAs rise to 12.24 per cent in December last year.

NBFCs are also facing danger from reduced loan book growth. When loan growth is rising, NPAs look small. This changes when loan growth slows and the pace of asset quality deterioration increases. This is something the banking industry, especially public sector banks, faced after 2013/14 as NPA numbers became dangerously high when lending slowed.

New Business Model

At a time the RBI has eased the repo rate in the last four months, the NBFCs have had to increase rates to make up for the rise in the cost of borrowings and protect margins. NBFC customers, who are mostly non-salaried, are feeling the pinch. Many home loan NBFCs have had to increase rates in the recent past because of liquidity squeeze and higher cost of funds. There is also a halt on fresh exposure to wholesale or builder loans.

L&T Finance, Shriram City Union, Magma Fincorp, SREI Infra and Muthoot Finance were in the market recently to sell non-convertible debentures or NCDs, which have longer tenures. The stronger entities such as Piramal Enterprises have managed to diversify their funding mix from short-term commercial paper to longer term NCDs. Piramal Enterprises recently managed to raise ₹16,500 crore through debentures and bank loans. Abhinav Bansal, Principal at Boston Consulting Group, says long-term capital was always available at a slightly higher cost than the short-term CPs. "In the past, NBFCs have relied on a lean and efficient model to generate higher return on assets and return on equity. This will surely change," he says. Many experts suggest that the RBI should either monitor large NBFCs more closely or encourage them to convert into banks. Much before the IL&FS crisis, Capital First, an NBFC, had started talks for a merger with IDFC Bank. Gruh Finance, an affordable housing finance company, is merging with Bandhan Bank. Indiabulls Housing Finance and Lakshmi Vilas Bank are also merging.

While the sector continues to attract players to serve the segments that the banks are not serving, the regulator will have to be watchful of the risk of a systemic failure. In order to bring better discipline in NBFCs' liquidity management, the RBI has issued draft guidelines which include introduction of liquidity coverage ratio, more granular liquidity maturity bucket for less than one month category, monitoring concentration of funding , keeping collateral-free assets and also checking the movement of off-balance sheet items and contingent liabilities. The RBI has already decided to create a specialised supervisory and regulatory cadre. Given the way the issue is still on the boil, there are likely to be more regulations for credit rating agencies. BT

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Increased awareness about fitness is powering the sports and fitness wear market, giving segments such as athleisure a boost.

By **K.T.P. RADHIKA**

PHOTOGRAPH BY **REUBEN SINGH**

FIT

“WE HAVE OPENED 700 OUTLETS ACROSS INDIA (IN TWO YEARS) AND HAVE ROPED IN CRICKETER SHIKHAR DHAWAN AS OUR BRAND AMBASSADOR.”

Roshan Baid
Managing Director, Alcis Sports

THIS JANUARY

47,000 runners participated in the 16th edition of the Tata Mumbai marathon. That was a 22-per cent rise from last year, thanks to rising interest among people in fitness and healthy living. Mumbai marathon is not alone. Several big and small running, walking and cycling events across the country now draw huge crowds. Last year alone, India saw around 500 half-marathon (21.1 km) and marathon (42.2 km) events along with many small distance runs, according to Indiarunning.com, an online community that curates running events in India.

As India runs, jumps and hikes, the sports and fitness wear segment is opening up fresh opportunities for investors and entrepreneurs. While Adidas (including Reebok), Puma and Nike lead the organised part of the Indian sportswear market, there are others too. International brands Asics and Skechers set up shop in India a few years ago; Denmark-based Hummel launched its Indian operations early last year; and American brand Under Armour arrived this year.

"Awareness around healthy lifestyles is increasing ," says Abhishek Ganguly, Managing Director, Puma India. "Also, many people are approaching sports both professionally and for recreation. This is fuelling our growth in sportswear."

New Trends

Till about six years ago, these companies' focus was only on performance wear. That changed around 2015/16. "Performance wear is a small market in India. But when the fashion trend changed and youngsters wanted to look sporty even if they did not play any sport, it opened up the market for 'athleisure' wear, which is driving growth in this segment," says Shivam Kataria, Vice-President at SSIPL Retail, a Delhi-based sportswear manufacturer and retailer that also makes footwear for various international sports brands.

The trend that combines active wear and leisure wear is here to stay, say industry experts. That the market is growing around 25 per cent year on year doesn't come as a surprise as sportswear as well as lifestyle brands have been expanding their athleisure footprint for the past two years. Adidas, for instance, has set up exclusive retail stores for Adidas Originals, its street collection. Puma and Nike too are fast expanding their presence in this segment.

"The popularity of sportswear in everyday fashion is increasing and boosting our growth," says Puma's Ganguly. There is a large set of aspirational consumers that wants to be ahead of the curve and for them fashionability is more important than grabbing an older season's merchandise at a great price, he notes. "We have seen demand for our products on the day of their global launch itself," he adds.

Catching up with sportswear brands are apparel brands such as Arvind Lifestyle, Aditya Birla Fashion and Retail and online fashion retailer Myntra through its brand HRX. Innerwear major Jockey launched its athleisure range in 2017. "Athleisure is an extremely relevant category with high potential in India where the larger population indulges in casual sports to stay active while being in active wear for casual hangouts," M.C. Cariappa, President, Sales and Marketing, Jockey India, said during the launch of the campaign 'Play Or Relax'.

Even within the athleisure segment, there is variety and sub-sections. "India is a very diverse market. You can't have a one-size-fits-all approach. For instance, a state like Rajasthan demands more colours; southern markets prefer black, white or grey. The northeast wants more fashion," says Roshan Baid, Managing Director, Alcis Sports, a Noida-based sportswear brand.

Another segment that has seen an uptick is apparel for women. Till some time back, many sportswear companies did not even recognise

ATHLEISURE: THE BIGGEST TREND IN SPORTSWEAR

Sportswear brands to have ventured into athleisure:

Adidas Originals, Puma, Reebok, Nike

Lifestyle brands in athleisure:

Arvind Lifestyle Brands, Aditya Birla Fashion and Retail, HRX, Jockey

PHOTOGRAPH BY LANTERN CAMERA

"TRADITIONALLY, SPORTSWEAR MARKET WAS RETAIL-ORIENTED, BUT TODAY 30% ATHLEISURE IS SOLD ONLINE."

Aashutosh Chaudhari
Co-founder, Sports365

$185 BILLION
Size of the global performance wear market by the end of 2020 (Euromonitor International)

$3.5 BILLION
Current size of the active wear market in India

the niche market for women customers. But that has changed now, and with more women participating in fitness activities such as calisthenics, pilates, zumba and yoga, women's fitness wear is expanding, explains Ganguly. In fact, with "more brands such as Skechers entering India, companies have started understanding this segment better. Now, women and kids segments account for around 30 per cent sales for global brands," says Kataria of SSIPL.

More In the Race

India's sports and fitness wear market is following the growth trajectory of developed market peers, say experts. In 2016, the global performance wear market was around $78 billion, according to market researcher Euromonitor International, and is predicted to hit $185 billion by end-2020. The performance wear market in India was valued around ₹7,000 crore (a little over $1 billion) last year. But with athleisure, it is worth $3.5-4 billion by some estimates. According to Euromonitor, till the end of 2020, it is expected to grow at 12 per cent CAGR (compound annual growth rate) to reach $8 billion. Many unorganised players too offer fitness wear at lower price points and have a sizable share. This makes it difficult to estimate the actual size of the market.

To tap into the growing market, companies are looking at ways to strengthen and widen their presence. Under Armour, for instance, has formed an Indian subsidiary. It is looking at a long-term presence here and is in talks with different entities for franchises. Rival Skechers, which has been in India for the past six years, has bought Future Group's share in a joint venture to form a fully owned subsidiary, Skechers South Asia.

"India is one of the fastest growing markets globally for sportswear. We are just beginning the journey here and are very young in this market," says Rahul Vira, CEO, Skechers South Asia. The company currently has an annual revenue of around ₹500 crore; in 2016, it was ₹220 crore.

PHOTOGRAPH BY LANTERN CAMERA

"In the next few years, we will expand 360 degrees and enter Tier-III and Tier-IV towns. We are also testing apparel and will launch athleisure wear this year, apart from focussing on women and kids segments," he adds.

With 10 per cent of its sales proceeds going into marketing, Japanese company Asics, too, is increasing its pace in athleisure and core performance wear. Asics India recorded ₹92.7 crore in sales last financial year and is growing at 35-40 per cent CAGR. Hummel is also on the lookout for retail partners in India.

Older companies are not to be left out. For Puma, India is one of the top five markets. Reporting sales of ₹1,157 crore in calendar 2018, the company crossed the ₹1,000 crore mark for the first time. "Focussing on the women's segment and expanding e-commerce sales helped us," says Ganguly. The company is investing heavily in building futuristic supply chains, improving e-commerce sales and opening new stores.

Adidas, which acquired Reebok in 2005, has reduced the number of its franchise partners to about 50 in a bid to focus on profitability. However, the company is now focussing on restructuring its retail operations to get future-ready. According to reports, it plans to expand in 40 cities, including metros, Tier-I and Tier-II locations, as well as double the number of company-owned stores by the end of this year.

"MANY PEOPLE ARE APPROACHING SPORTS BOTH PROFESSIONALLY AND FOR RECREATION. THIS IS FUELLING OUR GROWTH IN SPORTSWEAR.

Abhishek Ganguly
Managing Director, Puma India

Sales Pitch

To capture customers' attention, companies are investing a lot on brand ambassadors. Chinese sportswear brand Li-Ning recently signed four-year endorsement deals with badminton champions P.V. Sindhu and Kidambi Srikanth for ₹50 crore and ₹35 crore, respectively. Puma has roped in boxer Mary Kom for its women's wear. In 2017, it had signed up cricketer Virat Kohli in a ₹100 crore-deal. Adidas last year roped in sprinter Hima Das to promote its products.

The gold rush in the segment has caught the

attention of investors as well. PE firm Paragon Partners recently invested around ₹75 crore in Cravatex Brands, the official distributor of Italian sports company Fila. Early this year, Bengaluru-based sports wear start-up Azani Sports received an undisclosed sum from early-stage consumer-focussed venture fund Fireside Ventures, and more recently, raised ₹1.38 crore from Sequoia Capital's incubation programme Surge.

The boom is powering e-retail in sportswear sales. "Traditionally, this market was retail-oriented. But today around 30 per cent of athleisure is sold online," says Aashutosh Chaudhari, Co-founder of Live Sports365 E-Retail, which started seven years ago and now has 400,000 active customers. "E-commerce is currently the fastest growing channel for us. Currently, it forms one fifth of our business," says Ganguly of Puma.

That said, Indian customers are also keen on the physical store experience. The success of French sports goods retailer Decathlon is a case in point. Started in 2013, Decathlon Sports India, which operates through big format stores, currently has 68 outlets. "One of the major factors for their success is the bandwidth of their product categories. They offer something for everyone, and are also backed by a strong online presence," says Chaudhari of Sports365.

The competition is high and no one can rest on past success. Home grown brands are biting at the heels of global brands, which currently have control over 80 per cent of the organised sportswear market. They have a price advantage. "Most products of global brands are manufactured by local manufacturers. But consumers have to pay a premium for the brand value. Indian brands provide the same quality at a lesser price. Consumers now look for quality rather than brands," says Vineet Agrawal, Managing Director of T10 Sports, a sports apparel manufacturer and retailer which had a revenue of around ₹35 crore last year. It is also tying up for events and sporting galas like the IPL.

₹1,000
CRORE
Only two companies, Adidas and Puma, have breached this revenue mark (as of end-2018)

25
PER CENT
Year-on-year growth

12
PER CENT
Growth (CAGR) in the segment, which is estimated to be worth $8 billion by the end of 2020 (Euromonitor International)

80
PER CENT
Share of global brands in the organised sportswear market in India

Two-year-old Alcis, with a revenue of around ₹60 crore, has expanded aggressively in a short span. "We have 700 outlets across the country and have roped in cricketer Shikhar Dhawan as our brand ambassador. We are tying up with companies, cricket clubs, schools and various tournaments," says Baid.

Hurdle Race

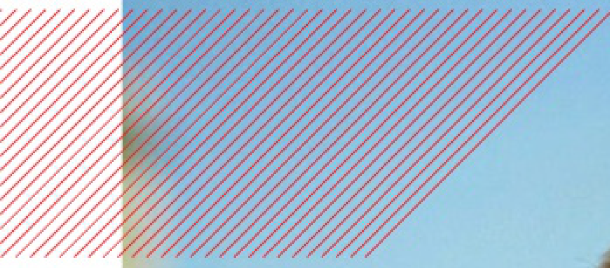
In the race to gain market share, a lot depends on credibility. Consumers expect innovative products with high quality. "With brands penetrating smaller towns, maintaining the quality of retail experience through stores, managing store teams and customer service is a challenge," says Kataria. This has to be supported by factors such as an agile and robust supply chain.

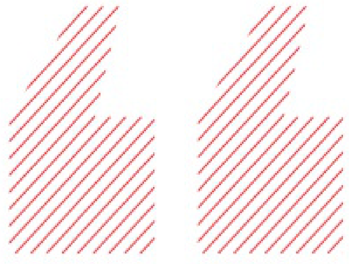
All this while keeping price in mind. "India is a value-sensitive market. So, rather than giving cheap goods, we were interested in giving a value proposition," says Vira of Skechers, adding that the company does not believe in online discounts.

Consumers follow athletes and sports personalities and use brands and products they recommend. This makes the business difficult for new entrants as their credibility is not established, and many local players have tripped on strategies. "The market is niche and they are playing a price-point game. The market, especially in the ₹500-1,500 range, is highly competitive. They have to be innovative and position themselves in this market,"says Chaudhari of Sports365.

Reebok's revenue dipped last financial year, in comparison to the previous year. Nike downsized its team and shut some of its stores few years ago, though these were in strategically insignificant areas, they say. At the end of 2018, only two companies, Adidas and Puma, had breached the ₹1,000 crore revenue mark in this fast growing market. The victory podium is ready for more. BT

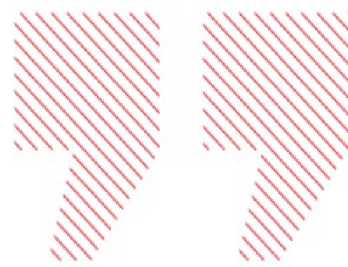
The writer is a Chennai-based freelance journalist





THE HUB **INTERVIEW**

A FAMILY MEMBER IS ONLY A TRUSTEE



A legacy of 350 years spanning 13 generations — that's what makes German healthcare and life sciences multinational Merck a much quoted example of family leadership continuity coupled with long-term sustainability of business. *Business Today*'s E. Kumar Sharma spoke with Frank Stangenberg-Haverkamp, Chairman of the Executive Board and the Family Board of E Merck KG, headquartered in Darmstadt in Germany. Stangenberg-Haverkamp, 70, who was in India recently, is the 11th generation leader of the holding company and head of the family. He talks about the various issues that family-led businesses need to grapple with and how a family contract can help in smooth management of family businesses. Edited excerpts:

hat should companies, young in their generational progression life cycle, focus on so that they can see many more generations?

The most import thing to do is to draw up a family contract early, very early — in the second generation itself, when there are three or four people involved. If you leave it to the third or fourth or fifth generation, there will be more and more people involved and it will become nearly impossible. The family contract or a constitution or any legally binding written document should lay down all the rules and regulations for eventualities like if somebody wants to leave the family business, then who can run the business; how to split the dividends; and a lot of other things that a good family lawyer would know and can help come up with a good draft, one that will make it difficult for a family member to opt out of that contract. You need to put it all down in writing and clearly define a family member and ensure that all participate. Never make the mistake of offering an option to sign the contract. Any family member who comes of age or inherits shares should automatically become part of it.

What happens in cases where a daughter- or son-in-law is good at running a business?

You have to differentiate between ownership and management. So, if the son/daughter-in-law is brilliant, he or she can run the business and one can give part of the ownership to him or her. Every person – son-in-law, daughter-in-law, an adopted member – is a family member but may not be allowed to vote for the family board or for change of contract. But I, as the owner, can pass on some of my ownership to my wife, son-in-law or daughter-in-law and they will have the same rights as the owner. The difference is, if they decide to separate, then the spouse (not having the bloodline) will have to surrender his or her ownership.

