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Tata's Debt Threat

Coronavirus Hits Business

INDIA TODAY GROUP

Business Today

March 8, 2020 ₹100

OYO

DOWNSIZED

Why the fast-growing hotel chain had to scale down its ambitious expansion plans

From the Editor

Oyo's Vulnerabilities

Entrepreneurship and entrepreneurs must be celebrated unquestionably. Their vibrancy keeps the lifelines of economies alive. Their highs and lows must be carefully choreographed for future generations to learn. Equally, their missteps must be minutely examined and their break points, ideally put under the microsope. At Oyo – founded as recently as 2013 – this and more is at work as the insanely fast-growing hotel chain goes through some harsh reality checks. Growth versus service quality; adversarial versus collaborative business partners; exploitative versus objective policies; and profitability versus expansion are just some of the glaring questions confronting founder Ritesh Agarwal and his team as the firm takes a breather and scales down its lofty ambitions and stiff goals. With sharp cuts in staff strength in two of its major markets – India and China – and across the world and withdrawal from one-third of 600-odd cities in India, Oyo has had to take some tough calls that have exposed its vulnerability.

How Agarwal deals with this crisis will test his mettle as a leader. It will also decide whether he can take Oyo to the next level of growth and quality. Or, the biggest shareholder SoftBank will strike back to sideline the founder, just as in WeWork. Manu Kaushik takes you through the minutest of details of why Oyo finds itself at crossroads today on page 18.

Meanwhile, three years since N. Chandrasekaran took charge as chairman, Tata Group is burdened under a debt pile. As group firms negotiated a debilitating slowdown right after Tatas' costly global acquisitions, they faced the ground reality of very high debt and low earnings. Just the top 11 companies of the 100-plus companies conglomerate have notched up ₹2.46 lakh crore in gross debt and ₹1.39 lakh crore in net debt.

This would not be a problem if these firms were rolling in cash or highly profitable. But these 11 firms together reported a net loss of ₹14,765 crore in FY19. In comparison, other debt-laden groups such as Reliance Industries also have massive debt piles, but it reported a net profit of ₹33,006 crore in the first nine months of this financial year. Similarly, JSW Steel has a net debt of ₹49,500 crore but it also had a net profit of ₹8,259 crore in FY19 (Read Nevin John's story on page 52).

These days, no discussion or meeting is complete without the threat of Coronavirus dropping into the conversation. Since India imports goods worth over $70 billion from China annually, several sectors such as automobiles, consumer electronics, pharma, gems & jewellery are heavily dependent on components from China. Chinese firms such as MG Motor, Great Wall Motors, Oppo and Vivo are even more dependent on supplies from the home country. With China less than transparent about the spread or impact of the deadly virus, should Indian businesses be worried about the coming supply constraints?

Team *BT* spoke to scores of industry leaders to conclude that it's a touch-and-go situation and no eventuality must be off the table. Even as alternate supply lines are being activated, factories have begun cranking up in places as far and wide as Taiwan, Thailand, Vietnam and Korea.

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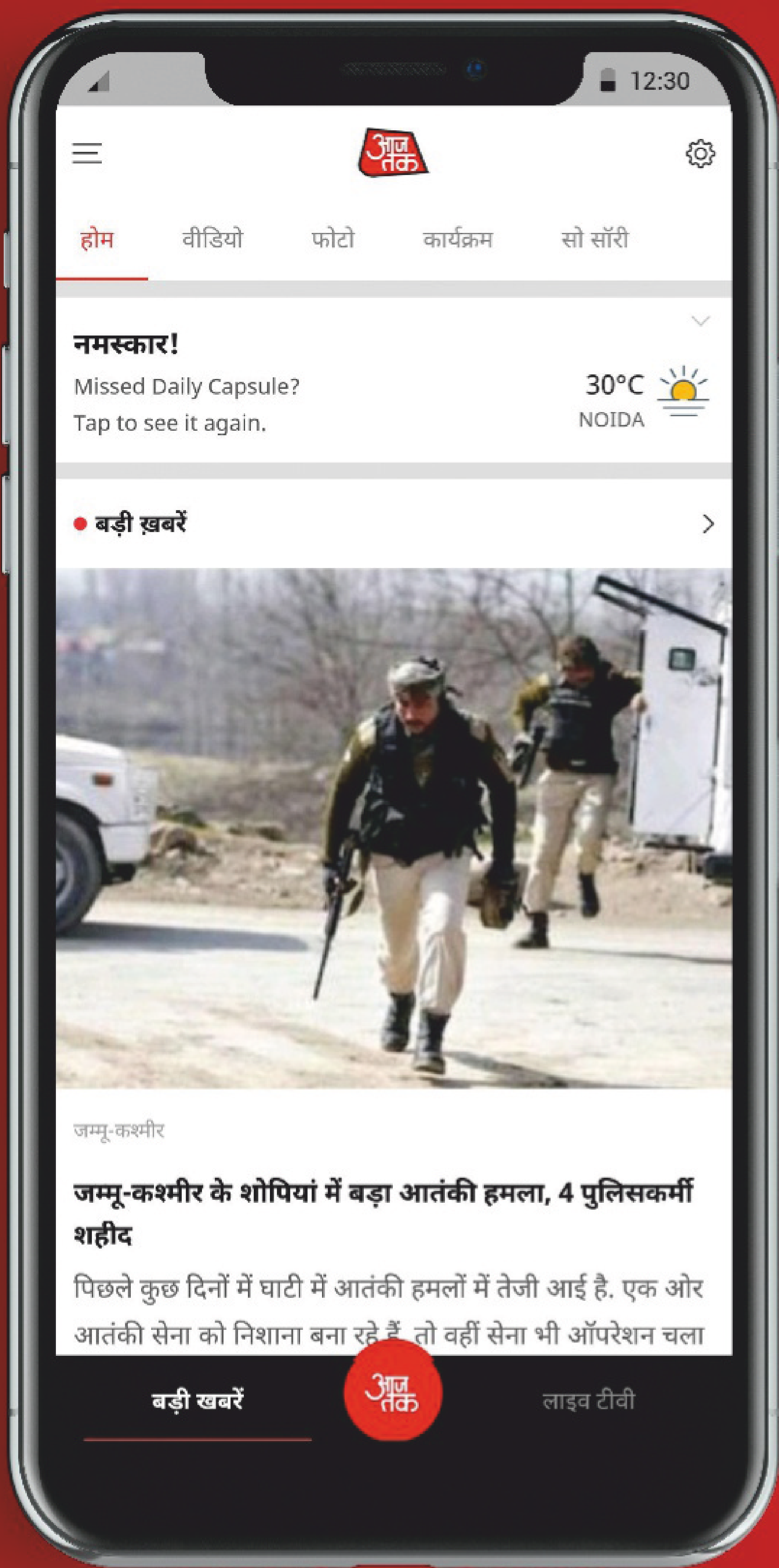

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वीडियो
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Missed Daily Capsule?
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पिछले कुछ दिनों में घाटी में आतंकी हमलों में तेजी आई है. एक ओर
बड़ी खबरें
लाइव टीवी

The Point

THE DIGITAL DRIVE

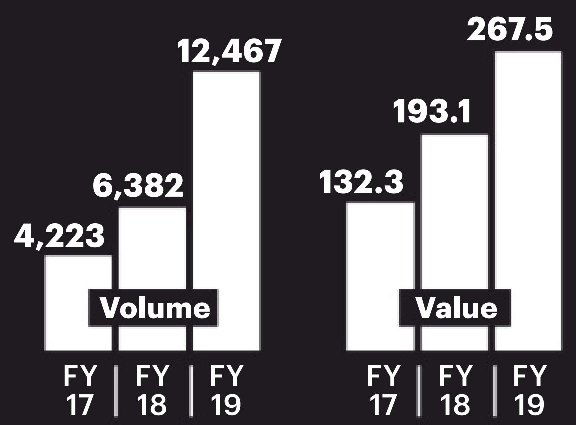
The push for less cash and more digital is delivering in many sectors. Three years after it was launched, transactions on the Unified Payments Interface (UPI) crossed the five billion mark in FY19, exceeding debit card transactions. The total retail electronic clearing during the year stood at 12.5 billion transactions worth ₹267 lakh crore

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

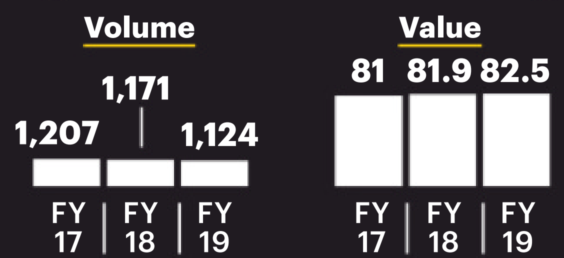
Retail e-Clearing Doubles In Just a Year

From FY18 to FY19, value of retail electronic clearing went up 39%, but volume jumped 95%