Often, founders or family business patriarchs are unable to let go after retirement. How does a family business leader disconnect after leaving?

This is an old problem. When I got in, I reintroduced the 75 years age limit. When I turn 75 in five years, I must go and there will be no office, nothing. No involvement thereafter. It has to be in the family constitution.

Each generation deals with a different cultural environment. How can all be aligned to the written document? How did you achieve this?

It is very difficult. It is one of the challenges. We are in the process of achieving it. I tell the youngsters: Never forget that you are just trustees and nothing else. You are here only to pass on the share of the company you own to your children and grandchildren. If your forefathers had not done this, you wouldn't be sitting here. Many people work for the company (more than 52,000) and their families are dependent on it. All that the family members need to do is ensure that the heritage is passed on from one generation to the next. The next generation has to understand trusteeship clearly.

You have to educate and train them. We have programmes for it and the family university – the Merck family university. A young family member who has obtained a university degree or an apprenticeship and gained outside work experience can apply. Those who meet the assessment criteria are given a five-module course at the university. (These modules include Merck's history, finance, accounting, family business, family governance, leadership and digitisation.)

What are the values that are underlined?

If you look at the car parking when we have a family gathering, the biggest car is an E-class Mercedes. No Rolls Royce or Ferrari. It is not our style. You should demonstrate your entitlement by your merit and not by your wealth.

For a research-driven, innovation-oriented company, how challenging is it to sustain this interest in the family across generations?

You cannot expect a family to produce scientists or science-driven people generation after generation. If you look at the young generation in the family, there are some, including girls (nieces), who are quite good. Some are biologists, some PhDs and chemists, though only one really wants to be a scientist. So, what we have to do is create a set-up within the company, funded by the family, to attract outside scientists. Merck today has 3,500 scientists and more than 40 per cent of our general staff are from academics, which is logical, given the businesses we are in.

In the pharma industry today, blockbusters are few and far between. How do you ensure that the

focus on innovation is maintained and yet revenues increased?

It is nice to have a blockbuster from time to time. We have one drug now in our pipeline, which definitely looks like one that could be a blockbuster. I cannot name it but it is in the oncology space, it is a space that we understand.

Our research pipeline at the moment looks extremely good but still the chance of success is 50:50 or less. When we see a potential blockbuster, we team up with, say, an American company because we cannot cover the 300 million people strong American market. But it is a market that can pay for it. You need to recoup the amount invested in R&D.

Many family businesses do not last beyond the third generation. How did Merck overcome the third generation challenge?

If you look at the statistics, a high number of family businesses collapse in the third generation or the family loses control of ownership. What they did in the third generation at Merck is too long ago for me to say, but one thing is clear: they all worked towards continuing the business and began looking more at its scientific side. In 1827, Heinrich Emanuel Merck, who was a sixth generation member and who had scientific education, began manufacture of alkaloids and other chemicals. Later, in 1890, his grandson established Merck in the US. We lost the US subsidiary after World War I. It was nationalised and subsequently re-established as an independent American company.

Merck has 258 family members today belonging to 10th, 11th, 12th and 13th generations

156 members hold equity (referred to as 'owners' by the family)

The first family contract was made in 1888. It is today a 150-page document that can be accessed by everyone in the family over the family intranet

The Merck family is the majority shareholder with 70 per cent holding in Merck KGaA, via general partner E. Merck KG

The company is present in 66 countries with 52,000 employees globally

What is your typical day like? How has your role changed over time?

I get up very early, at 5.30 am. Whenever young people ask me what they need to do to become successful, I tell them, be in the office half an hour before the others and leave in the evening half an hour later. I get to office at 7 am. I have always spent long hours at work but now I am 70 and tend to leave office for home by 5.30 or 6 pm.

How are you trying to ensure a smooth transition? We understand one of your sons is working for a pharma company.

My children are young. In any case, in our structure one has to be elected to the family board. Yes, one of my sons, who is 32, works for a pharma company but as long as I (father) am there, he can't be elected to the board. My cousin is the possible successor and will take over. BT

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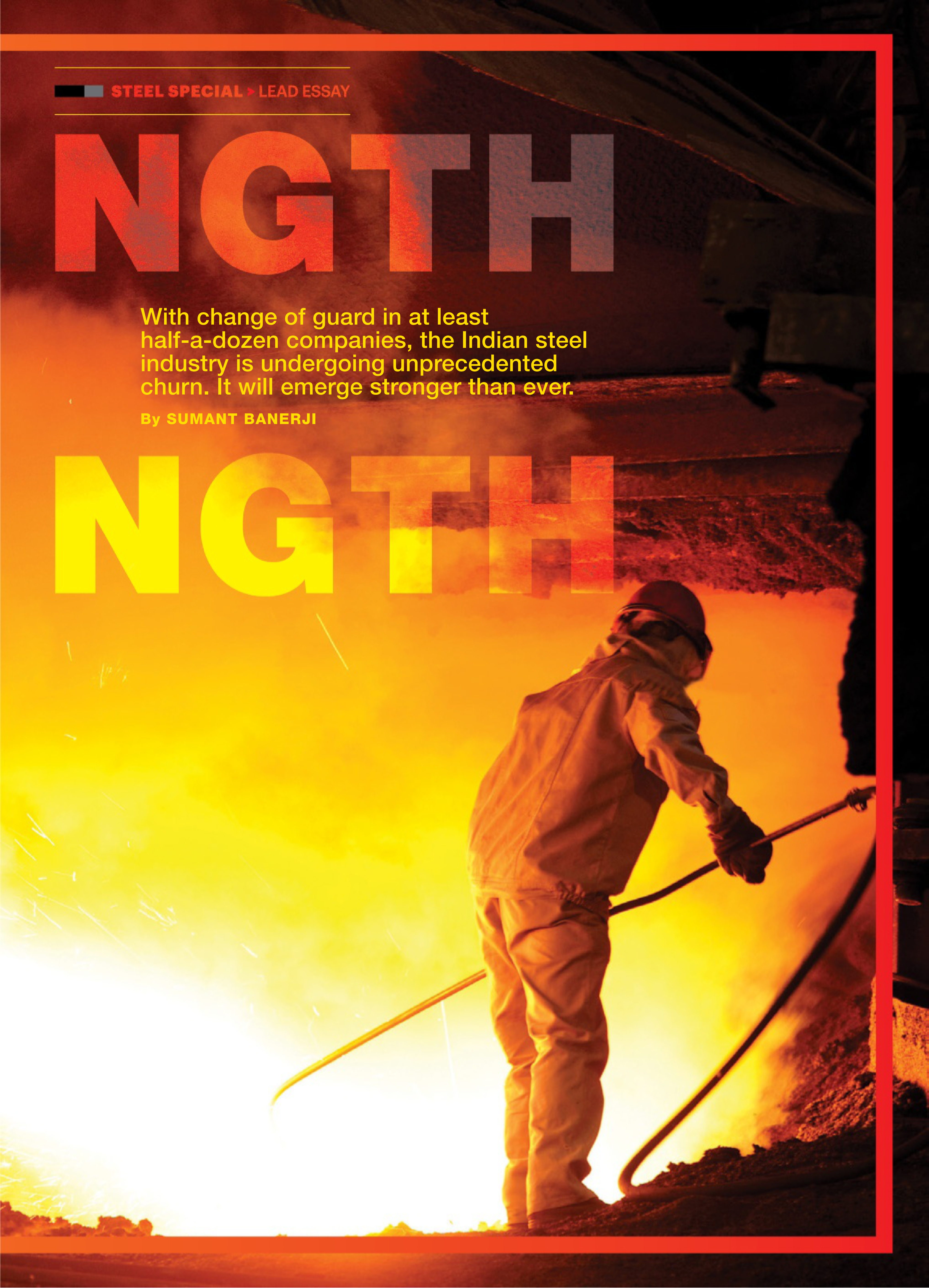
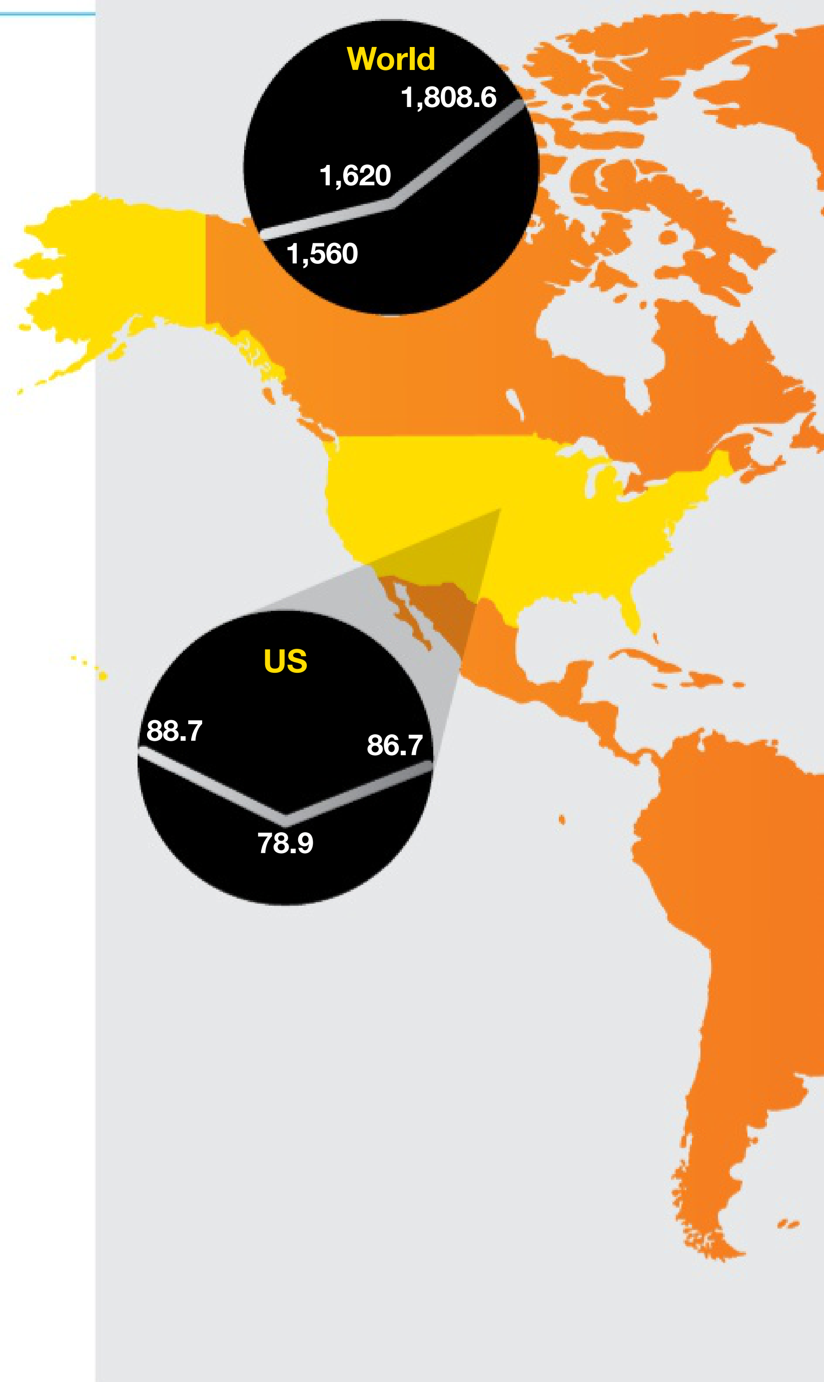
NGTH
NGTH

With change of guard in at least half-a-dozen companies, the Indian steel industry is undergoing unprecedented churn. It will emerge stronger than ever.

By SUMANT BANERJI





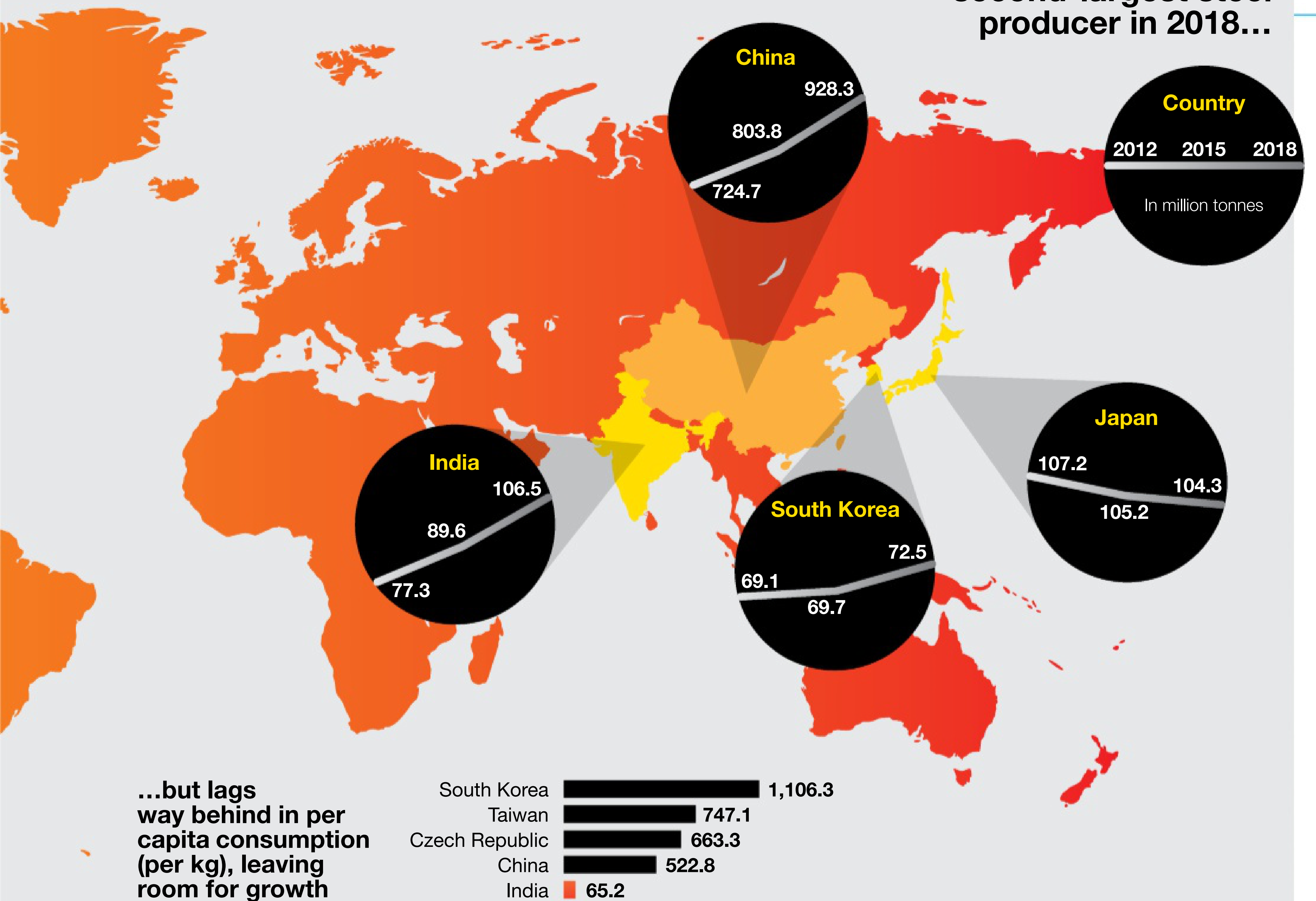
HE WORLD STEEL ASSOCIATION, which represents 85 per cent of the world's steel producers, said in April that it expected demand for the commodity in India to grow 7 per cent this year as well as next year. This is over five times the projected global growth 1.3 per cent in 2019 and 1 per cent in 2020. India is expected to grow faster than most regions of the world.

This is not something entirely new. In the cyclical global steel industry that is prone to severe upturns and downturns, the Indian market has forever been a bright spot. The association's April outlook only reiterates that. In the last 10 years, India's crude steel production has grown 6.3 per cent on an average, the fastest among big steel producing nations, nearly double the world average of 3.2 per cent. In absolute terms, production has grown from 57.8 million tonnes in 2008 to 106.5 million tonnes in 2018. In the process, India has overtaken Russia and the US. It surpassed Japan last year to become the largest steel producing nation in the world after China. Among big nations, India has been the only country to consistently report increase in production in each of the last 10 years. The trend is likely to continue.