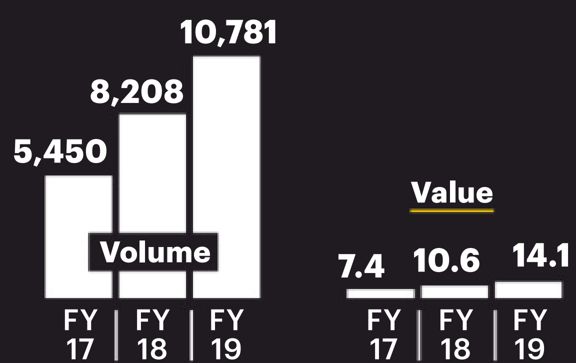
RETAIL ELECTRONIC CLEARING



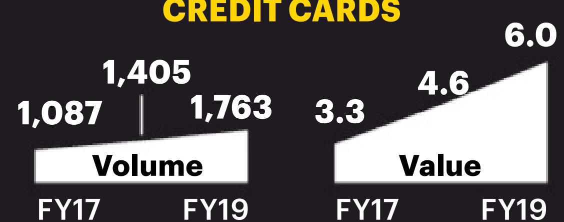
PAPER CLEARING



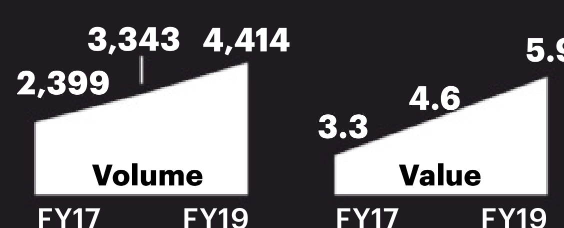
CARD PAYMENTS



CREDIT CARDS



DEBIT CARDS

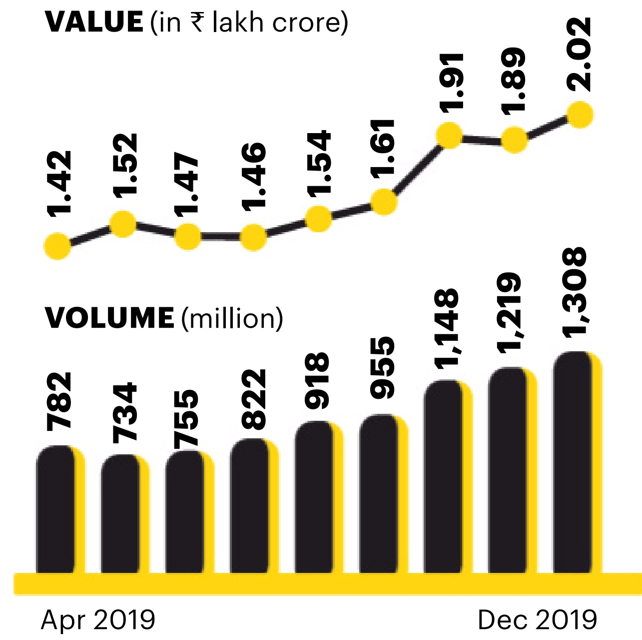


Volume in million
Value in ₹ lakh crore

Source: RBI

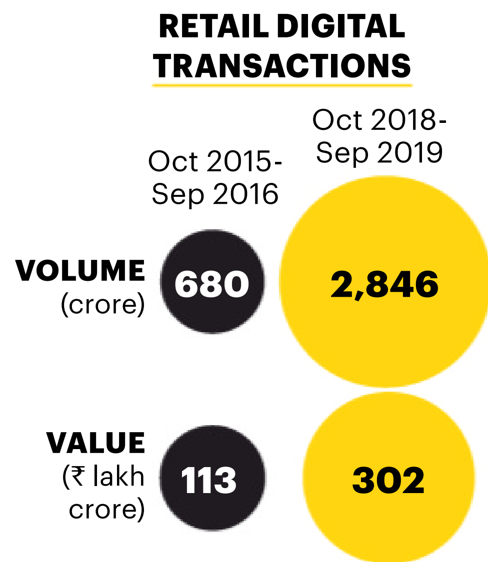
UPI IMPACT

UPI transactions crossed the one billion mark in October 2019. The growth in volume has been over 100% (y-o-y) in all months of the current fiscal. Pre-paid payment instruments are on the rise too, up 15% in October 2019



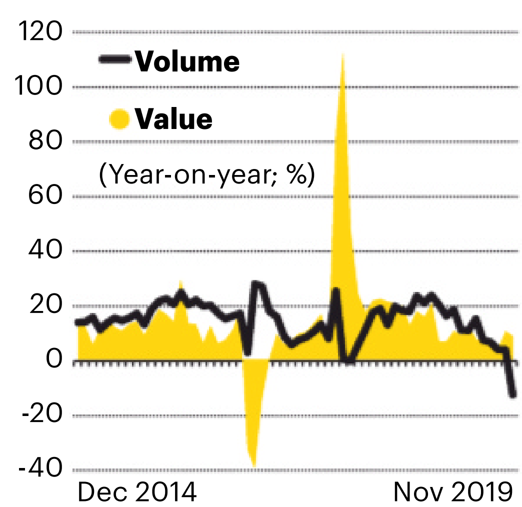
SWIPE RIGHT

Digital payments accounted for 96% of non-cash retail payments (October 2018-September 2019). In three years, retail digital transaction volumes have grown at a CAGR of 61% (39% in value)



Debit card transactions fall...

In November 2019, number of debit card transactions fell in volume (12.5%) for the first time in over five years. The only other fall was in January 2018, a marginal 0.1%. But the value of transactions grew 9% in November



Source: NPCI, RBI, Worldline, CMIE

...and so do the number of cards

The number of debit cards has been declining, but the recent fall could be attributed to discontinuation of cards with magnetic strips and mass closure of zero balance accounts

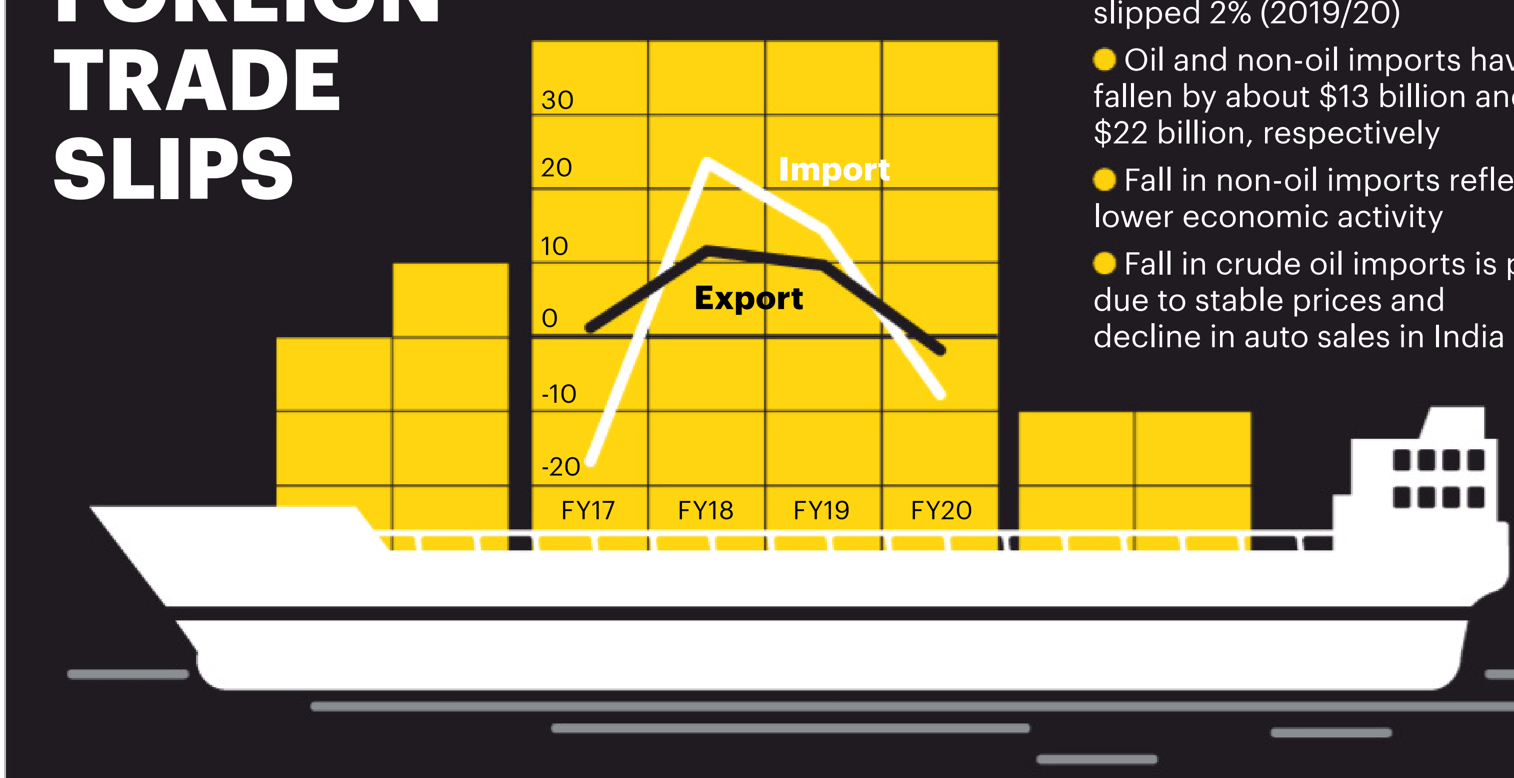
831mn

Number of debit cards in November 2019, 16% lower than a year ago

54mn

Number of credit cards in November 2019, 26% higher than a year ago

INDIA'S FOREIGN TRADE SLIPS



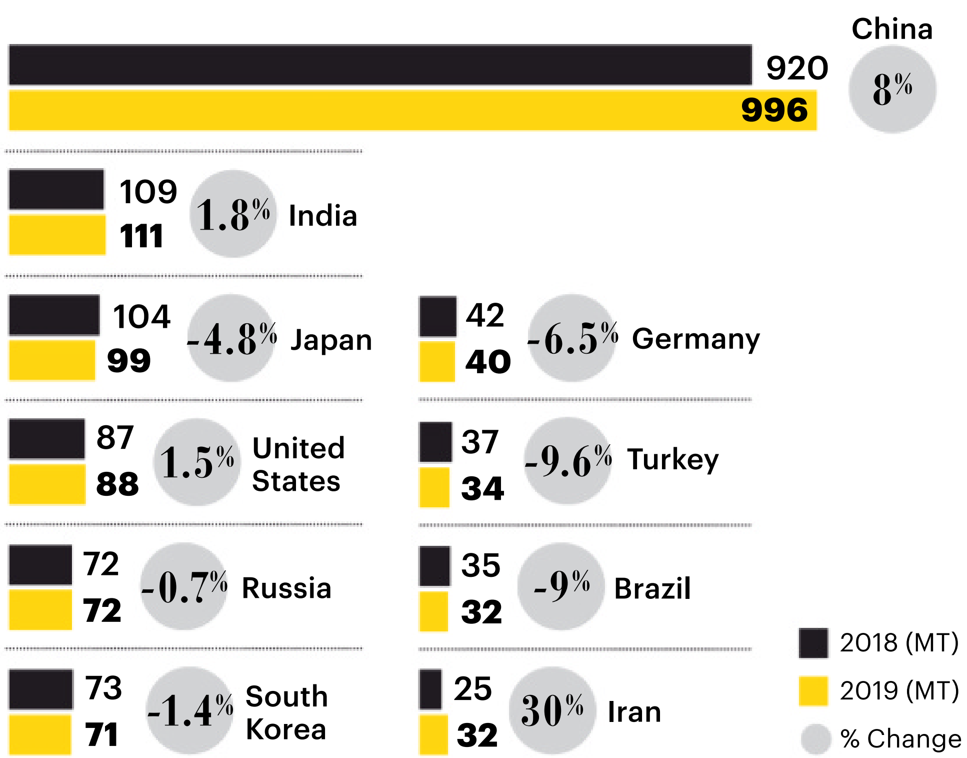
India's global trade has been slowing over the year

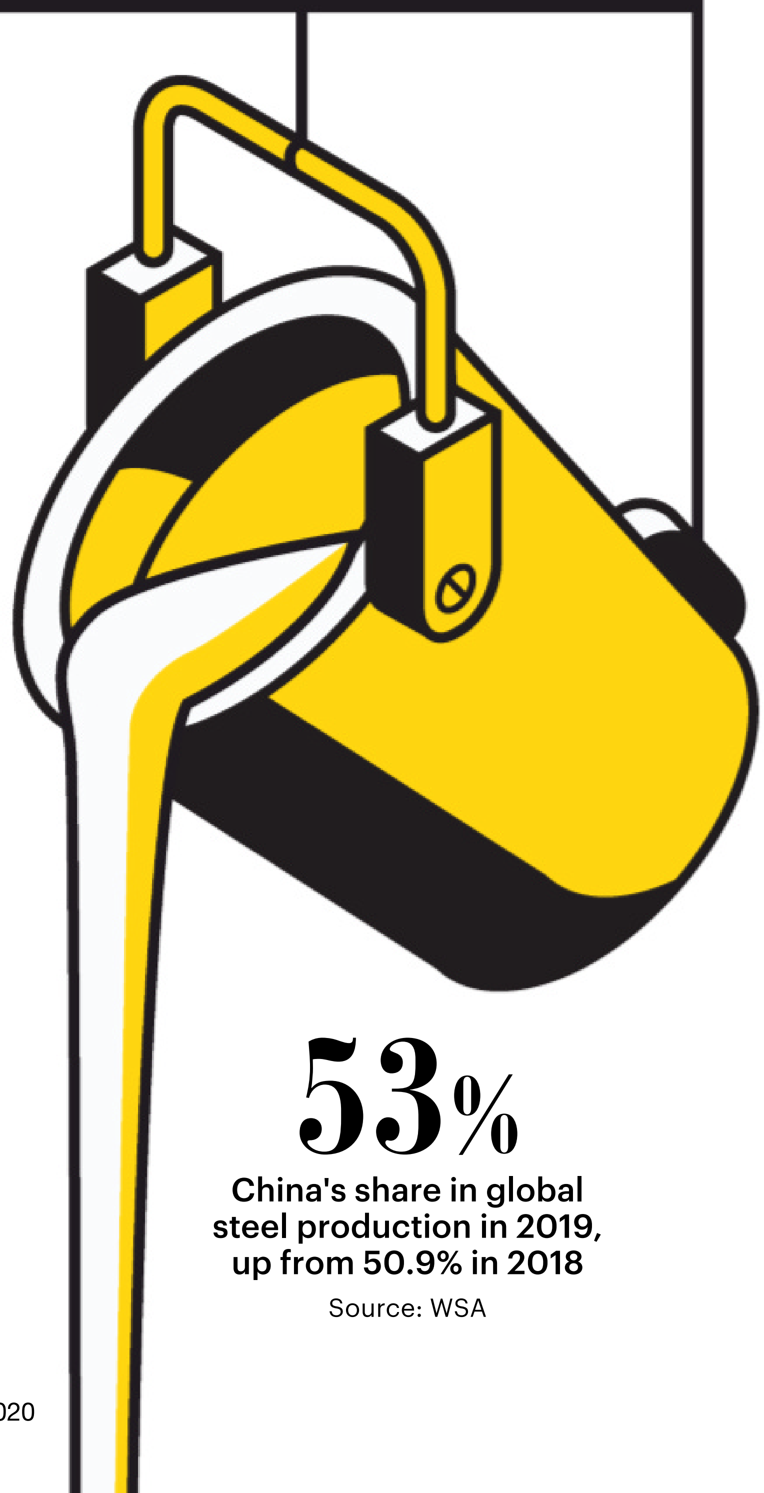
- Imports declined 7.9% while exports slipped 2% (2019/20)
- Oil and non-oil imports have fallen by about $13 billion and $22 billion, respectively
- Fall in non-oil imports reflects lower economic activity
- Fall in crude oil imports is partly due to stable prices and decline in auto sales in India

Source: CMIE

CRUDE STEEL OUTPUT UP

Six of the top 10 steel-producing countries saw their crude steel production fall in 2019. India bucked the trend, however, with crude steel production at 111.2 million tonnes in 2019, up 1.8% from 109 MT the year before. Global production, at 1,869.9 MT, was up 3.4% compared to 2018





53%

China's share in global steel production in 2019, up from 50.9% in 2018

Source: WSA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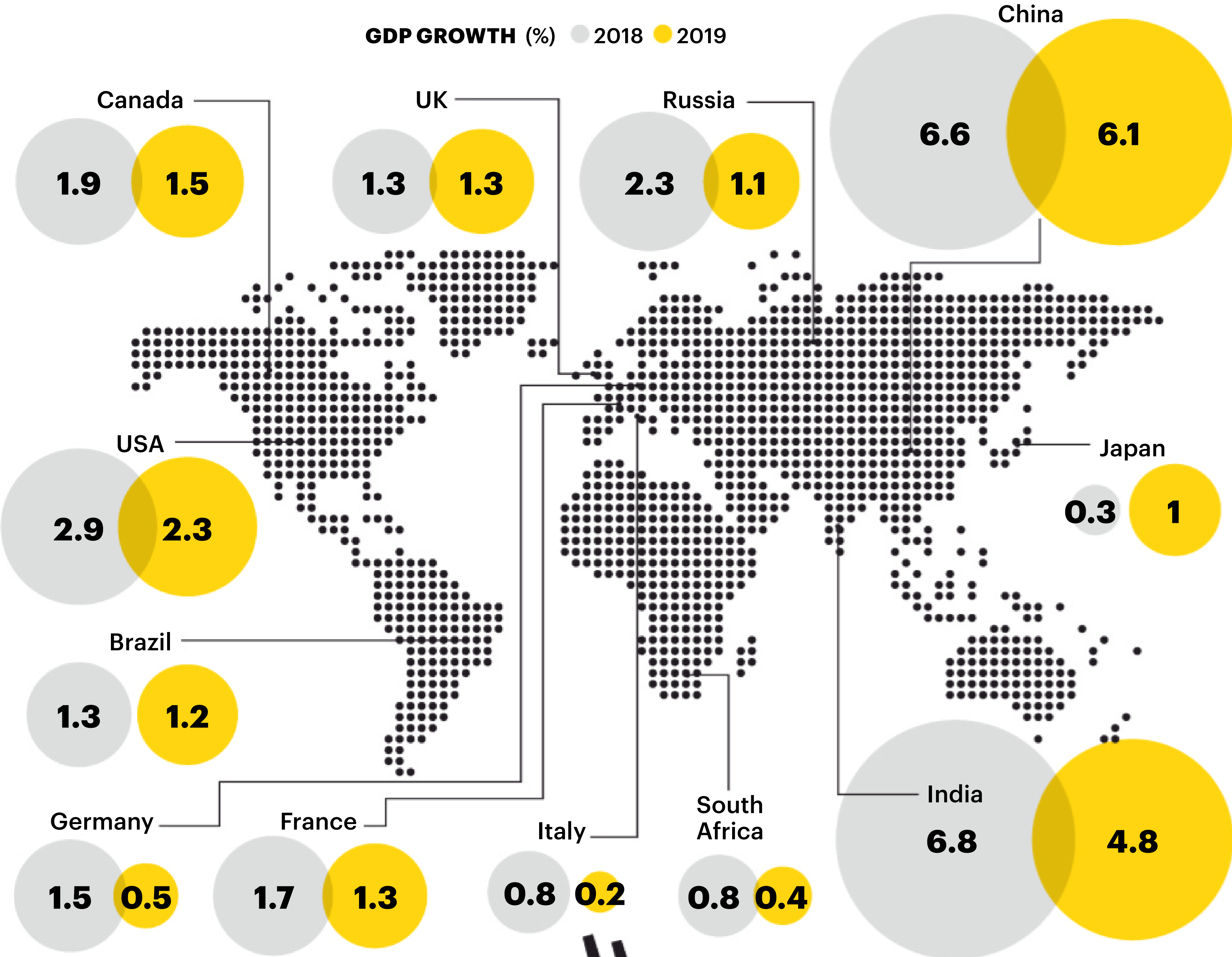
GLOBALLY, ECONOMIES TRIP