In the global context, though, the meteoric rise of China has always dwarfed the India story. At the turn of the century, China was producing 128.5 million tonnes steel, accounting for 15 per cent of the world's production then. Its economic rise was led largely by its steel industry. In 2018, it produced 928.3 million tonnes steel, over 51 per cent of the world's production. India's consistent growth in the past as well as potential for higher growth – its per capita steel consumption at 72 kg is far lower than the world average of 214 kg – makes a lot of people think India can be the next China. That is a hyperbole.

"India's steel geography is uneven. Apparent steel use per capita is nearly 250 kg in Uttarakhand, many times more than in Bihar. Important steel using industries, such as the automotive hubs in Haryana, Maharashtra and Tamil Nadu, are far removed from the steel producing states of Jharkhand and Odisha, although planned infrastructure projects connecting industrial cities and sites will increase connectivity, reduce transportation costs and boost steel demand," says Edwin Basson, Director General, the World Steel Association. "For these reasons, although we expect to see growth rates of 7 per cent and higher in India in the coming years, we will see no repeat of the Chinese takeoff."

India also has its own problems that sometimes threaten to derail its growth story. Acquiring large tracts of land for setting up steel plants is a perennial problem. This shows in India's abysmal record of commissioning greenfield steel projects. Tata Steel's Kalinganagar plant in Odisha, inaugurated in 2016, was the first greenfield steel project in India in more than two decades. Then there is the issue of raw material security, which cannot be assured due to the myriad set of complex rules and snail-paced bureaucracy. That is why Korean steelmaker Posco's Odisha project and the world's largest steel maker ArcelorMittal's twin projects in Karnataka could not get off the ground. These two were the largest foreign direct investment proposals received by India. The failure puts a question mark on feasibility of targets in the new steel policy, which



envisages tripling of the country's capacity to 300 million tonnes with an investment of ₹10 lakh crore by 2030.

"Look at Posco. It wanted to put in a large amount of money but was not very certain about raw material security because of land issues and had to withdraw. Today, if we are able to offer raw material security to any company in the world, it will definitely invest here," says Anil Kumar Chaudhary, Chairman, SAIL, India's largest public sector steelmaker. "If you offer a mine to somebody for 20 years and ask him to invest for 50 years, there will be a lot of apprehension. Today people are doing it because there is no alternative."

High cost of credit and logistics are some of the other stumbling blocks. It is normal for domestic banks to charge an interest rate of 10 per cent-plus per annum for long gestation industrial projects even to companies with good credit history and proven track record. That is why, in a cyclical industry like steel, if a company gets caught in an investment spiral during a downturn when prices and net realisations are low and margins under pressure, servicing debt becomes a problem. The steel industry weathered such a storm when dumping from China between 2014/15 and 2016/17 hit profitability and led to a huge rise in steel non-performing assets or NPAs. In 2015/16, gross NPAs in the sector amounted to ₹1.15 lakh crore. The sector accounted for four of the 12 big firms – Essar Steel, Electrosteel Steels, Monnet Ispat and Bhushan Steel – pushed by the RBI for NPA clean-up under the Insolvency and Bankruptcy Code (IBC). The IBC has, in fact, triggered a wave of consolidation that is just getting over after re-shaping the industry. It marks the entry of ArcelorMittal, which is the frontrunner to buy Essar Steel, in India, apart from Vedanta, which bought Electrosteel last year. Tata Steel bought the lucrative Bhushan Steel to emerge as the largest

₹10 lakh crore
Investment required by 2030 to triple the steel-making capacity to 300 million tonnes

steel maker in the country in 2018/19. Tata Steel's subsidiary Tata Sponge Iron acquired the steel assets of Usha Martin Ltd. Sajjan Jindal's JSW Steel is leading the race for Bhushan Steel and Power Ltd. It also led a consortium that acquired Monnet Ispat and Energy Ltd. With bad assets out of the way and bought by companies with stronger balance sheets and higher credibility, the competitive intensity in India is set to go up. It should also lead to a surge in investment.

"The consolidation will help the industry by enabling weak companies to operate in a better manner," says Bhagyashree Bhati, Research Analyst at Care Ratings. "When companies like Monnet Ispat, Essar or Bhushan are bought by bigger companies, obviously the acquirers want them to operate at the same level of efficiency as them. It will also inspire bankers to lend." Banks will get stronger balance sheets after the NPA clean-up and should be in a position to lend again to the capital intensive steel sector, says Anjani Agarwal, Partner, EY.

The industry, with help from the government's move to increase import tariffs, successfully weathered the storm between 2015 and 2017 when dumping from China led to a loss in profitability. China's move to reduce capacity during the time also helped raise prices of the commodity in international markets. It, however, increased its capacity by almost 18 per cent between 2016 and 2018, raising fresh fears of a glut.

The intensifying trade war between the US and China, the world's two largest economies, could also add to the complexity. The US is the world's biggest steel importing country. Every year, over 25 million tonnes steel reaches its shores. China is the world's largest steel exporter at 69.34 million tonnes in 2018 and though it does not export much to the US directly – the US was its 25th biggest export market at just 7,34,800 tonnes – a growing market like India is an attractive destination for excess production. Some of it, say experts, is already landing up in India through circumvention in the form of value-added steel items like stainless steel. Import of stainless steel flat products from Indonesia, for example, shot up from 1,000 tonnes per month till last year to 10,000-11,000 tonnes per month in March and April this year. India had levied an additional import tax on stainless steel products from China in 2017. The industry believes imports from Indonesia are actually products routed from China.

"The trend shows decline in imports from China but increased imports from ASEAN countries, indicating circumvention," says Abhyuday Jindal, Managing Director of Jindal Stainless, India's largest stainless steel producer.

India became a net importer of steel in 2018/19, the first time in three fiscals, as its exports dropped 34 per cent to 6.36 million tonnes while imports rose 4.7 per cent to 7.84 MT. Experts say there may be some rise in imports this fiscal as the US and the EU harden their tariff structure for steel from China and South East Asia but a repeat of the 2015/16 dumping episode looks difficult.

"Some minor increase in imports can be expected but it won't be substantial," says Bhagyashree of Care Ratings. "Our industry is set up primarily to satisfy domestic consumption, so we are to that extent insulated from a trade war." BT

@sumantbanerji

WAVE OF CONSOLIDATION

ArcelorMittal is the front runner to buy Essar Steel

Vedanta bought Electrosteel last year

Tata Steel bought Bhushan Steel to emerge as the largest steel maker in the country in 2018/19; Tata Sponge Iron acquired steel assets of Usha Martin

JSW Steel is leading the race for Bhushan Steel and Power

JSW Steel also led a consortium that acquired Monnet Ispat and Energy

TRENDS THAT WILL BENEFIT THE INDUSTRY

There has been unprecedented consolidation under the Insolvency and Bankruptcy Code

The debt of some large players has come down drastically as they have been taken over after bankruptcy

Players such as Tata Steel have shifted focus towards the domestic market, where growth is higher, after burning fingers trying to become big in the developed world

India's low per capita steel consumption means there is huge scope to grow

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Kamal Goel, Chairman, Amba Group, is the revered patriarch of the Rs 1,500 crore worth company which has achieved many milestones since its establishment in 1974. The entity unfolds a saga from the initial single furnace foundry in Muzaffarnagar, Uttar Pradesh, to state-of-the-art factories of global standards pan India having its head office in New Delhi. The passion of the soft-spoken veteran is palpable, who with his vision and trust in the synergy of modern-day technology and irrefutable human capabilities, has passed on the baton to his sons along with rich cultural values to take the group to new glories of achievements.

AKSHAT GOEL
Director, Amba Group

KAMAL GOEL
Chairman, Amba Group

How did the journey begin from your home town Muzaffarnagar to expand pan India?

Coming from a humble background, we have seen our father struggle early in life. He tried out many jobs, ventured into trading, worked at a senior levels in plants in various industries and by dint of his hardwork and calibre eventually became a partner in a steel company and went on to make it our first completely owned setup. Established by the name Durga Ispat in Muzaffarnagar, today it has made a niche for itself as a manufacturer of small angles, channels etc., that very few others can produce. My brother and I, together, built the business into a huge company. Presently, we have 2 plants in Muzaffarnagar, one in Himachal Pradesh, two in Goa and one in Gwalior, Madhya Pradesh and an upcoming one in Secunderabad industrial area, Bulandshahr, Uttar Pradesh which will combine to take the group capacity to more than 1 Million Tons per annum.

How has technology impacted your company?

Now everything is dealt with very professionally, flawless systems are in place, technology and infrastructure is state-of-the-art, enabling precise quality checks, that makes the end product worth the money. PLC based machines, for example, help to avoid any discrepancies in place. Computerised based controlled units are basically for quality checks at source or anywhere along the process to set the right condition for right quality. Now technology is so advanced that products made through secondary route are as good as the primary ones. Quality processes not only saves time and manpower, but also increases efficiency and output other than establishing credibility. Technology coupled with team work has changed the business environment significantly making us easily reachable and better equipped to serve our valued customers.

What prompted you to build a plant in Secunderabad, Bulandshahr?

I would like to share with you an interesting incident that took place last year i.e., 2018 when we ran out of steel because the two furnaces at the Gwalior factory were over worked with production orders for the next two months! It is when I decided that we have to increase production capacity and the need to put up a new plant arose. This is how the factory at Secudenrabad Industrial Area, Bulandshahr, Uttar Pradesh became a reality.

What is the USP of the plant in Bulandshahr, west Uttar Pradesh?

In terms of technology, the USP of the plant in Secunderabad, Bulandshahar, is the .5 million tonne capacity Horizontal Vertical TMT rolling Mill, which is a state of the art design, equipped with all the latest technologies like the installation of German thermal quenching technology, the latest variant of thermax, which is the best in the world. It will give strength and durability to the TMT bars which will be made from quality steel. It will be the largest plant in North India manufacturing TMT bars and wire rods, particularly catering to NCR region where rapid development is taking place. Though thermax technology is being used by other players in the market, none have the new variant, except us. Also, another noteworthy feature of the plant is that it will run only on clean fuel. Even the Gwalior plant runs on clean energy i.e., electricity, because we believe in maintaining the highest standards of air pollution controls in our plants.

Tell us something about your company's Gwalior and Goa plant?

The 0.36 million tonne capacity Gwalior plant was established four years ago where tempcore technology is in use. The plant, where better control processes are now being installed, will very soon manufacture wire rods, testing for which is under way. Hopefully, in another two months it will be commercially operational. A similar facility is being developed in the Secunderabad plant also.

At Goa we have two independent plant setups. In the first, we have a fully integrated sponge iron making facilities powered by our own power plant. Along with this we have another plant consisting of a steel melting shop and a rolling mill. The advantage of Goa plant is that being located in a coastal area it is ideal in terms of logistics, besides saving time and money.

From where do you procure raw material for your plants?

We have three procurement channels, the first is sponge iron, purchased from primary producers. Second, is scrap purchased from the local markets surrounding the plants but because the required demands are not being met by the locally, we have established a third channel where we have started importing quality scrap from other countries like, Brazil, UK, Scandinavian countries, Europe, Australia, Dubai among others.

What are your plans about going global?

We are not thinking of going global as of now because there is huge demand in India which is witnessing phenomenal all-round development. While most of the players in this industry are running inefficiently or incurring losses leading to closure, we have been able to bring down costs significantly by implementing latest technologies giving us better profit margins, which again is reinvested to build better processes, and sub processes having different quality checks from start to finish, besides ensuring high product quality. This has resulted in production of better steel for giant product sizes that we are launching soon, which are affordably priced and unmatched in quality.

Whom do you credit with the success of your company?

I am fortunate that we enjoy the good will of a strong and trusted network of about 100 distributors and more than 1500 dealers across the country. Also, at each plant we have highly qualified engineers and dedicated staff numbering around 300-400 people apart from contractual labourers. They have helped us to manufacture and deliver quality product at affordable prices, besides offering prompt services to our esteemed customers.

What is the impact of GST on Indian industry?

GST is a boon for the Indian industry making taxation becoming uniform and seamless across the country. It has accrued many benefits ranging from a single window clearance, giving a level playing field to secondary players in the industry toe gradually com on par to bigger stakeholders, thereby breaking monopolies. Its advantages have started to emerge, become visible and very soon mid-cap and small players will be plugged into the mainstream of Indian economy.

In context to strengthening secondary sector, what can be the government's role?

The government under Honorable PM Narendra Modi's leadership, has already done a lot for the steel Market. The implementation of an anti-dumping duty on chines materials has given a steel market a much needed boost. That, coupled with the removal of the definition of steel plants, bifurcating them into primary and secondary, has provided a level playing field for the entire indian steel industry. Saying that, there could be a few areas where the government can help in strengthening the industry more.

One is that, if there is a better transportation infrastructure, it would certainly help the industry. Transportation is a key part of the steel industry. Currently it takes more that a week to transport material from ports to the heartland states. Bettering that would mean savings in time and inventory costs which could profit the industry a lot.

Another is the power tariff varies from state to state and this impacts secondary sector. In fact, most of the cost of manufacturing is spent on power, so if that can be regularised, we can produce even better steel at the cheapest possible rate. With much impetus being given to solar power plants, if plants can procure private power directly from them at nominal rates creating a win-win situation for both the stakeholders. If this happens, I can confidently say that Indian steel will be exported across the world and even to industrial giants like china.

How do you envision the future of the industry and Amba Group's plans?

India is the fastest growing economy in the world, the infrastructure development and the opportunities available here is like nowhere else in the world. It has huge potential in terms of market, manpower and skills and the industry is set to take off in a big way. Given a level playing field, I envision the secondary sector manufacturing world-class quality products besides empowering India by generating employment.

The Amba Group is mulling to open an affordable education institution in the eastern or southern sectors that shall empower the youth of the region and provide them ready jobs in the company on completion of their course.

IN SEARCH OF LOST GLORY

Once the undisputed leader, SAIL has been outrun by private sector peers JSW and Tata Steel. But the rejuvenated steelmaker is back in the black and eyeing the top spot.

By SUMANT BANERJI
Photographs by SHEKHAR GHOSH

BARELY TWO WEEKS after he had taken over as the Chairman of India's largest state-run steel company, 58-year-old Anil Kumar Chaudhary was staring at a major crisis. On October 9, 2018, an explosion at the Bhilai plant, the largest production unit of Steel Authority of India (SAIL), killed 14 workers. The blast occurred in a gas pipeline connected to the coke oven section of the plant during a maintenance job. It was not a one-off incident, though. On May 24, there was a minor fire at the Bhilai plant, though no one was injured. In June 2014, six people, including two deputy general managers, had died in that factory due to gas leakage. In a career spanning over three decades in the public sector company, Chaudhary's tenure at the top started on a troubled note.

→

"THE FIRE IS STILL BURNING AND THE DESIRE IS THERE... IF EVERYTHING GOES WELL, WE SHOULD HAVE THE PRIVILEGE TO BE THE LARGEST STEELMAKER IN THE COUNTRY"

Anil Kumar Chaudhary
Chairman, SAIL

SAIL's Journey

Production is down but the company is investing big time to meet projected demand

"It was really unfortunate... and I had to face it soon after I took charge. But we have become more careful now. We are doing whatever lies within our realm so that not even a single fatality happens at SAIL in the future. All our plants have been given strict instructions that no production will happen at the cost of safety," he says.

Will Tailwinds Help?

If the Bhilai incident was baptism by fire, the new chairman has seen a lot of tailwinds as well. For instance, in spite of the tepidness around last year's festive season that impacted consumer-centric sectors, domestic demand for steel was on the rise, pushing prices up considerably. During April-January 2018/19, India's consumption of total finished steel stood at 79.98 million tonne (MT), a 7.8 per cent increase over the year-ago period, according to provisional data released by the Joint Plant Committee. The dark days of big imports (of cheap steel) and commodity dumping by China are no longer plaguing the industry. Better still, SAIL's financial health seems to be on the mend.

Earlier, it was a different story. The central public sector enterprise (CPSE) suffered losses for three consecutive years between FY2015/16 and FY2017/18, resulting in a cumulative deficit of over ₹7,000 crore. It endured 10 consecutive quarters in the red – between April 2015 and September 2017 – just one short of its worst string of quarterly losses during 2000-2002.