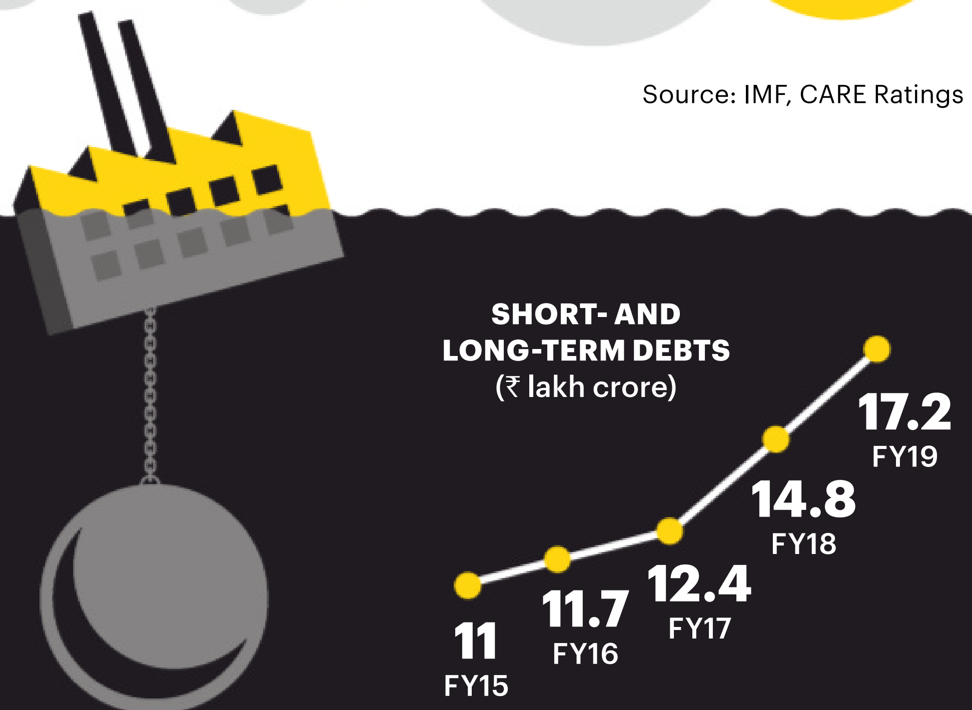
GDP growth in advanced and emerging economies fell in 2019. India witnessed the sharpest fall of 2 percentage points, followed by Russia at 1.2 percentage points. Only Japan registered improved growth



Source: IMF, CARE Ratings

CPSE DEBT BURDEN RISES

Total short-term and long-term loans of Central Public Sector Enterprises (CPSEs) based on the Public Enterprises Survey have grown at a CAGR of around 12% over the last five years

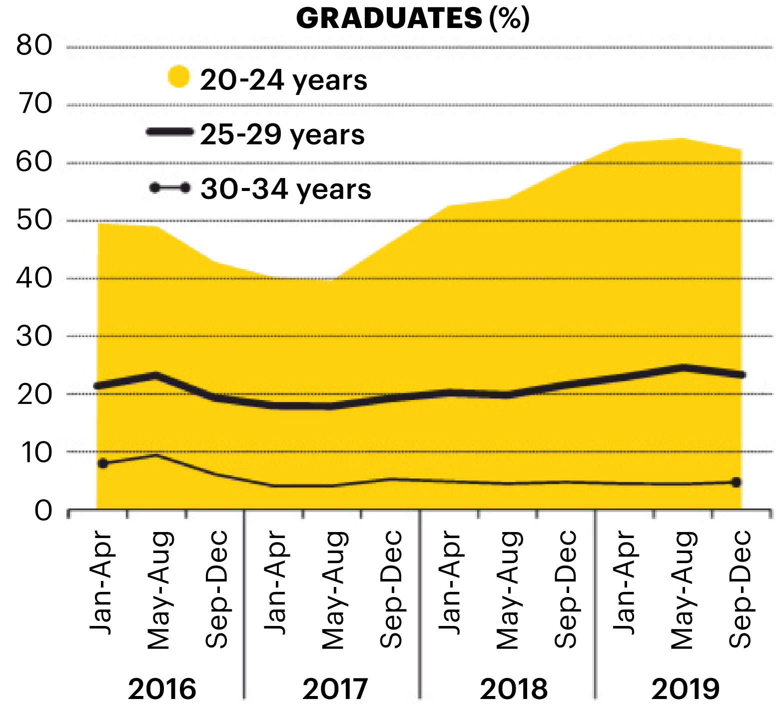


Source: Lok Sabha reply

UNEMPLOYMENT WORRIES LOOM LARGE

Unemployment rate rose to 7.5% during the September-December 2019 period, according to the Consumer Pyramids Household Survey of CMIE. This is the seventh consecutive increase since May-August 2017, when it was 3.8%. Rural India fared better, as the rate there was lower at 6.8%, as opposed to 9% in urban India

UNEMPLOYMENT AMONG GRADUATES (%)



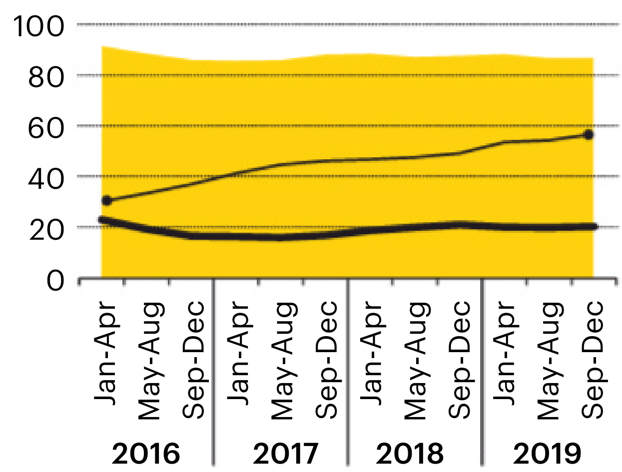
406 MILLION
Average overall employment in India since 2016.
Total employment ranged between 401 million and 412 million

21%
Share of salaried jobs in total employment at 86.4 million towards the end of 2019 (September-December)

WHERE ARE THE JOBS?

Number of people who are self-employed has increased. In 2016 (January-April), only about 29 million people were self-employed, accounting for 20% of employed professionals. This increased to 60% in 2019 (September-December). In contrast, the share of those in salaried jobs or businesses reduced during the period

EMPLOYMENT IN PROFESSIONS (in millions)



Sample size: 1,74,405 households
Source: CMIE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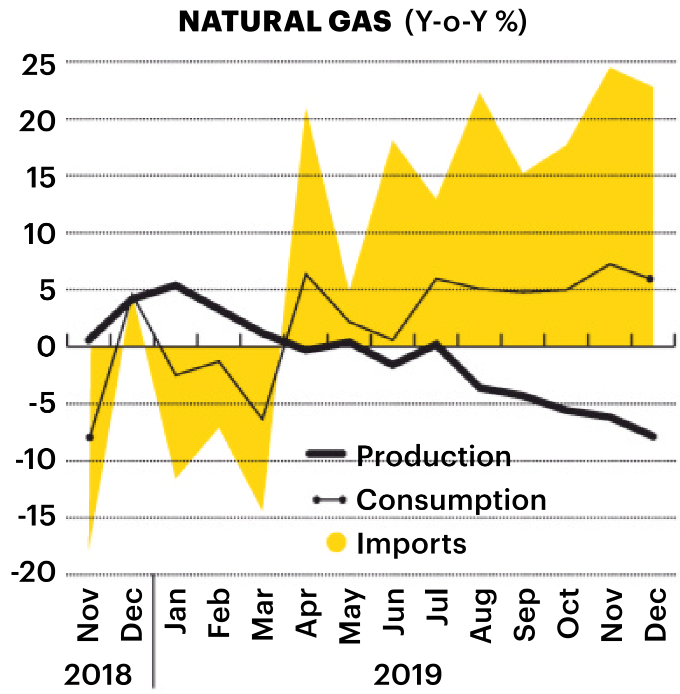
FALL IN LNG PRODUCTION

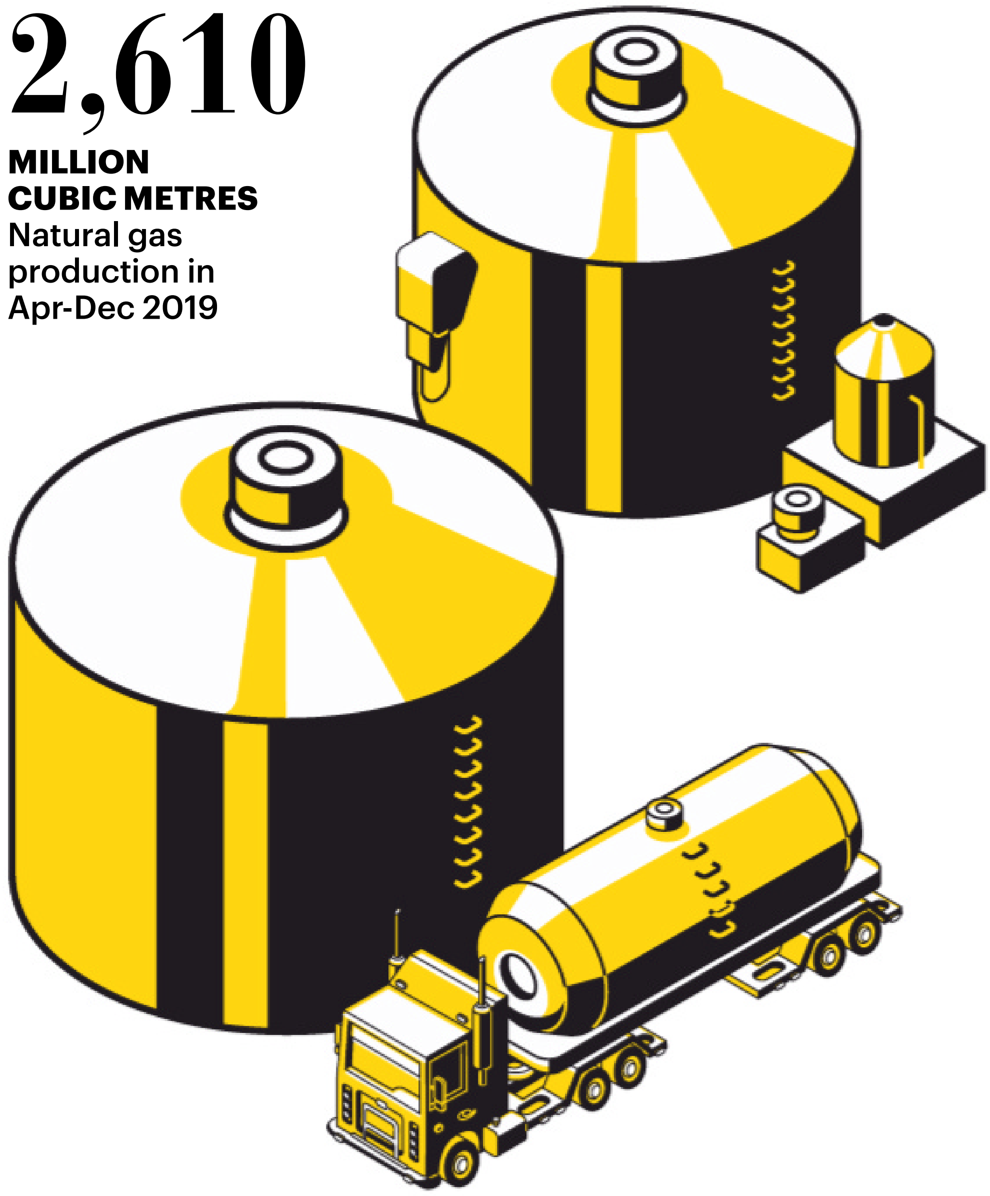
In December, lower global prices due to slowdown fears pushed local production down by 8%



Source: Industry Outlook

2,610

MILLION CUBIC METRES
Natural gas production in Apr-Dec 2019



RAILWAY FREIGHT TRAFFIC GROWTH SLOWS

Reflecting the economic slowdown in India, railway freight traffic contracted 0.6% during April-December 2019. About 891 million tonnes were transported, 5.2 million tonnes lower than in the corresponding period last year, mostly due to a drop in freight traffic of cement and coal

2.3%
Fall in coal freight traffic, which accounts for almost half of total rail traffic

7.4%
Fall in cement traffic (Apr-Dec 2019) versus 4.7% growth in same period in 2018

9% Share of cement in overall freight traffic

CHANGE IN RAIL FREIGHT TRAFFIC
Y-o-Y growth in % for April-December period

Source: CMIE

MYSTERY OF THE OYO ROOMS

WHY THE FAST-GROWING HOTEL CHAIN HAD TO SCALE DOWN

BY MANU KAUSHIK

First, it laid off about 20 per cent of its 12,000-strong staff in India in end-2019, and cut down 5 per cent of the 12,000-strong workforce in China as part of a restructuring. In India, it pulled out operations from 200 of the 600 cities. Just as the world was coming to grips with the sudden scale-down at the fast-growing Oyo Hotels & Homes, more retrenchments were announced at the US operations.

Meanwhile, the anger and dissatisfaction among hotel partners continues to swell. Reports suggest that nearly 500 hotel partners,

PROBLEM AREAS

The hospitality start-up has reportedly asked 10-15 per cent of its 12,000 India employees, and about 5 per cent of its 12,000 employees in China, to **leave immediately**

This abrupt firing of employees has reportedly **affected the morale** of the remaining employees

Delivery of services at Oyo hotels has been criticised by several customers as the company **struggles to get its quality control right**

Several **disgruntled hotel partners** allege that Oyo is cheating them

Deep discounting by Oyo has led to significant erosion of the unorganised hotel market

The **recent round of funding** in October by founder Ritesh Agarwal and existing investors is believed to be driven by majority investor SoftBank **aiming at higher valuation following** the WeWork debacle

PHOTOGRAPH BY VIVAN MEHRA

of about 20,000, have snapped ties with the company since April 2019, alleging hidden charges and lack of transparency (though Oyo claims its partner churn is less than 1 per cent). On top of that, earlier this year, the Income Tax Department arrived at its Gurgaon headquarters to inspect the books of accounts, which the company called a "regular TDS audit".

Since the beginning of 2019, a raft of bad news emerging from Oyo has raised a question mark over the company's astounding growth story. Last year, a major controversy erupted around Founder Ritesh Agarwal's decision to buy back shares at a whopping $10 billion-valuation from the money lent by three Japanese financial institutions that are reportedly close to its lead investor SoftBank. The share buyback doubled Oyo's valuation – and made investor SoftBank less miserable after the WeWork debacle – despite no major improvement in the underlying business.

Oyo's business model of capturing marketshare and building scale is hinged on enormous cash-burn – primarily funded by marquee investors such as SoftBank, Sequoia Capital, Lightspeed Venture Partners, and most recently, Airbnb. The hotel chain has been reporting net losses for several years in a row (see table *Cracks in the Wall*). Losses increased from $52 million in FY18 to $335 million in FY19, according to the company.

With the firm still to declare a deadline to profits, cost cuts became inevitable. The dramatic cut in staff strength in India and abroad point to a desperate effort to slash costs after an unsuccessful attempt at building a roadmap to profitability.

Has the unique hotel platform begun to falter after an unbridled run?

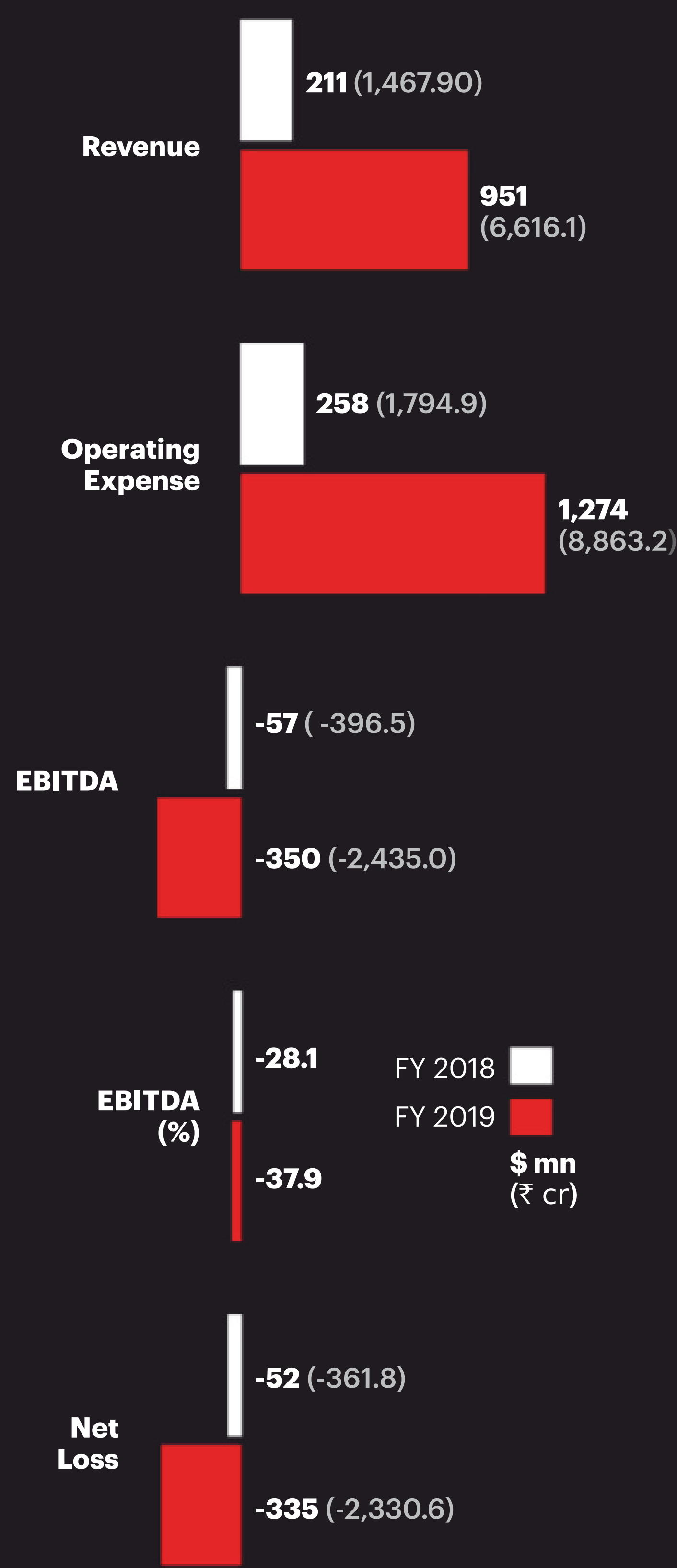
After all, these events undermine the Oyo story its founder Agarwal had envisaged. Agarwal told *Business Today* in a meeting last year that Oyo was on its way to becoming the largest hotel chain in the world by 2023 (by room inventory) led by three pillars: customers, employees, and the leadership team. But in a recent meeting with *BT*, Oyo's newly-appointed CEO (for India and South Asia), Rohit Kapoor, hinted that the ambition may be out of reach now: "Everybody has a right to change their plans". So, has Oyo given up on its grand plans?