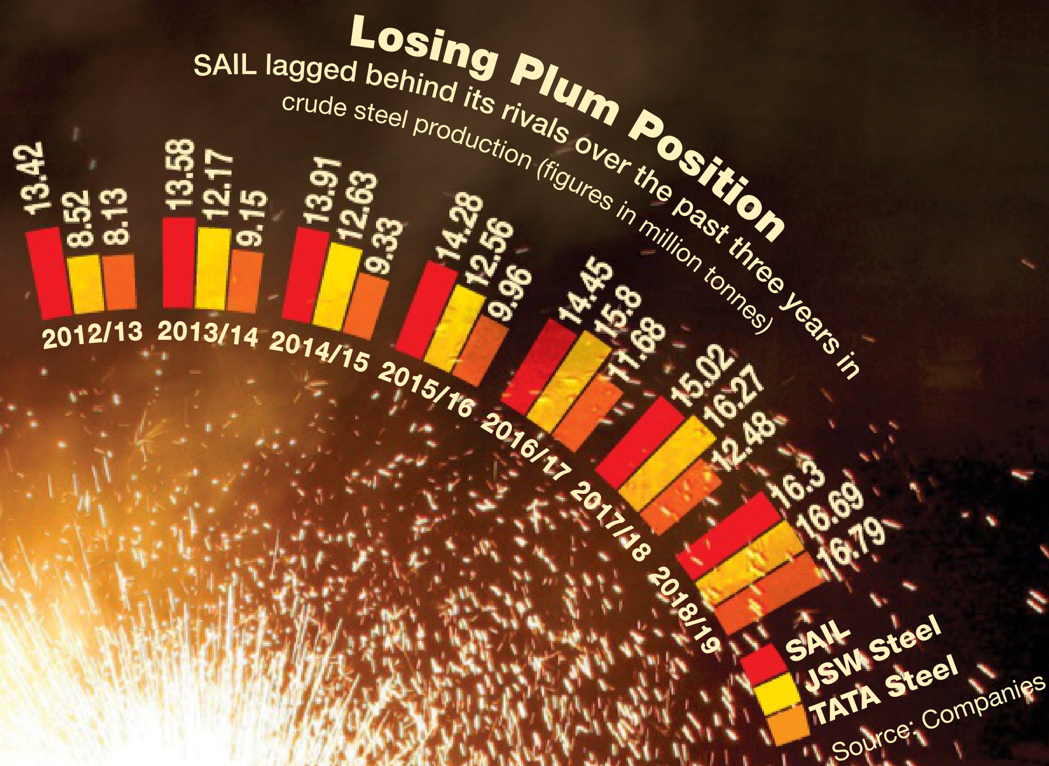
By the time Chaudhary took over in September 2018, the storm had blown over to some extent. SAIL had been profitable for three consecutive quarters and was well on its way to posting a profitable fiscal after three years. In the first nine months of 2018/19, its revenue grew more than 15 per cent with a net profit of ₹1,710.42 crore against a net loss of ₹1,297.28 crore in the year-ago period.

The financial turnaround is a shot in the arm although SAIL has lost its coveted tag of India's largest steelmaker. Sajjan Jindal-led JSW Steel overtook the company in 2016/17 to be in the pole position while Tata Steel bagged the top spot in the last fiscal, thanks to a capacity expansion following its acquisition of Bhushan Steel. SAIL's catchy tagline – there is a little bit of SAIL in everybody's life – no longer resonates with its current market position, and its fall from glory still rankles with Chaudhary (see graphic ***Losing Plum Position***).

"Last year, our growth was close to 8 per cent compared to JSW's 3 per cent. Tata Steel saw better growth due to its acquisition of Bhushan Steel. But considering how we grew in the last fiscal, we left all our competitors behind," he says.

His words may sound a tad defensive, but one can easily detect a steely resolve to get the job done. "The fire is still burning and the desire is there. It is not that we are happy with what we have achieved in the last financial year. If everything goes well, we should again be ahead of our peers this year and should have the privilege to be the largest steelmaker in the country," he vows. "We have the capacity, capability and facilities, and my teams are fully charged up. They want to achieve that level, and I am sure that within the current financial year, we should be No. 1 in crude steel (production). This is widely discussed across the company and we have set our targets accordingly."

Now that SAIL's ₹72,000 crore modernisation and expansion programme (see graphic ***Who Gets What***) is nearing completion, its capacity is expected to grow significantly. So, the company has set a crude steel production target of 19.7 MT for the current fiscal, a 21 per cent jump over 2018/19. The protracted programme



Who Gets What

Cash allocation under SAIL's ₹72,134 crore modernisation and expansion plan

Bhilai	Rourkela	Durgapur	Bokaro	IISCO	Salem	Sustenance schemes across plants	Raw material
17,266	11,812	2,875	6,325	16,408	1,902	5,282	10,264

Allocation in ₹ crore; Source: GoI

was undertaken in 2007/08 to increase capacity to 21 MT per annum and should have been over by 2013/14. SAIL could also see a slight rise in debt level in 2018/19 owing to capital expenditure requirements in the final stage of the long-drawn-out project.

"The outcome (of the ramp-up) has finally started to reflect in terms of volume. The Indian market is favourable right now, and SAIL has to focus on growing its capacity and keeping at it. For this company, the story is all about volume as it is a high-cost player compared to others," says Dhruv Muchhal, Equity Research Analyst (Institutional Equities) at Motilal Oswal Financial Services. "Both JSW Steel and Tata Steel are looking at expanding production capabilities and acquiring companies so that they have 24-25 MT capacity by 2021/22. For SAIL to outrun both on a sustainable basis is difficult. It may do it this year as others are in expansion mode. But when that phase is over, SAIL will find it difficult to keep pace with them," he adds.

The CPSE is also lagging behind its private-sector peers in terms of techno-economic parameters. Compared to JSW and Tata Steel, it has the lowest percentage of value-added steel in the product mix, thus weighing down overall net realisation and margins. Other areas of concern include blast furnace productivity, coke rate and energy consumption. Moreover, the company's fixed overhead costs are the highest among its peers. For the same quantum of steel produced, SAIL employs nearly 77,000 people compared to 34,072 at Tata Steel and 11,619 at JSW.

"This is because we have a mix of old and new facilities. If our hot metal capacity is, say, 20 MT, half of that is coming from the old units

where the techno-economic parameters are lower," explains Chaudhary. "If we compare our new facilities with those of Tata Steel, JSW or any other company, they will be on a par."

On the positive side, SAIL is bolstered by huge land banks and raw material linkages. Its iron ore requirements are fully met through its captive mines, which produced 26.83 MT of iron ore in 2017/18. The company operates eight iron ore mines and two flux mines spread over Jharkhand, Odisha and Madhya Pradesh.

The negatives, however, tend to outscore the positives, with a significant bearing on competitiveness. "SAIL is cushioned by captive resources when it comes to raw material (iron ore), but employee cost is a big issue. The only way to manage it is through increasing volumes," says Muchhal of Motilal Oswal. "Also, it will always be more susceptible to market volatility as it operates at the lower level (of margins). But the main issue here is the high-cost structure which is permanent and cannot come down in a hurry unless it massively ramps up its capacities."

Chaudhary agrees there is a need to ramp up fast to meet all commitments but does not consider it necessary to reduce the workforce. "I want to improve productivity not by firing people or throttling hiring when people leave this organisation. Also, we need some fresh blood to take the technology forward. We are not cribbing about per-capita employee cost. It will be higher compared to our peers, but we are not worried about it."

"SAIL IS CUSHIONED BY CAPTIVE RESOURCES WHEN IT COMES TO RAW MATERIAL, BUT EMPLOYEE COST IS A BIG ISSUE"

Dhruv Muchhal
Equity Research Analyst (Institutional Equities), Motilal Oswal Financial Services

Quest for Cutting-edge Tech

Another sore point is SAIL's lack of access to cutting-edge technology, which, some think, is the root cause of all issues. The company tried to fix it by collaborating with global majors keen to tap the rapidly expanding Indian market but none of its efforts fructified. Talks with the South Korean steel producer POSCO failed on two occasions, and a proposed joint venture with the world's No. 1 steelmaker ArcelorMittal SA for an $897 million auto-grade steel plant is yet to take off.

"We did look at collaborating with POSCO on FINEX technology, but later realised it is not an established technology worldwide. That is why we decided not to pursue POSCO," says Chaudhary. "We progressed well with ArcelorMittal until last year and were about to close the deal in September. But it was hindered as the company got too busy with the Essar Steel acquisition. We have not called it off yet; it is still on the table. I have written twice to Lakshmi Mittal and got a reply for the first letter but not for the second. It is a fact that our progress is slow and we should have moved faster. Even if it does not happen, we have the option to approach others like POSCO or Hyundai Steel or someone else. We cannot be stranded forever, waiting for ArcelorMittal."

Chaudhary is looking forward to another phase of expansion that will also include a greenfield project. SAIL is in talks to build a 3 MT plant in Odisha whose capacity can be increased up to 6 MT. It may come up in the same area where POSCO's mega steel plant (India's largest FDI project at the time) was supposed to be built. In line with the 2017 national steel policy that has set a target of 300 MT crude steel capacity by 2030/31, SAIL wants to ramp up its capacity to 50 MT but does not want to repeat its mistakes.

"Our modernisation and expansion will include both brownfield and greenfield projects. We have already started working on it, but prior to that, we must start realising gains from our existing facilities. Our focus is to utilise all existing units in the best possible way, produce as much as possible, sell it and get the maximum cash flow. It should help us bring down the debt-to-equity ratio (net debt-to-EBITDA ratio) before we go for the next round of modernisation," says Chaudhary.

"Last time, it was a mistake to split modernisation and expansion into many packages. If we carry it out on a turnkey basis, we have a higher chance of avoiding delays and cost overruns," he points out. "We also started to work simultaneously in all our factories, but unless we have good teams, modernisation may not make any sense. This time, we will have good teams in place for project implementation from the start."

It is clear that the man at the helm of the Maharatna company knows how to thwart challenges to stay the course. But success will be all about execution – the Achilles heel of any public sector undertaking in India. BT

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Steeling the Scene

INDIA IS SET TO BECOME THE SECOND LARGEST USER OF STEEL IN THE WORLD.

By **EDWIN BASSON**

In 2018, India produced 106.5 million tonnes (MT) of crude steel, the highest ever. It also overtook Japan as the world's second largest producer of steel. The country's apparent use for finished steel products, a measure of steel demand, increased by 8.3 per cent in 2018 to reach 96 MT, making India the third largest steel using country after China and the US. According to worldsteel's latest Short Range Outlook (SRO), Indian steel demand growth will be 7.1 per cent and 7.2 per cent in 2019 and 2020, respectively, far greater than the forecast for the US, 1.3 per cent and 0.3 per cent, respectively. If our forecasts are accurate, it means India will become the second largest user of steel in the world this year. Indeed, as India recovers from the demonetisation shock and GST streamlines a previously fragmented taxation system, India continues to unlock its potential for increased growth.

Industry pundits sometimes ask if India will be the steel industry's new China. It is important to remember that these impressive Indian growth figures are from a very low base; in 2018, India's steel use per capita was 71 kg, well below the global average of 225 kg. Something else to consider is that India's steel geography is very uneven; steel use per capita stands at nearly 250 kg in Uttarakahand, many times more than in Bihar. Important steel using industries, such as the automotive hubs in Haryana, Maharashtra and Tamil Nadu are far removed from steel producing states of Jharkhand and Odisha, although planned infrastructure projects connecting existing industrial cities and sites will increase India's connectivity, reducing logistical costs of transportation across states and boosting steel demand. For these reasons, although we expect to see growth rates of 7 per cent and higher, a repeat of the Chinese takeoff seems unlikely.

In China, huge investment-led growth in infrastructure and construction by the state saw steel use grow at a much faster rate than GDP. India's growth model is different; it is more service-orientated and less controlled by a central government. India's steel demand has been growing at almost exactly the same level as its GDP. However, while the rise in steel demand in India will be less dramatic than China's — to be expected in a diversified economy with a strong services sector — it may be a long time until we see any decline like we saw in China in 2014 and 2015. India will be foremost in the second league of big players, which includes Japan, the US, South Korea and others, for the foreseeable future.

In terms of sustainability of the industry, India faces the same challenges that the entire steel industry faces: improving safety and health, reducing greenhouse gas emissions from primary steel production, improving energy efficiency, managing supply chains, and others. However, both the steel industry and steel as a material can rightly claim to be major contributors to improving the sustainability of human activity in general.

RISE IN INDIA'S STEEL DEMAND WILL BE LESS DRAMATIC THAN CHINA'S, TO BE EXPECTED IN A DIVERSIFIED ECONOMY WITH A STRONG SERVICES SECTOR

The decarbonisation of the global economy will be a steel intensive process be it renewable energy, mass transport, smart cities or electrification. India can proudly claim to be leading the way in many aspects of this. At worldsteel's recent Board meeting, Tata Steel and JSW Steel were among the only six of about 160 worldsteel members recognised as Sustainability Champions for the work they did last year in this direction. Tata Steel's shipping and logistics team has initiated a project to reduce greenhouse gas emission from shipping operations by increasingly deploying energy efficient vessels for ocean transportation. JSW Steel's 'Springboard' programme aims to improve the underrepresentation of women across management roles by offering training and education to its women employees.

India can confidently look forward to being a major player in the evolving dynamics of the global steel industry. BT

The writer is Director General of World Steel Association

TOUGH

Tata Steel and JSW have been fighting for the number one spot for years. Now, both are getting ready for the rough ride ahead.

By NEVIN JOHN
Photographs by RACHIT GOSWAMI

IN THE LAST COUPLE OF YEARS, India's top private sector steelmakers, Tata Steel and JSW Steel, have been aggressively adding capacity and buying sick steel assets under the Insolvency and Bankruptcy Code (IBC). The aim – becoming the largest player in the world's fastest-growing steel market to make most of the expected demand pick-up in 2020/21.

While demand for steel is expected to grow at 7 per cent, and prices are high, there are obstacles in the mid-term outlook which could make things tough. The companies have been betting big on the fast-growing automobile market for selling their high-grade, high-margin products, but the slump in automobile sales in 2018/19 hit margins during the year. Consumption of automotive steel has dipped by 4 per cent in the fourth quarter of 2018/19. Automobile sales outlook for 2019/20 is not very bright either.

Automotive steel accounts for 12 per cent steel demand in India, of which passenger vehicles comprise a big chunk. Also, after a decline lasting several quarters, mainly due to imposition of safeguard duties on Chinese products, imports are back – they rose 46 per cent in March (while exports fell 16 per cent). Experts blame circumvention of Chinese products through Asean countries. India became a net importer of steel in 2018/19, the first time in three financial years, as exports dropped 34 per cent to 6.36 million tonnes (MT) and imports rose 4.7 per cent to 7.84 MT. Tata Steel's EBITDA per tonne fell 17 per cent in the fourth quarter compared to the third quarter, though revenue and profit showed decent growth in 2018/19 (see *Heavy Burden*). JSW Steel's profit rose from ₹4,625 crore in 2017/18 to ₹8,259 crore in 2018/19.