Caught Speeding

There are indications that Oyo may be faltering. While there was always a question mark over its break-neck speed of adding hotels to the platform at the expense of service quality, the expansion over the past three years has hit a speed breaker, especially in India and China, its largest markets. Today, Oyo operates in over 800 cities in 80 countries – a huge ramp-up for a start-up that

CRACKS IN THE WALL

LOSSES ARE PILING UP AT OYO HOTELS & HOMES AS OPERATING EXPENSES RISE SHARPLY



1 USD = ₹69.57
EBITDA: Earnings before interest, taxes, depreciation and amortisation
Source: Company

was set up only in 2013. Not just that, it has pivoted its model several times besides rapidly diversifying into areas such as co-living, co-working, vacation homes, tour packaging, cloud kitchen, weddings and cafes.

"They are in a space that nobody understands because never in the history of our industry has somebody grown so quickly. Theirs is a story that will unfold with time. But what one sees with interest is their audacity to be able to do this," says Manav Thadani, Co-founder of hotel consultancy Hotelivate.

As part of the company's recent restructuring, which invited a lot of undue attention, some of the businesses have been brought under a single leadership structure. For instance, its frontier businesses Oyo Townhouse, Collection O, Oyo Life and Oyo Home were separate verticals. These were combined in December 2019, and brought under the leadership of Ankit Gupta, a former senior partner at McKinsey, who joined Oyo in the same month. "I don't think we are exiting any business right now," says Kapoor, rubbishing reports of the company's likely exit from the weddings business, and reported merger of co-living business (Oyo Life) with the flagship hotels (Oyo Rooms) vertical.

Overpromise, Underdeliver

During the heydays of the tech giant Infosys under Co-founder N.R. Narayana Murthy, it was a favourite of the stock markets for a simple reason. Like other tech companies, Infosys would give guidance to investors, and in almost every quarter, the published results were better than the outlook given in the previous quarter. Infosys was playing with the psyche of the investors, and in turn, they rewarded it disproportionately.

The story playing out at the aggregator-turned-hotel-chain Oyo is quite the opposite. Over the past four-odd years, it has become the poster boy of the Indian start-up scene, and has drawn a lot of attention. In October, its valuation touched $10 billion that made it the second-most valuable start-up in the country after Vijay Shekhar Sharma-controlled Paytm (valued at around $16 billion). In just over two years,

$700 million
Ritesh Agarwal's share in the $1.5 billion-funding round in October 2019

Oyo's valuation has grown more than 10 times, and since September 2018, it has doubled.

Though Japanese investment firm SoftBank first invested around $100 million in Oyo in 2015, the big break came in September 2018 when it poured another $1 billion along with other investors. This put Oyo on the global stage – not just within the start-up and PE/VC community but also in actual presence.

Since then, Oyo has expanded furiously beyond India into markets like China, the US, Japan, Indonesia and the UK. In China, for instance, where it entered in November 2017, it became the largest single hotel brand last June. Between January and June 2019, its room count in China more than doubled to over 500,000. In the US, it crossed the 100-hotel milestone in September across 60 cities. "The US is fastest growing for Oyo. Every night I go to sleep, there's one Oyo hotel that opens in the US," Agarwal told an audience at the THINC Indonesia 2019 conference last September.

26
per cent
Agarwal's shareholding if he buys Oyo's shares worth $2 billion; up from 9 per cent

Oyo now boasts of being the world's leading chain of hotels and homes. Its combined portfolio, in late January, comprised more than 43,000 hotels with over 1 million rooms. In December, the number of hotels stood at 44,000, and a month before that, it was 35,000. Surprisingly, the number of rooms has stayed the same in all these months.

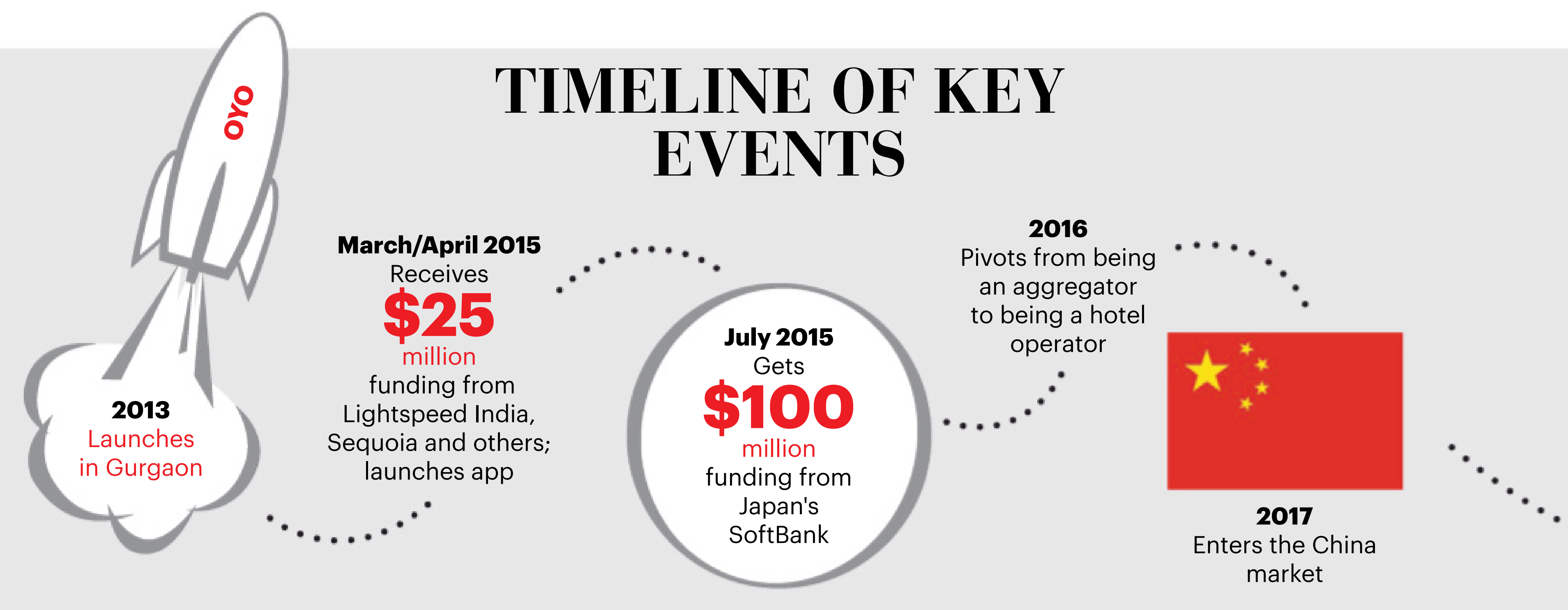
As per a valuation report filed with India's Ministry of Corporate Affairs (MCA) last year, Oyo reported that it would turn profitable by 2022 – a projection that has been rejected by nearly every industry analyst. "I think no such target has been set. Like any other business, we create an annual operating plan... The important change is not that we set a deadline – because that's artificial – but to make sure that through the restructuring exercise of the last two months, we have gone back to the basics and said which parts of business will make money structurally. Now it's a question of executing and getting the team along and executing to that outcome," says CEO Kapoor, adding that Oyo is already profitable in some businesses. For instance, says Kapoor, at business EBITDA (earnings before interest, tax, depreciation and amortisation) level, co-working and homes businesses are profitable. "In some other parts, it may happen in three to nine months. We are willing to make that investment," he adds.

A major focus area for the company needs to be customer experience. A disgruntled customer even started a website (oyo-ruined-my-anniversary.com) to share his bad experience with Oyo. A common strain in complaints is poor quality of rooms and services, and that the rooms don't match what appears on the app.

"What has gone wrong for them is that they still haven't got their hands on quality control, which is why a large number of guests are complaining of service issues at their hotels," says Hotelivate's Thadani.

To get things in order, Oyo will need to make more changes. "Oyo's business strategy requires a shift from a singular focus on growth and scale to operational ef-

TIMELINE OF KEY EVENTS



PHOTOGRAPH BY YASIR IQBAL

"THE IMPORTANT CHANGE IS NOT THAT WE SET A DEADLINE... BUT TO MAKE SURE THAT THROUGH THE RESTRUCTURING EXERCISE, WE GO BACK TO THE BASICS AND SAY WHICH PARTS OF THE BUSINESS WILL MAKE MONEY STRUCTURALLY"

Rohit Kapoor
CEO (India and South Asia), Oyo

ficiencies, customer experience, workforce training and much improved asset management leading to improved yields. A company that claims to be the second-largest hotel player globally by number of rooms cannot use that as its calling card without stopping its cash burn and demonstrating its ability to be profitable," says Mandeep Lamba, President, HVS Anarock, the South Asia arm of global hospitality consulting firm HVS.

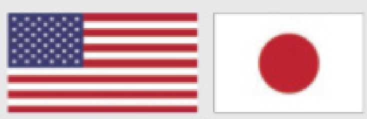
A leading hospitality consultant, who did not wish to be named, said their numbers are opaque about a lot of things and the company is likely to be a long way from earning a profit. On being asked about profitability in Indonesia in September, Agarwal had said, "It's hard for me to give guidance about the potential timeframe. At the building level, we are making margins worldwide. We are investing heavily on the corporate side... On an year-on-year basis, our net losses have reduced by 50 per cent." The numbers, however, tell a different tale.

Agarwal likes to compare Oyo with Marriott International, Hilton Hotels and IHG, but the truth is that it's nowhere close to these global chains. Marriott's room inventory is over 1.3 million (slightly higher than Oyo), but the company registered revenues of $20.76 billion and profits of $2.2 billion in 2018. In comparison, Oyo reported revenues of just $951 million in FY19 and losses of $335 million, as per the latest numbers declared by the company.

One may argue that Oyo is a start-up, and a comparison with legacy operators like Marriott is unfair. But since Oyo has ambitions to lead the global hospitality market at some point in future, all parameters, including revenues and profits, are under the scanner. "We are

2018
$5 billion
valuation after raising money from SoftBank and existing investors; Oyo becomes a unicorn

2018
Establishes operations in the UK, Indonesia and Singapore



2019
Enters the US and Japan

2019
Ritesh Agarwal buys back shares, giving handsome returns to early investors Sequoia and Lightspeed Venture Partners

2019
Claims to be the second-largest chain of hotels and homes in the world

opening 14 times more keys worldwide in comparison to Marriott, Hilton and IHG combined. It is not a fair comparison because IHG is primarily in economy and mid-scale, and Hilton is primarily mid-scale; we are primarily economy. It's not the most like-to-like comparison but that's the closest comparison that we could find," Agarwal said.

According to a hotel association member, Oyo could have perhaps avoided many of its troubles by just operating at a low key, however that route would have gone against its valuation game.

WHAT IT NEEDS TO DO

Oyo needs to focus on its profit-making portfolio of brands like Oyo Townhouse, Capital O, Edition O and Oyo Flagship

It needs to keep a check on unfair business practices by employees at regional and local levels

Instead of aiming for scale, and boasting about it, it needs to start focusing on quality and perception

There has to be clear focus on profitability and timelines for turning profitable and going public

Bed of Thorns

Back in 2013, Oyo actually started off as a full-service hotel operator. But it was competing with Zo Rooms, Treebo and Fab Hotels that were aggregators. All these players were fighting for the same kind of supply. Thanks to the aggregation model, where operators take part inventory in a hotel, Oyo's competitors were signing up more hotels. This led to Oyo pivoting into aggregation in 2015. The scalability in aggregation was faster as mom-and-pop hotels were guaranteed income on their leased rooms. In any case, a part of their inventory always remained unsold. Many online travel agents like MakeMyTrip, Goibibo and others had also followed a similar model, but pulled out later.

Oyo's plan was to ensure minimum service standards, put its branding, and sell it on the app at rates between ₹1,500 and ₹3,000, which is affordable to a bulk of travellers. The branded hotel market in India was an inverted pyramid for long where luxury and upscale hotels had the largest share. But things have changed over the past 10 years with a significant mid-scale and budget inventory coming into the market.

Broadly, hotels in India fall in three categories: branded legal hotels, standalone unbranded but legal hotels, and guest houses which are not always legal. The unbranded legal hotels are estimated to be below one million rooms while the guest houses are about two million. Oyo is focusing in these two categories. "Who needs Oyo? The person who cannot sell because his location is wrong or product is lousy or there's too much competition or he is not distributing well. Oyo can probably help in distribution," says a mid-scale hotel promoter.

Back to another pivot. By 2016, Oyo had become a dominant player – backed by funding from marquee investors like Sequoia Capital and Lightspeed Ventures – and had nearly killed all its competitors. It pivoted again; this time to becoming a hotel operator.

Over the past three years, Oyo has gone one by one to 10,000-plus hotels, and moved them from the aggregation structure to a manchised model (franchise with a general manager), taking full inventory under its control. While the managers are deputed by Oyo and their allegiance lies with the company, the salary comes from the property owners. Oyo has moved as much as 85-90 per cent of its total inventory to this model to build scale.

Interestingly, this 85-90 per cent inventory (called Oyo Rooms in India) put together does not generate even 25-30 per cent of the company's total revenue, experts say. The other 10-15 per cent inventory is in the new projects that the company has started over the past three years. This includes Oyo Townhouse, SilverKey, Capital O, Edition O, Palette Resorts and Oyo Flagship. All the newer brands are either management contracts or leases – the traditional models followed by the branded hotels segment.

Large chains like Hyatt Hotels, Marriott International, Accor and others are operating most of their properties under management contracts. In a management deal, the hotel owner keeps the profit and pays a fee to the hotel brand. In a lease, the brand pays rent to the owner, and keeps the profit. Less aggressive hotel owners typically choose the lease model.

"Most of their million-plus rooms are still under manchisee model. They have put all their new brands under one of these two models (leased or managed). About 65-70 per cent of their revenues are believed to come from the new brands. These are also the models they will grow domestically," says a hotel consultant, not

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Abhishek Gupta, Global CFO


Anil Goel, Group Chief Tech & Product Officer


Kavikrut, Chief Growth Officer


Sam Shih, COO (China)

wishing to be named.

But why pursue the manchise model when it is generating poor revenues? That's because the model gives them scale, marketing muscle, visibility, and boasting rights to be the world's leading hotel company. Experts say the company might see this manchising turning into leasing or managing at some point. "The scale is with them. If they are able to prove to owners across thousands of hotels that the new models are profitable, they will be able to convert the bulk of the inventory," says a hotel consultant quoted above.

But the problem with the manchisee model is more than just low revenues and profits. In order to keep these hotels under its fold, Oyo has to constantly burn money in deep discounting, which is where it's getting a bad name. Take an example. An average guest who always stayed at a particular hotel used to pay ₹1,800 a night to it. The property owner tied up with Oyo, which is now selling the same room at ₹999 on its app. The same guest now books through Oyo. The owner complains to Oyo for selling rooms at such huge discounts. Oyo, in return, says that it's reimbursing the difference from its pocket, and there's no reason for owners to grumble. The problem is that Oyo is perhaps eroding the market: the customer is getting used to the ₹999 price. What happens when the cash-burn stops?

"Hotel owners believe that they are at the mercy of Oyo. Online travel agents and e-commerce companies have been deep discounting. People are saying that this is not in the spirit of fair market conditions. Oyo is getting rapped for that," says a senior executive at a large OTA.

Oyo, however, claims that the actual room prices – prices that customers are willing to pay – tend to be lower than the owners' self-assessed rates. The start-up looks at RevPAR (revenue per available room) – an industry metric which is a combination of rates and occupancy, rather than just tariffs – to drive growth for its partners. Oyo says that once it takes over a hotel, occupancy shoots up substantially. So, even if room tariffs are lower than before, overall revenues of that property grow.

Up in Arms

Not just deep discounting, a half-dozen hotel owners that *BT* spoke with said that employees at the local level are using unfair means to increase hotel sign-ups. Oyo's staff, they say, are being given impractically high targets, which is forcing local teams to get contracts signed without disclosing full terms to the owners. Small hotel owners trust the Oyo name, and sign contracts without reading or understanding the fine print.

Last September, Delhi-based hotel operator Vijay Tiwari became the leader of 'victimised' owners in Delhi's hospitality hub Paharganj. After being allegedly cheated by Oyo, Tiwari made a video asking other hoteliers to boycott Oyo. The video went viral, and nearly 90 hotel owners in the vicinity joined the protests. Oyo slapped cases against some owners, but later asked for more time from the court to pursue these cases.