The continuing economic slowdown also does not bode well for the industry. Global iron ore and cok-

MID-TERM OBSTACLES

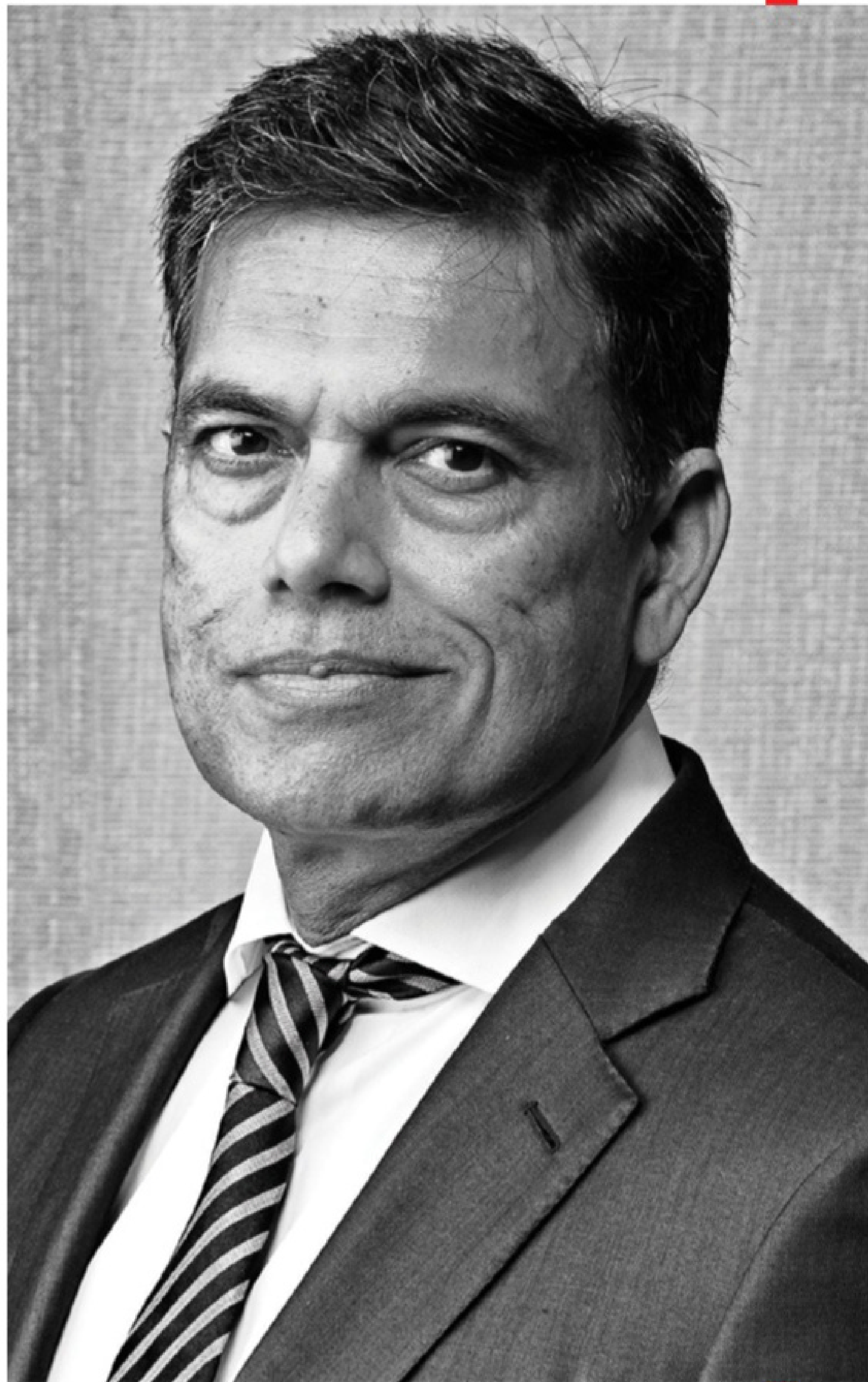
SLUMP IN AUTOMOBILE DEMAND AND GENERAL ECONOMIC SLOWDOWN

THE DEBT TAKEN TO BUY STEEL ASSETS UNDER IBC

CHALLENGES RELATED TO INTEGRATION OF THESE ACQUIRED ASSETS

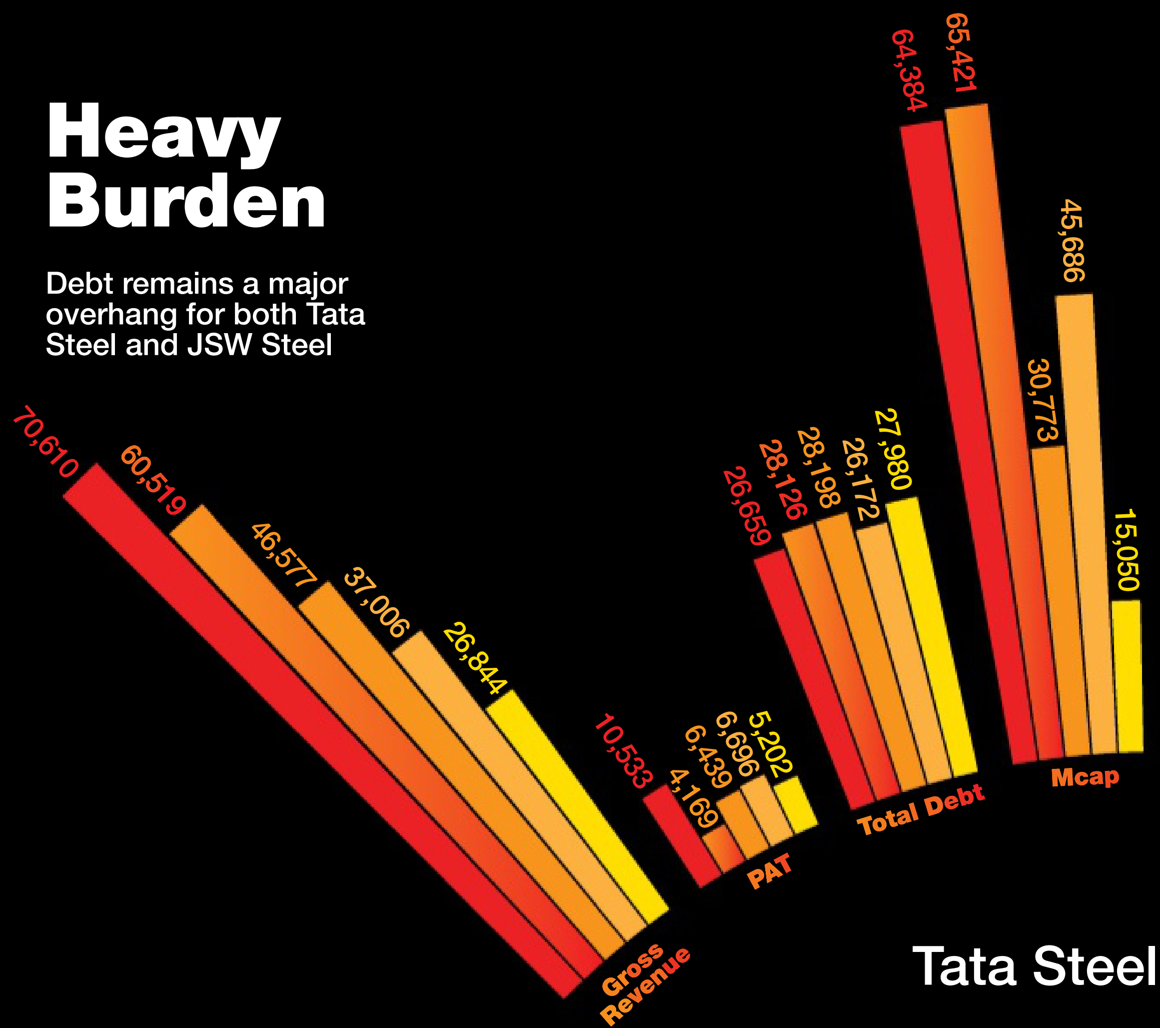
FOR TATA STEEL, EUROPEAN OPERATIONS CONTINUE TO BLEED

DAYS



Sajjan Jindal
Chairman,
JSW Group

T.V. Narendran
MD, Tata Steel



ing coal prices are rising, though Tata Steel, with its captive mines, is better placed, say experts. Apart from this, both the companies have a mountain load of debt – Tata Steel is sitting on a consolidated debt of ₹95,000 crore, while JSW's total debt is ₹45,000 crore. However, this is not coming in the way of ambitions as they splurge to buy bankrupt companies up for sale under IBC. While Tata Steel bought Bhushan Steel (5.6 MT) for ₹35,000 crore and Usha Martin (1 MT) for around ₹4,600 crore, JSW acquired Monnet Ispat (1.5 MT) for around ₹2,500 crore. The Jindal Group company is awaiting approval from the National Company Law Tribunal for its ₹19,000 crore acquisition of 3.1 MT Bhushan Power and Steel. It has also offered ₹1,500 crore for Asian Colour Coated Ispat. The acquisitions, and greenfield expansions, have propelled the domestic steel capacity of Tata Steel to around 19 MT and that of JSW to 18 MT.

While the two were hoping to gain from a future demand spike, they also felt that it was the right time to consolidate as competition such as the Ruias of Essar Steel and the Singhals of Bhushan were going out of business. A number of regional players, too, were moving towards bankruptcy, leaving the market open for the big two or three players.

TATA STEEL HAS SPENT ABOUT ₹40,000 CRORE ON ACQUISITIONS. THIS IS APART FROM THE MONEY IT WILL HAVE TO SPEND TO TURN AROUND TATA STEEL BSL

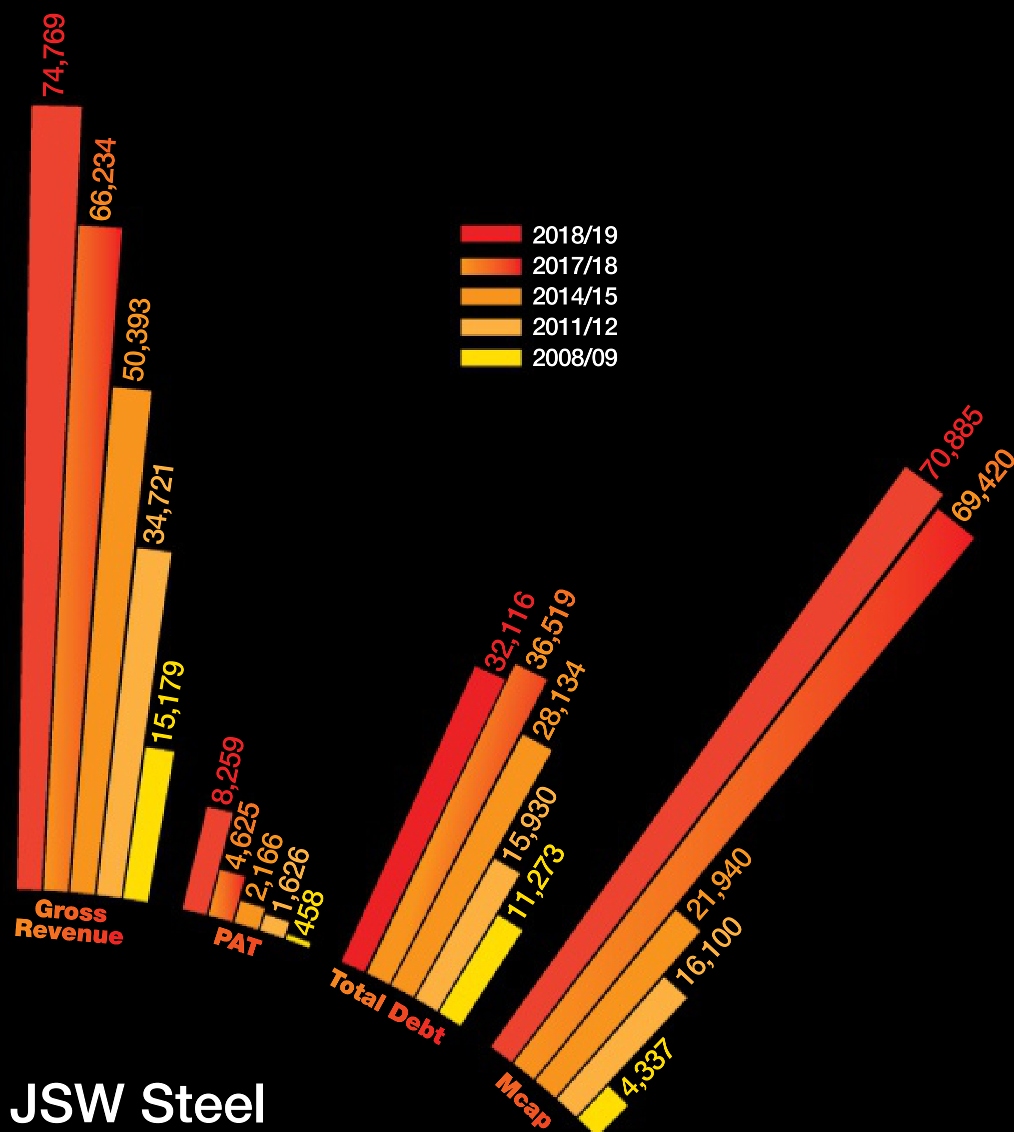
Tata Steel's capital expenditure was ₹9,000 crore in 2018/19. It has guided for another ₹8,000 crore in FY2020 (excluding European operations). JSW, on its part, will need fresh funds to purchase Bhushan Power and Steel and Asian Colour Coated Ispat. With this, its debt is likely to go up to ₹60,000 crore, say experts. Can it generate enough cash for such huge repayments?

Though there are no clear answers, Tata Steel, under Managing Director T.V. Narendran, is going ahead full throttle. It is expanding the Kalinganagar plant's capacity from 3 MT to 8 MT per annum at an investment of ₹23,500 crore. Thanks to these focussed growth plans, the company's revenue from Indian operations rose 47 per cent year-on-year to ₹88,987 crore in 2018/19, driven by higher volumes and better realisations, while the adjusted EBITDA for the year rose 56 per cent to ₹23,883 crore. But in parallel, the company spent about ₹40,000 crore on acquisitions. This is apart from the money it will have to spend to turn around Tata Steel BSL (earlier Bhushan Steel) and Usha Martin, especially when the economy is expected to face turbulence in the near term.

Tata Steel has managed to reduce its gross debt by ₹17,864 crore in the second half of last financial year, but its long-term problem is going to be repaying the loans of its European subsidiary, especially after the European Commission's rejection of its proposal to form a joint venture between its European operations and Germany's Thyssenkrupp.

Comeback Strategy

A Tata Steel executive says they are working on the three mantras of simplification, synergy and scale. The focus is on scaling up India operations – expansion of the Kalinganagar plant, ramping up and leveraging synergies at Tata Steel BSL, growing downstream and long products portfolio, carve-out of the Europe business, and divestment of South-East Asia opera-



Standalone figures (in ₹ crore); Source: Ace Equity, companies

investing in power plants, batteries, pipe conveyors and slurry pipelines for cost reduction.

In Kalinganagar, Tata Steel is investing raw material capacity expansion, upstream and midstream facilities, and infrastructure and downstream facilities. "Work has also started on the cold rolling mill complex, which will help in enriching our product mix, servicing downstream industries, especially automotive, and optimising cash flows," says the company executive.

In view of changing customer needs, competition from alternative materials, and increasing regulatory risks, Tata Steel is trying to innovate. "Our focus is on leveraging capabilities in R&D for new products, advanced materials, process improvements and digitisation across the value chain. These innovations are being driven by creating new materials business or designing new services and solutions," says the executive.

tions and other non-core assets. JSW Steel is looking to expand its footprint in the domestic market as international demand goes through a soft patch, besides enhancing the product portfolio with emphasis on high-margin specialty steel products.

Tata Steel is also pinning hope on product innovation. "We expanded our product portfolio with the Kalinganagar plant and see demand for such products from different customer segments," says the company executive. Tata Steel is a key supplier of automotive and special products. Its auto steel sales in India registered 21 per cent increase in 2018/19, thanks to an improved high-end products mix, despite the auto sector slowdown.

JSW Steel is expanding capacity from 18 MT to 24 MT at its plants in Vijayanagar and Dolvi. That will be completed by March 2020. At the same time, the downstream capacity will go up from 5 MT to 9 MT by next year. The new capacity will be more efficient than the current plants. JSW is also

Ascent Strategy

Tata Steel is also hoping for gains from acquisitions. Bhushan Steel, it says, was a strategic investment given the process technology and enhanced manufacturing capabilities that will help it increase product portfolio and consolidate market leadership. "A key logistical leverage is proximity of Bhushan Steel to markets, mines, raw materials, ports as well as in-house processing centres. A systematic integration of operational processes and policies, maintenance practices and improvement initiatives has been mobilised," says the Tata Steel official.

Will these initiatives decide who wins the race? Eight years ago, in 2009/10, both Tata Steel and JSW were neck and neck in domestic capacity. Tata Steel produced 6.44 MT steel within the country and JSW was marginally behind at 6 MT. Jindal saw an opportunity in the downturn and raced ahead of Tata Steel in capacity creation, putting up additional capacities at its Vijayanagar plant in Karnataka, and acquiring the 3.3 MT facility of Ispat Industries in Maharashtra. In FY 2017, its output shot up to 15.8 MT, while Tata Steel's rose to 10.97 MT on the back of the 3 MT plant at Kalinganagar in Odisha and the 3 MT plant in Jamshedpur. That was the period when Tata Steel was struggling to digest its $12-billion acquisition of Corus, a problem that, in spite of massive write-downs, it is still grappling with. If the proposed merger of Tata Steel Europe and Thyssenkrupp is finally called off, it will find it tough to handle the mess in Europe and growth plans in India at the same time. That may well decide who wins the race in India. BT

@nevinjl

Before the Bids Start

WITH MANY MINING LEASES EXPIRING NEXT YEAR, QUICK ACTION IS REQUIRED TO KEEP STEEL PRODUCTION ON TRACK.

By SATNAM SINGH

About 329 mining leases are set to expire by March 2020. The majority of these are in Goa (184), followed by Karnataka (48), Odisha (31), Jharkhand (18) and Madhya Pradesh (13). Of these mines (mostly iron ore or manganese), only 48 are operational currently but they contribute to 28-30 per cent of the total iron ore production.

To avoid any disruption in ore supplies to end users, predominantly steel companies, the mines need to be auctioned and re-allocated fast. But state governments need to take a number of preparatory steps before a mine can be auctioned. Under the Mineral Development and Regulation (MMDR) Amendment Act, 2015, proper exploration is a pre-requisite for an auction. A majority of mineral bearing states have conducted auctions under the new regime, and 54 mineral blocks have been successfully auctioned, while others are in the pipeline.

The mineral property has to be explored and a geological report prepared as per certain standards. The balance reserves – mineral deposits left in an operational mine – need to be ascertained prior to auctions. Areas need to be demarcated using total station and differential global positioning system, and land details provided.

While the state governments have conducted auctions of greenfield projects in the past, the challenge is to ensure that the mines to be auctioned are operational, and the existing leaseholders have been mandated to undertake exploration and provide other technical details.

First, many current leaseholders are yet to complete the exploration. The deadline was April 1, 2019.

Second, state governments have mostly auctioned greenfield projects, and given the "operating" nature of these mines, the bidding terms need to be modified to pave the way for a seamless transition. The 'Value of Estimated Resources' – to which a slew of bidding parameters are linked – has to be adjusted to account for the estimated production from the mine in 2019/20. While the value has to be determined for balance reserves, the lessee has to provide information on the balance reserves prior to the lease expiring. The state government then needs to estimate the production for the remaining part of the lease period to arrive at a more reliable estimate of the value.

Third, subsequent to granting the letter of intent to the preferred bidder, the bidder has to get the mining plan approved. The new allottee will have to apply afresh for environmental and forest clearances, which can take two to three years.

Lastly, the process of transferring the existing mine infrastructure, land or ore lying within the lease area provides a significant challenge.

MANY CURRENT MINE LEASEHOLDERS ARE YET TO COMPLETE EXPLORATIONS. THE DEADLINE PASSED ON APRIL 1, 2019

What can be done? First, as the exploration deadline has passed, the state government needs to ensure completion of pending exploration. The central government can also involve exploration agencies such as Geological Survey of India, Mineral Exploration Corporation, and others. This will be especially needed in non-working leases.

The state governments also need to expedite the preparatory work – surveys, land schedules, pre-feasibility assessments, fixing reserve price and preparation of bidding documents. The central government may modify the existing model tender document in the context of mines expiring in 2020 to ensure consistency in the bidding terms across states. To ensure a smooth transition, the validity of existing clearances could be extended by two to three years. This will give the new leaseholders time to procure approvals and prevent any loss of production. The state government could establish a special cell with representatives from relevant authorities to expedite clearances. The entire process of granting clearances can be monitored frequently.

Lastly, the central government needs to evolve a common mechanism regarding the takeover of the mine infrastructure, land as well as the ore. This may require issuing relevant directives for greater clarity. BT

The writer is Director, CRISIL Infrastructure Advisory

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उपलब्ध है

"GROWTH IN STEEL USAGE SHOULD BENEFIT DOMESTIC INDUSTRY"

At a time when the US and China are in the middle of a global trade war, **Binoy Kumar**, Secretary, Ministry of Steel, talks to **Sumant Banerji** about plans to encourage companies to Make in India and how India can protect its steel industry. Edited excerpts:

PHOTOGRAPHS BY QAMAR SIBTAIN

Growth in India's steel consumption is getting a lot of attention these days. Is the industry prepared to meet the demand?

A: India's demand for steel is growing at over 7 per cent. To cater to that, the industry is expanding both capacity and production. We are a low steel- consuming country. Our consumption is 69-72 kg per capita. It is way behind the world average of 214 kg. Some advanced countries are at 1,100 kg. Our primary task is to meet this demand and for that the industry has to grow.

The National Steel Policy 2017 set a production target of 300 million tonnes by 2030/31. We have always missed targets.

There is no target in the policy. It is not even an aspiration. It is a blueprint for meeting demand. If demand is rising at 7 per cent per annum, we will need 230-240 million tonnes (saleable steel) capacity by 2030/31, and for that we need (crude steel) capacity of 300 million tonnes. That is how the calculation was done. Demand is more important than capacity. When an industry is

80 per cent private sector, the most important thing is whether it makes sense to set up capacity. Demand drives capacity.

We have seen high imports in the past, even dumping. India's high consumption will remain attractive to the world. As a globalised economy, shouldn't we be okay with it?

The question is whether we support this consumption by our own industry through Make-in-India or supplement it with imports. The government's viewpoint is clear that the first emphasis has to be on Make-in-India and our own industry. It is a strategic industry. It is important that it gets due recognition. No country can develop without taking care of its steel industry. Let's take the example of rail. This is one item that needs to be produced within the country.

There are some value-added products that we do not make in sufficient quantities and user industries complain when import restrictions are put in place.

Some imports will always take place. That is not an issue. But we cannot come to a stage where imports meet a sizeable part of our demand.

Lack of capacity can hamper upstream industries. We know there was a shortage of rails as SAIL was not producing enough at one point in time. How do we overcome that?

It is important that we are in a position to supply rails. The world over, rails are supplied by domestic industry. Today, rails are primarily being manufactured at Bhilai plant of the Steel Authority of India and lately by Jindal Steel and Power. It is a good thing that more players are coming in provided they meet the specifications of the railway ministry. We have asked the railways to give us a 10-year roadmap because steel-making is not an easy job. It takes time. SAIL has added capacity. It has a brand new universal rail mill of 1.2 million tonnes. It has an old mill with another 0.7-0.8 million tonnes capacity. If railways give us a 10-year horizon, it can increase capacity accordingly, and others can join. The same is true for defence. We cannot have Make-in-India in defence unless the steel industry is prepared for it. So, we need to produce that kind of value-added steel in our country. It is slowly happening. We are progressing on the direction of adding capacity. But we need to expedite it and give the industry more encouragement.

Globally, governments subsidise or use non-tariff barriers to support the domestic industry. What measures are you referring to for encouraging domestic players?

We are not giving any subsidy support to our steel companies. But we need to provide them inputs at competitive prices if they have to be competitive.

Almost a third of the iron-ore mines in India would be up for auction in April next year and there could be a major disruption in supplies to the steel industry. Is that a worry?

We are working very closely with the Ministry of Mines. They are working on it and very conscious of it. I am confident there will be no disruption as such. It is not a matter of worry. We do need to develop the mining sector, make it more efficient and increase their production so that they are in a position to meet the going requirement of the steel industry. It should be a win-win situation for both. Our steel industry requires iron ore at competitive prices, because if it gets expensive it will jeopardise their operations.

How competitive is the Indian steel industry compared to others globally?

It is an ever-changing thing. What used to be the case 10 years ago is no longer the case today. The private sector has taken pains to improve techno-economic parameters – for example, in the kind of inputs they use such as coking coal, a lot of improvements have been made. A lot of automation has been introduced. Even the public sector is trying to follow. It will take them a little time as this requires a lot of investment and the public sector has already invested a huge amount for capacity expansion. The next step for them will be to improve their techno-economic parameters. Anyway we have to follow our COP21 commitments, which means becoming more efficient. Our steel industry is gearing up for the future in emissions as well as technical parameters.

There are high overhead costs due to poor logistics and higher power prices. How can one counter these?

"WE HAVE TO SEE THAT OUR STEEL INDUSTRY IS NOT VULNERABLE TO TRADE WARS. INDUSTRY NEEDS SHOULD NOT BE SUBJECTED TO PROBLEMS OF GLOBAL TRADE"

It is true we have these challenges. I am happy the government has recognised the need for integrated development of the logistics sector. For the first time we have a special secretary in the ministry of commerce dedicated to improving logistics in the country. Steel is one of the major users of logistics. We need to have a proper logistics set-up to ensure we can support 240 million tonnes steel making – this means handling at least three times more raw material. This is a serious challenge. We need alternatives to rail. Inland waterways and coastal shipping are options, but they need to be speeded up. Increased use of conveyor belts and slurry pipelines is also required. Power is expensive and we don't get natural gas, which is a handicap. We have to see whether increased generation of renewable energy can partially solve this problem.

How can you tackle the high cost of credit which, in a cyclical industry like steel, can wreak havoc if times are bad?

The Insolvency and Bankruptcy Code has been a big help. Some of the best resolutions have happened in the steel sector. Credit has been a problem for us and there is a historical baggage. Now, with the steel industry once again able to stand on its feet, we feel this problem will slowly die down. The banking system needs to see that this industry has a future.

There is an impending trade war between the US and China. China happens to be the largest producer of steel and the US one of the largest consumers. Is this a worry for India?

We have to see that our steel industry is not vulnerable to trade wars and gets raw material security. Industry requirements should not be subjected to problems of international trade. We have global excess capacity and India, with its growth in consumption, is a very attractive destination for that. Imports have also started going up. Some of that is required for automotive and electrical sectors. These are areas where we are lacking production. Our user industries like automobiles keep changing, so we should have the capacity to change as well. We definitely need investment in these sectors. We want investment in value-added steel. Our people are focussed on the domestic requirement and we are keeping a close watch on imports. The major steel-consuming regions – the US, the EU, Canada, Turkey have safeguard duties. China has overcapacity and we have FTAs with many countries. So, these are the challenges that we have to keep in mind.

@sumantbanerji

The Case for IBC

THE CHANGE IN OWNERSHIP OF STEEL ASSETS WILL TURBO-CHARGE THE INDIAN STEEL INDUSTRY.

By ANJANI K. AGRAWAL

The recent transformation of the Indian steel industry, accelerated by the Insolvency and Bankruptcy Code (IBC), bodes well for it. The initial cases under the IBC saw some of the largest steel industry assets change hands. This has given global players an opportunity to expand their footprint to India to access a high potential growth market. Even strong domestic majors have consolidated by adding already operating capacities to their portfolio.

The Indian steel industry has been relatively fragmented with the top three-four players accounting for 30-40 per cent of the market. The tail of smaller steel producers is quite long.

An increasing part of the supply side represented by the domestic and global majors will now focus on product and process innovation, value-addition and new business models to enhance value. They will also leverage their competence to sweat the acquired assets while also launching brown-field expansion programmes. Thus, this part of the market will move to an elevated level of quality and competition. However, the remaining segment of smaller players, that is still a commodity play, will continue to experience high competitive intensity, primarily on cost.

Post the clean-up of non-performing assets, and with stronger balance sheets through bank consolidation, banks should be in a position to lend again to the capital intensive steel sector for the significant capacity expansion that the companies have envisaged. However, impact of the cost of capital, always an important driver of profitability, will be accentuated due to divergence in borrowers' ratings, debt waivers and access to capital. The larger players with access to global capital flows stand to gain.

Steel producers will have to reconfigure their outbound supply chain to address new opportunities and threats. In several segments like automotive, global relationships will get extended to India. With stronger R&D budgets and IP, global players are expected to bring in latest technology, improve innovation and boost the 'Make in India' initiative.

After the consolidation, participants will be able to drive economies of scale and cost synergies, particularly in selling, distribution and administration costs, earning higher margins. Functions such as marketing, R&D, new product development, vendor-supplier-customer relationship, and logistics are expected to undergo major transformation. Emergence of stronger domestic and global players may further boost business practices and corporate governance.

Some of the hitherto commoditised businesses (for example, long products) in the B2B2C segments may increasingly move towards branding as players target higher margins. In case of flat or niche products, the depth of the product portfolio is expected to improve as players focus on innovation.

IMPACT OF COST OF CAPITAL WILL BE ACCENTUATED DUE TO DIVERGENCE IN BORROWERS' RATINGS, DEBT WAIVERS AND ACCESS TO CAPITAL

Steel producers will evaluate extension of their value chain to access new markets/customer segments which help leverage their experience and knowledge of downstream markets or new applications. The extended value chain will thus garner attention, expanding the industry's engagement with downstream and also demand expansion for the primary products. The above is also likely to trigger M&A activity in the extended value chain. We may see new players emerge in the downstream segments.

The IBC process is slowly but surely expected to involve the mid-small tier players, which will hasten consolidation. This will give the larger players opportunities to complement their product portfolio, geographic presence or simply target current sites for brownfield capacity expansion.

India is probably the only large market globally offering long-term growth potential and a unique opportunity. Large players have re-focussed on this domestic prospect. This will be in sync with the Indian government's ambitious plan of reaching a capacity of 300 million tonnes per annum. BT

The writer is Partner and National Leader, Metals & Mining, EY India

SHOWING ITS METTLE

THE STEEL INDUSTRY HAS BEEN A MAJOR CONTRIBUTOR TO INDIA'S MANUFACTURING OUTPUT, BUT LOW PROFITABILITY IS A CONCERN.

Graphics by **Tanmoy Chakraborty**
Research by **Shivani Sharma**

2nd

India is behind only China in production, but its output is still way behind China's 928 million tonnes (MT)

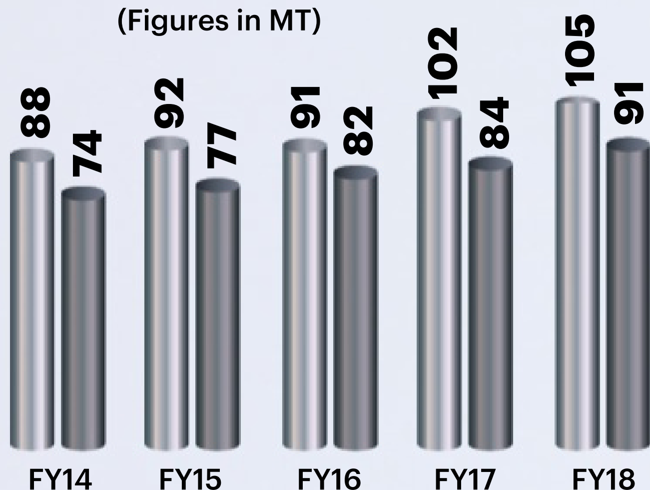
2%

Share of steel sector in India's GDP

HITTING A NEW HIGH

There is surplus capacity as production of finished steel has been more than consumption

(Figures in MT)



Production Consumption

Source: Joint Plant Committee, Ficci, CMIE, Industry Outlook

3.96%

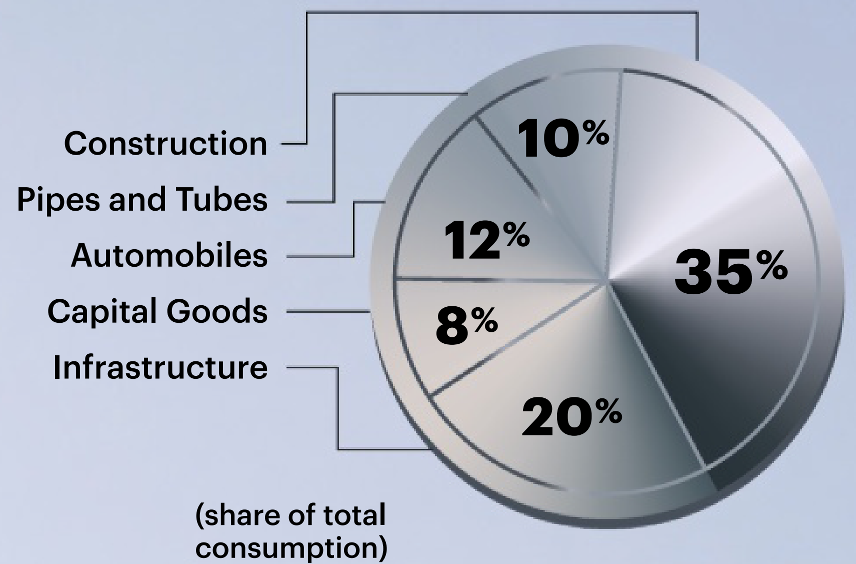
Growth (CAGR) in India's per capita consumption of steel, from 46 kg in FY08 to 68 kg in FY18

$3.1 BILLION

Foreign direct investment in metallurgical industries in five years (2012/13 to 2017/18). FDI in FY18 was $371 million

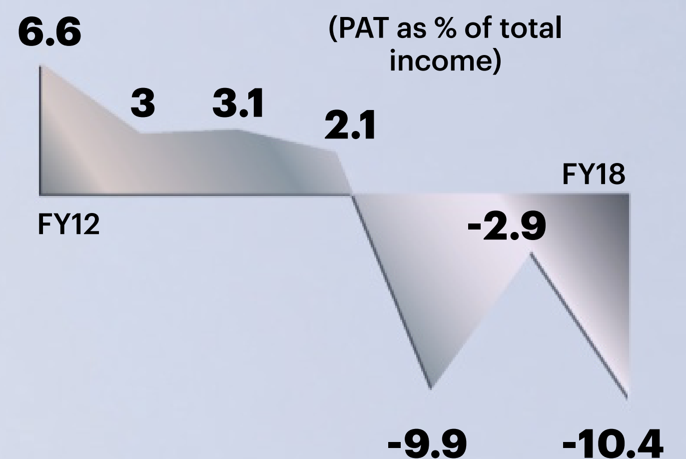
BUILDING BLOCKS

Construction and infrastructure account for half of the consumption



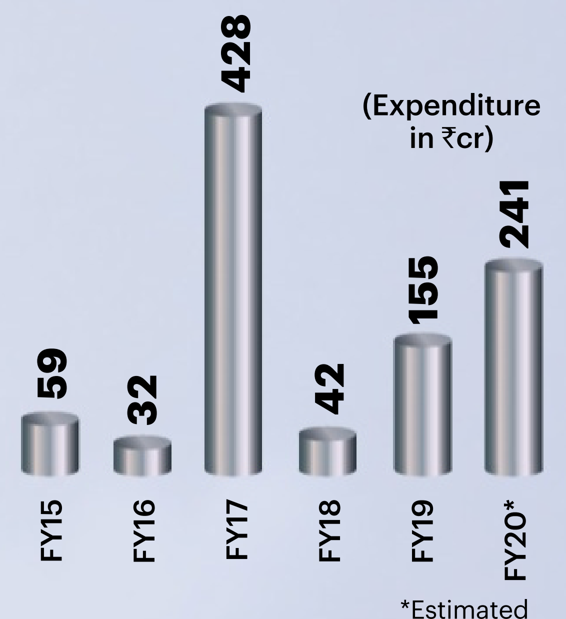
POOR PROFITABILITY

Profits have been under severe pressure over last few years



HUNGRY FOR FUNDS

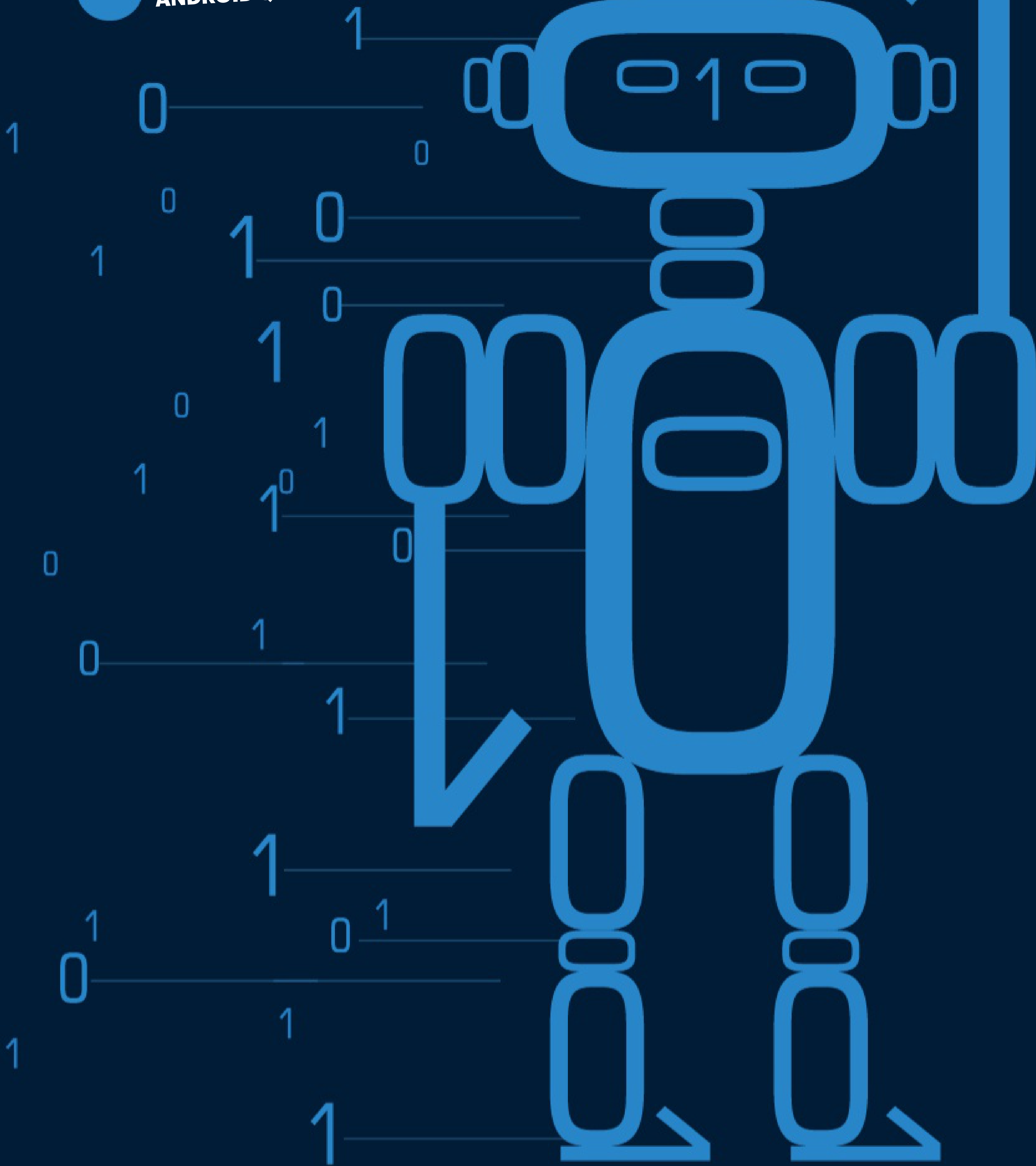
Capital expenditure by steel firms has risen substantially



THE BREAKOUT ZONE

P.108 NO CHINK IN ANDROID Q'S ARMOUR

P.114 LEADERSPEAK: GARY KNELL



UPPING THE GAME

AI GETS A SENSE OF NUMBER

In training an AI system to classify objects, researchers have helped it develop numerosity.

Illustration By Raj Verma

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UMBERS ARE NOT JUST numbers; they are concepts. Otherwise, people would have to count visual objects one by one every time they see them. Say, four ducks are swimming in a pond. It hardly takes a moment to figure that out as well as its implication. For some, four ducks are surprisingly few for a fairly large pond while others think they are too many for a biggish puddle. Even animals have this intuitive sense of number. A lion would not risk attacking a big herd of herbivore. One glance, and the concept of the number present is understood rather than counted. Both humans and animals have this innate sense of number due to the presence of 'number neurons' in the brain. Scientists also believe that this ability, a kind of broad intelligence, sets humans apart from machines, although the latter can make millions of calculations in a second or two. In other words, rule-based artificial intelligence (AI) is limited compared to human capabilities. But this may change soon as neural networks (computer systems modelled on the human brain and nervous system) can develop human-like number sense or numerosity.

Researchers at the University of Tübingen's Institute of Neurobiology have shown how human-like number neurons can develop spontaneously within an artificial visual system that was only trained for visual object recognition with the help of natural images. In a study published in *Science Advances*, Khaled Nasr, Pooja Viswanathan and Andreas Nieder explained how the team had trained a "deep learning" neural network to identify pictured objects. The network resembled the visual cortex, the part of the brain that helps us see, and was split into two parts. One part extracted an object's characteristics from the image and transformed them into an abstract representation suitable for object classification. The second part placed the object under a specific category based on probabilities derived from the first level of representation. Object recognition is a more challenging proposition than calculation as there are so many variations. After all, one apple hardly looks like another in colour and contour.

Next, the researchers separated the two network parts and presented to the first part simple dot patterns varying between one and 30. More patterns with a varying number of dots and different densities followed. The team then analysed the responses of the final layer to determine whether the artificial neurons within the network had reacted to specific numbers irrespective of other characteristics. Almost 10 per cent were found to be numerosity-selective network units, and their responses exhibited a clear

RESEARCHERS HAVE SHOWN HOW HUMAN-LIKE NUMBER NEURONS CAN DEVELOP SPONTANEOUSLY WITHIN AN ARTIFICIAL VISUAL SYSTEM THAT WAS ONLY TRAINED FOR VISUAL OBJECT RECOGNITION

tuning pattern although the network was never trained to differentiate between numbers. The network had spontaneously developed a sense of numbers, the study said. Simply put, the neural network started recognising the abstract aspect of numbers, similar to how actual neurons do.

The experiment has revealed several interesting points. One is the spontaneity of the AI system in learning something abstract. Another is a deeper understanding of the layers of information involved in recognising and learning about simple objects. Finally, it shows the possibilities of a more comprehensive AI system that is more natural and human-like. BT

PHOTO TECH

ULTRA-LONG SHOT

LED BY ZHENG-Ping Li, a team from the University of Science and Technology of China in Shanghai has come up with a low-power and shoebox-sized camera that can photograph stuff from 45 km away. Besides capturing 2D images, it can also create 3D models. Earlier, it was possible to take snapshots from a distance of 16 km.

The technique is based on LiDAR, or laser ranging and detection, which uses 1,550 nanometre infrared laser light (safe for human eyes) to illuminate subjects and creates images from the reflected light. Photons are sent and received through an ordinary astronomical telescope with an aperture of 280 mm. A commercial single-photon detector then detects the reflected photons. According to *MIT Technology Review*, the detectors used are so sensitive that they reflect immediately and cut through fog, smog and other irrelevant data – in effect, reducing noise. Computational imaging algorithms have also been used to piece together the photons into a recognisable size for that perfect ultra-long shot. Then there is gating, a distance-specific targeting so that photons reflected from other zones can be avoided.

This kind of fast, low-cost optical imaging over ultra-long ranges will have numerous uses in industry, military, surveillance, disaster control and other fields. BT

NO CHINK IN ANDROID Q'S ARMOUR

THE UPCOMING, AND VASTLY IMPROVED, ANDROID OS FOCUSSES ON JUST THE RIGHT AREAS – PRIVACY, GESTURES, SMARTER AI AND DARK MODE.

By NIDHI SINGAL

ANDROID Q

SOFTWARE UPDATES for smartphones are not just about fixing bugs. They should also usher in a host of new features which will address all existing pain points and ensure a smooth, seamless experience. Although many swear by the iconic iOS, Android is the most popular operating system (OS) for smartphones today, and the major overhaul it is about to witness could enhance its performance by several notches. The final release of the new software is still a few months away, but Google has already released the Android Q Beta 3 for developers and early testers. As of now, it is far from perfect and all the features announced by Google are not live yet. However, we installed this version on Pixel 3 XL to get a glimpse of the new OS.

Dark Theme: Be it Apple's Mojave OS, WhatsApp or Android Q, the dark mode has become a critical development area over the past couple of years. As the name suggests, it changes all white elements to solid black across the system. The white screen goes black; the black text appears white and all things in-between – system settings, phone app, calendar or even notifications – feature a dark background. It is undoubtedly more comfortable on the eyes, especially for night-time viewing. The dark mode is not turned on by default, though; it is hidden under Advanced Settings. However, there is one issue. Most applications, including some Google apps, still support white backgrounds. Hopefully, by the time Android Q officially rolls out, most of the apps will support the dark mode, resulting in a consistent experience. There is another plus. When you opt for this mode, fewer pixels are fired up on a large display, helping conserve battery life. Interestingly, the dark mode was auto-triggered when I turned on the battery saver mode on Pixel 3 XL.

Gestures: They are a convenient way to operate big-screen devices. BlackBerry adopted this in 2013 when it introduced BlackBerry OS 10 and Apple went gestures-only with iPhone X. Several Android OEMs also incorporated gestures in their customised user interfaces (UIs). Google started it with the Android 9 last year. But with Android Q Beta, I could go fully gestural and disable all navigation buttons on Pixel 3 XL (you will find Fully Gestural Navigation under System Settings). When activated, swiping up from the bottom took me to the home page and swiping up and holding loaded the app switcher window. I was able to switch between running apps by swiping at the bottom of the display. Do a side swipe from either edge of the phone, and it will work as the back button.

Privacy: Of late, privacy concerns have taken centre stage amid huge data breaches. So, Google is stepping up security measures to restrict apps' access to location data, contact details, Wi-Fi and data from other APIs. In the past, certain apps could read a device's IMEI and SIM card number, but it will not be possible anymore. Google is also giving users a lot of control. For instance, you will find an App Permissions tab under Location that lists the number of apps accessing user location all the time (in my case, 21 apps out of 47). A quick tap let me choose between 'allow all the time', 'allow only while using the app' and 'deny'. Google says Android Q will send a reminder when the apps not in use (running in the background) access location data. I did not get any such notification, but this feature should be ready soon. Also, the Privacy option within System Settings has a Permission Manager tab, showing in details which apps are accessing the phone's camera, microphone, call logs and more. According to Google, apps cannot start operating in the foreground without user-initiated action. If implemented well, this could be an excellent security feature.

GOOGLE WILL RESTRICT APPS' ACCESS TO LOCATION DATA, CONTACTS, WI-FI AND DATA FROM OTHER APIs. MOREOVER, APPS CANNOT START OPERATING IN THE FOREGROUND WITHOUT USER-INITIATED ACTION

Bye-bye, Notification Snoozing: Snoozing app notifications for a certain period and getting back to it later is a neat feature. But Google seems to have replaced it with Alert Me and Show Silently options in Notifications. Selecting Alert Me for any app will make the phone ring (notification sound), and the notification will appear on the lock screen or banner. For Show Silently, there will be no notification sound for the app, nor will it appear on the lock screen or banner.

NEXT ON THE CARDS

Here is the low-down on a few more exciting features.

Super-fast Google AI: Voice assistants help you interact with the phone without hunting for apps or launching them. And Google Assistant has been the best until now. But with Android Q coming in, this one will deliver even more. Google has reduced the size of its machine-learning and voice-recognition software, which will result in less latency when interacting with the assistant.

Smart Reply: Google has been putting machine learning to good use. For instance, its Smart Reply and Smart Compose features in Gmail help with composing e-mail messages and subject lines. These features will be part of the Android Q as well. Smart Reply will be available for a lot of apps and will suggest appropriate responses for social networking apps right within the notification slider. In fact, the hardware should be able to identify which notifications are important and what all can be ignored. Unfortunately, Smart Reply was not working during my beta-testing.

Live Caption: This is not yet available for testing, but it is worth a mention. As the name suggests, live captions will appear on the screen as soon as speech is detected. Pressing down the volume button while playing a video will show an icon, and this can be tapped to see live transcriptions on the screen. This can be turned on from the Accessibility tab and should work with videos, podcasts and audio messages across apps.

Project Mainline: Apple has aced how OS updates should be delivered. But with so many devices across hundreds of OEMs, updating Android devices has always been a challenge. Google is fixing this with Project Mainline where specific components within the OS will be updated without requiring a full system update. Latest security fixes, privacy enhancements and consistency improvements will be updated in the background without rebooting the phone. BT

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TATA SKY BINGE

VALUE FOR MONEY

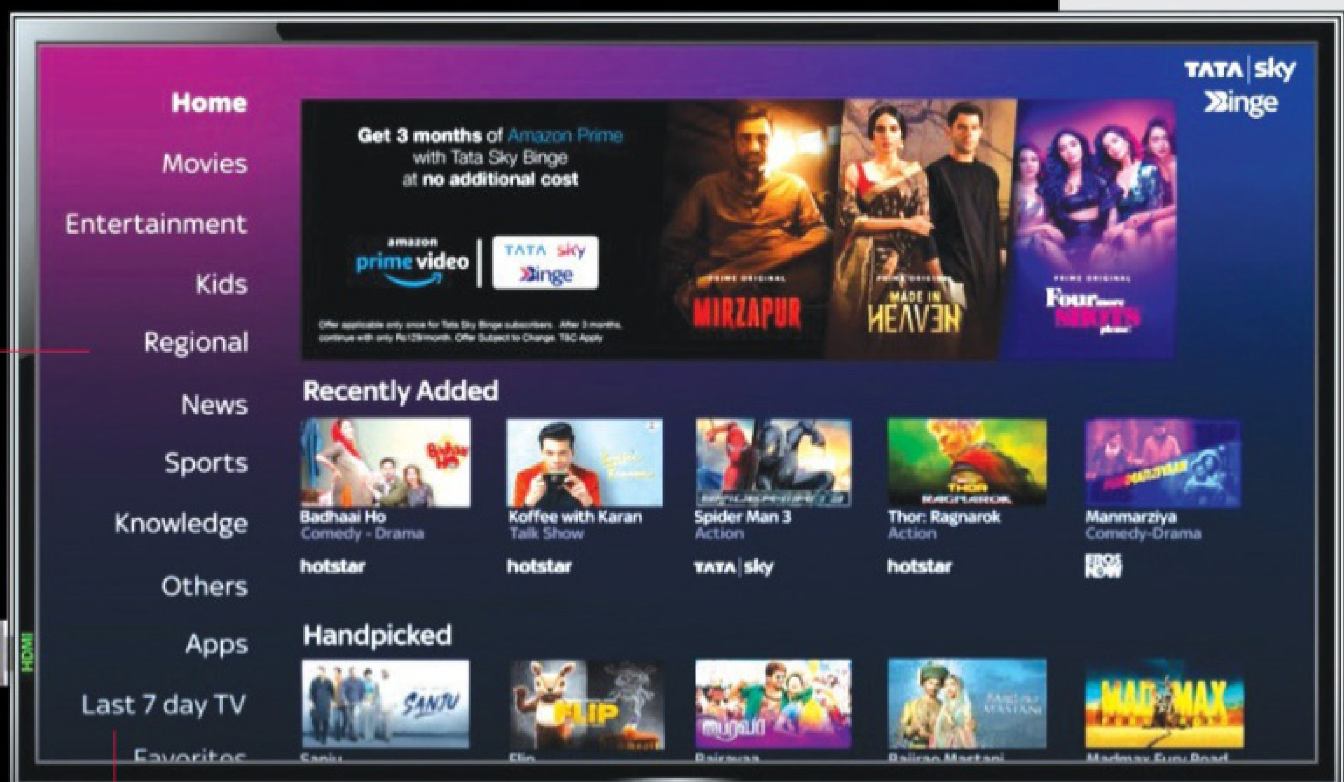
By NIDHI SINGAL

PRICE ₹249 per month

CLEAN AND DISTINCT UI

FIRE TV STICK–TATA SKY EDITION

DEDICATED TAB FOR ACCESSING CONTENT FOR 'LAST 7 DAY TV'



CUT-THROAT competition from over-the-top (OTT) platforms has forced direct-to-home (DTH) operators to think out of the box. So, Tata Sky's Binge has brought digital content from multiple apps on a single platform as a perfect substitute to a secondary set-top box. In addition, there will be shows from popular TV channels. This means you can watch your favourite OTT and TV programmes on the big screen for a nominal charge without subscribing to each provider.

Just like Prime Video or Netflix, Binge is a video streaming app, but it can only be accessed via Amazon Fire TV Stick-Tata Sky edition. I could not download it on my existing Fire TV Stick. The one supplied by Tata Sky (to be returned when Binge is discontinued) is a previous generation dongle with the Tata Sky branding. As of now, Binge offers premium content from Hotstar, Hungama Play, Eros Now and Sun NXT besides last seven days' shows from popular TV channels. In brief, it is a complete package featuring hardware, apps and content. Also, you are not stuck at one place like people using set-top boxes. Carry the dongle anywhere and watch the content on the go.

As my review unit was preconfigured, I only had to plug the dongle into my TV's HDMI port, switch it on and connect it to the wireless network. For users, a service engineer will instal the dongle and link Binge with the existing Tata Sky subscriber ID. However, one must have an Amazon account to set up the dongle.

The Binge app had a simple, uncluttered user interface (UI). The content is categorised under various heads, including last 7 day TV, movies, entertainment, kids, regional, news, sports and knowledge, and navigation was quick and easy. 'Last 7 day TV' looked similar to the DTH UI, and I could forward, rewind and pause the content. It was not live TV, though, as there was a minimum buffer of 30 minutes for most of the shows. I was able to browse through previous shows by selecting channel, date and time. But here is the catch. You can only watch the channels for which you have DTH subscription. Tata Sky records the content on its servers and streams it via the Binge app. Even then, some content (especially sports events and shows) could not be played during testing. Do not worry if you are a cricket fan. The upcoming ICC World Cup is covered in Hotstar premium subscription. BT

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NOT A PANACEA FOR ALL WOES

THE ECONOMIC LIFT VIA GST IS NOT YET CLEAR, BUT THE 'VERY COMPLEX TAX' COULD LEAVE THE STRUGGLING INFORMAL SECTOR OUT IN THE COLD AND BRING ABOUT AN ECONOMIC DIVIDE OF SORTS.

By Dipak Mondal

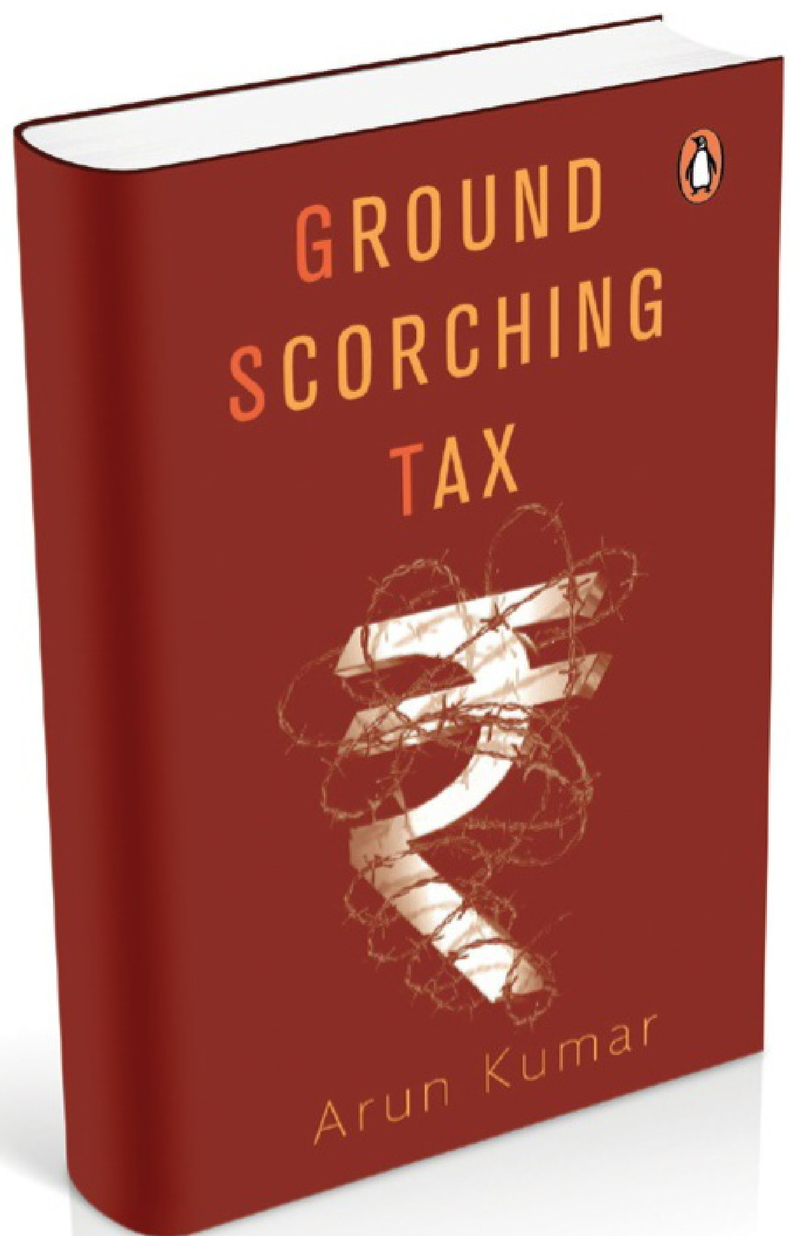
Ground Scorching Tax

By Arun Kumar

Publisher: **Penguin Portfolio**

Pages: **288**

Price: ₹**499**



IF YOU ARE A PROPONENT of the Goods and Services Tax (GST) – often lauded as the biggest reform that will curb black money generation, improve tax collection and propel GDP growth in India, *Ground Scorching Tax* by well-known economist and academician Arun Kumar could be an eye-opener. The book, mostly a low-down on the new indirect tax regime that India adopted two years ago, pricks a few GST bubbles as it underlines execution issues, structural weaknesses and the deep discriminatory impact at the ground level. Kumar, an authority of sorts on black economy, further argues that claims made by experts on the benefits of GST are not supported by macroeconomic analysis.

To begin with, the widespread assumption that GST would lead to higher (tax) collections and lower prices, as well as higher outputs, is contradictory. The author proves his point with the help of macroeconomic analysis and states that it is not possible to have increased tax collections without sending prices northward, no matter how you see it.

He has also rejected two other 'theories' pushed by GST advocates. One sweeping assumption is that the entire production and distribution chain could be brought under GST. Kumar has, however, explained why the vast unorganised sector finds it extremely difficult to operate under an inordinately complex GST in spite of the exemptions granted by the GST Council, the decision-making body comprising Union and State Finance Ministers. Just take a look at the massive number of changes, postponements and delays (including change in tax rates and exemptions), multiple levels of levies and thousands of return filings. You would quickly realise why a sector that employs 93 per cent of the workforce, manufactures 45 per cent of the output and operates in an ad hoc manner, without access to data, digitisation or a structured business format, is crumbling. Worse still, it can lead to shrinking consumption, flat food prices and agrarian distress.

Another claim is that GST would curb the generation of black money in a big way. Again, Kumar points out why GST could not do it as expected. For one, it is impossible to stop businesses from over-invoicing or under-invoicing. Plus, a parallel system may emerge where previously undeclared part of medium-to-large companies continues to exist with GST-exempted businesses.

Interestingly, Kumar has not lost sight of the historical perspective of this 'very difficult' tax. A GST-like tax was first proposed by the Taxation Enquiry Committee in 1978. The

book chronicles the events that ultimately led to the current regime. But the journey does not provide much relief as the sombre subject is strictly rooted in macroeconomy and public finance. Still, it is refreshing to know that India was toying with these ideas 40 years ago.

The author has not minced words when looking at key issues such as design flaws of the new system, the states surrendering their tax sovereignty and lack of credible macroeconomic data to measure the impact of GST on the unorganised sector. The socio-political implications are grim, but the writer has also provided a brief glimpse of an alternative system.

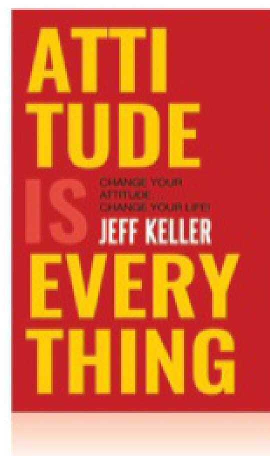
"Can GST be reversed?" asks Kumar. "Clearly, the previous system was also not satisfactory since indirect taxes are stagflationary and there was a multiplicity of these taxes. It is better to collect more of direct taxes. India pays very little of those in spite of the high level of disparity. The well-off sections can indeed pay a much larger per cent of GDP as direct taxes if the black economy could be checked. So, the first part of the alternative is to collect a lot more from the direct taxes by checking the black economy."

The second part is to simplify the tax. "GST is a destination tax, paid by the final consumer and also collected by the state where the final consumption takes place. Since the complexity of GST arises due to the various intermediate stages of transactions, sales, production, transportation, accounting and so on, why not simplify the tax by eliminating the intermediate stages of tax?... Further simplification would arise if it is levied as ad valorem rather than VAT. Since no tax is levied on intermediate stages, this tax would be equivalent to VAT," he writes.

The author has tried his best to balance his arguments for and against GST, but at times, he repeats himself and the failures of the new tax structure appear to be the most dominant theme. But what matters most is understanding the gap between concept and implementation. If issues are left unaddressed, fiscal federalism can easily be dented and the fast-developing distance between big and small businesses may slowly crush the huge and diversified economy of India. BT

Business Bestsellers*

The 5 AM Club: Own Your Morning, Elevate Your Life
By Robin Sharma
Jaico Publishing House
Price: ₹350

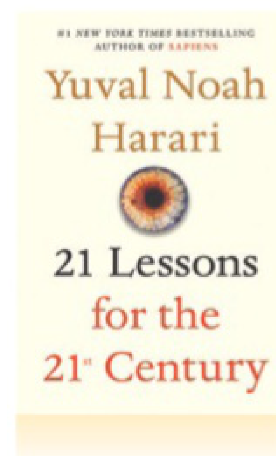


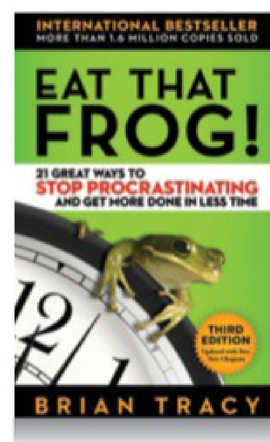
Attitude Is Everything: Change Your Attitude... Change Your Life!

By Jeff Keller
Collins
Price: ₹199

21 Lessons for the 21st Century

By Yuval Noah Harari
Jonathan Cape
Price: ₹799



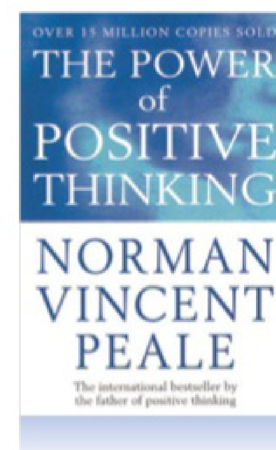


Eat That Frog! 21 Great Ways to Stop Procrastinating and Get More Done in Less Time

By Brian Tracy
Berrett Koehler Publishers
Price: ₹199

The Power of Positive Thinking

By Norman Vincent Peale
RHUK
Price: ₹199



*Top books by sales for April 1-May 13, 2019; Information provided by amazon.in

GARY KNELL, Chairman of National Geographic Partners, a global JV between Disney and the National Geographic Society, which includes TV, print, digital assets, and travel and consumer products. Under him, Nat Geo has expanded its reach and gained 102 million-plus Instagram followers. Now, it is adding nearly 1,00,000 followers a day. Earlier this year, the company launched in India its global expeditions business called National Geographic Expeditions.

Q. The biggest challenge you faced in your career

A. It was when I was pulling together the reorganisation of National Geographic with 21st Century Fox. The challenge lay in reinventing the entire enterprise into two separate entities – a not-for-profit business and a media company. Pulling it off in a way so that people would understand and employees would not freak out was tough, but we did it right.

Q. Your best teacher in business

A. We all had mentors who helped us along the way and took chances on us, and they are the people I will never forget. They are disruptive and help you disrupt yourself before someone else did it. Much like them, I want to promote excellence because companies must accomplish their missions. Whether it was *Sesame Street* for preschool children, National Public Radio providing global news or National Geographic focussing on a set of issues affecting the planet, there was always a sense of urgency, and I was hired to help these companies.

Q. One key management lesson for young people

A. I have always focussed on getting things done as focussing on the mission is the core of leadership. It is really about breaking down the walls which get built up over time. It could be an editorial group stuck in the past, a marketing group not connecting to consumers or a wrong technology. I think people who get things done are those who move up because people want to be around them. So, be part of the solution, not part of the problem.

Q. What are the three qualities a leader must have?

A. Be part of the solution. Be disruptive. Be somebody who thinks out of the box. And challenge things. Such people make the world go round. BT

"BE PART OF THE SOLUTION. BE DISRUPTIVE. BE SOMEBODY WHO THINKS OUT OF THE BOX. AND CHALLENGE THINGS. SUCH PEOPLE MAKE THE WORLD GO ROUND."

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