Tiwari had signed the contract for three properties with Oyo last February. "Initially, I was told that Oyo would sell 5-10 rooms out of each property, and they had also set the floor price. We signed the deal at 12.5 per cent commission with no hidden charges," he says. Tiwari's contract with Oyo, which *BT* reviewed, was a franchisee agreement for his entire inventory, and not for partial inventory that he says the Oyo executive had promised. Tiwari also claims that Oyo used a different name on its app to sell these hotels so that he could sell his inventory on other platforms as well. "Oyo started penalising me for not honouring the contract. It's only after we went to court that we realised that they had all the rights on our properties," he says. "They were penalising me (for selling part inventory on my own) more than the business it was generating for me. After four months, they told me that the penalty cannot be reversed as their policy has changed. I e-mailed but they stopped replying. They have not refunded the amount yet," he says.

The tribe of distressed hotel partners is growing, making it another big problem that Oyo has to deal with. In September, for instance, an FIR was reportedly filed against Agarwal by Bengaluru hotelier Natarajan V.R.S. accusing the company of unfair business practices. Less than two months after that, another Bengaluru hotelier, Betz Fernandez, reportedly filed a case of cheating against Agarwal and six others alleging non-payment of rent for rooms for five months. There are over a dozen WhatsApp groups of Oyo 'victims' (this writer is member of two groups) where hoteliers across the country share latest developments on Oyo, and the status of their varied complaints against the chain. One analyst says that since many of these are small businesses, they don't have pockets deep enough to wait for six months for payments.

Oyo's Kapoor admits that issues at the local level is an area where the company has to improve. "There are two factors to it. Do my [employees at the] last-mile understand the product they are selling? The second is simplification at every level. The core [issue] is around both sides understanding what it takes to run the partnership because there are obligations on both sides," he says.

OYO FACTBOX

Founded in
2013

Global headcount:
25,000

Global asset owner partners:
43,000

Number of hotel rooms globally:
1 million+

Number of rooms in India:
300,000 across 17,000 hotels

Number of Oyo rooms booked per second (in 2019):
5

Global Oyo app user base (2019):
77.5 million

Credibility at Stake

The company's accountability in the industry is also taking a beating as many hoteliers say that Oyo artificially pumps up its number of rooms. They say the number of available rooms is actually much less because Oyo doesn't unlist properties even after the contract with them has ended. A case in point is Delhi's Capital O 22145 Hotel BB Palace, which snapped ties with Oyo last October, but was still listed on the app – although the booking status stated was 'sold off' – at the time of writing the story.

Another hotelier, requesting anonymity, accused the company of having a lot of fake listing. "Oyo doesn't ask for any legal documents or hotel licence. They just ask for bank details, GST number and PAN card. Several of their properties have duplicate listings on other platforms. I am still getting reconciliation statements for bookings months after ending the contract with them," he says.

But that was not the case a while ago; earlier many property owners were eager to sign up. Oyo convinced small-time hotel owners to follow its model. The playbook was set: Oyo would take over unproductive assets, renovate them with good design, operate them well, and boost the occupancies. Agarwal told *BT* in 2019 that the assets that joined Oyo's network saw occupancy go up from 25 per cent to 75 per cent in a maximum of three months. In markets like India, the lead time

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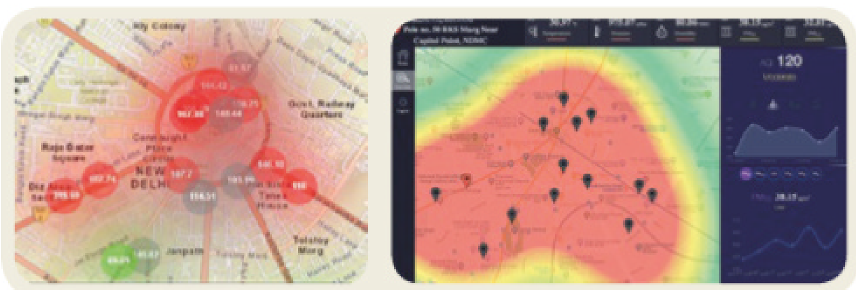
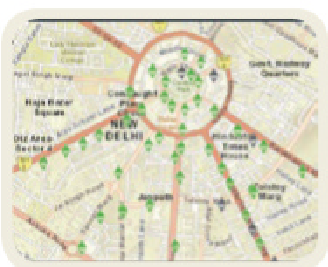
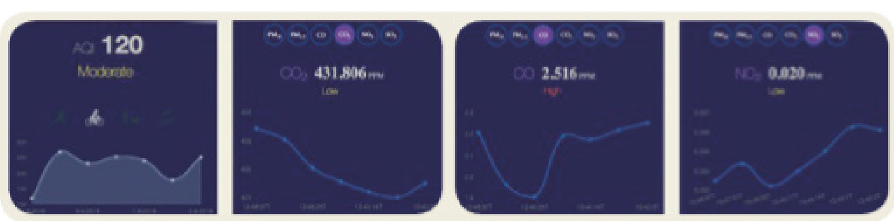


Environment Sensors



Smart City Lighting

IP-67 certified hydraulically operated Kaizen box for equipment to provide uninterrupted services



Measuring the Air Pollutants

Keeping in mind the Citizen's requirement in the areas of **Safety, Environment & Connectivity** with next generation mobile services along with a robust Fiber infrastructure, a first of its kind in India - **Public Private Partnership (PPP) initiative** has been rolled out by **New Delhi Municipal Council (NDMC) and Vadodara Municipal Corporation (VMC) and Indus Towers.**

Projects comprise of **Smart Poles** with **LED lights, CCTV cameras, Environment Sensors** integrated with the Command Control Center and will enable telecom service providers to offer **public WiFi system** at each pole. The Environment Sensors capture and display features on real time basis.

The above projects are important initiatives under the Govt. of India's Smart City Mission and truly demonstrates our credo of 'Putting India First.

is just a month. And despite the rise in occupancy, the cost didn't rise much – 10 per cent maybe – which resulted in a 15-16 times jump in profits for hoteliers.

This is also the formula that Oyo has followed in other countries. "Once they take a strategic decision to enter a country, they are able to scale up fast. They are process driven. Credit goes to them for having created tech-based platforms that enable everything from signing up a hotel in 48 hours to opening it in 14 days to actually doing Greenfield development in less than a year. They have software for revenue management, quality assurance, yield management, and distribution. All of this is developed by a team of about 1,600 data scientists, who are coders with a business mind," says Hotelivate's Thadani.

Then why are hotel partners leaving Oyo now? The start-up says that it's largely because owners are not able to deliver quality experience to guests. "It is often about the customer service standards that we expect from partners. A large part of our partner base does a fantastic job of serving the customer. But a small part is not able to match up to the requirement. When that happens, we have to take them off the network till they make the correction and come back," Kapoor says, adding that he is personally meeting 2-3 unhappy partners every week in an attempt to resolve issues. Oyo claims that despite partner issues, its partner base has grown 30-40 per cent in India last year, and currently stands at nearly 20,000 across different cities.

Over the past one year, the start-up has also been actively engaged in launching new programmes – OPEN (Oyo partner engagement network) and Sambandh – to stem the growing discontent in the partner community. It has recently opened its first partner support centre in Gurgaon, where partners can walk in if they have any issues. More such centres are planned to be opened in other cities.

"THEY STILL HAVEN'T GOT THEIR HANDS ON QUALITY CONTROL WHICH IS WHY GUESTS ARE COMPLAINING OF SERVICE ISSUES"

Manav Thadani, Co-founder, Hotelivate

"OYO'S BUSINESS STRATEGY REQUIRES A SHIFT FROM A SINGULAR FOCUS ON GROWTH AND SCALE TO OPERATIONAL EFFICIENCIES"

Mandeep Lamba, President, HVS Anarock

The 'Soft' Corner

Recently, in an interview, Agarwal said that by merely putting superstar Marilyn Monroe's posters in some hotels improved the RevPARs in the US. While Monroe might be adding to Oyo's fortunes, SoftBank is perhaps spoiling it.

No matter how much Agarwal tries to downplay SoftBank's influence on Oyo, recent events hint at growing control of Masayoshi Son, the founder of SoftBank. Son's authority is not just evident in Oyo's business strategy but also in the way he seems to be using the company for his mega $97-billion Vision Fund.

Son's strategy is to fund investee companies with a minimum of $100 million, drive them to becoming market leaders, and then list them. It seems a similar model is being attempted at Oyo, too – expand in different geographies, turn profitable and go for public listing.

However, in October, when Oyo announced a fresh round of funding of $1.5 billion, it raised questions on SoftBank's influence at Oyo. A part of this funding – $700 million – was infused by Agarwal to hike his stake in the start-up. That's not all. Agarwal has plans to purchase Oyo's shares worth $2 billion, which would increase his shareholding from 9 per cent to about 26 per cent.

While the company had said the funds raised in the last round would be used to expand in the US, and grow the vacation rental business in Europe, in reality, it is largely a matter of shares changing hands between the existing shareholders. And in the process, the transaction added another $5 billion to the Oyo's valuation. Added to that is the fact that Agarwal's $700 million comes in the form of loans from Japanese financial groups such as Mizuho, Nomura Holdings and one unidentified bank, all of which have deep links with SoftBank.

These moves are in stark contrast to what Agarwal had told *BT* last year about his shareholding reducing. "I have diluted my holding but I have no regrets. I feel that I have the opportunity to make such a big difference, which is what inspired me in the first place to start it," he had said.

SoftBank's Vision Fund, which is under fire for the WeWork debacle and the poor Uber IPO, reported its first-ever quarterly loss of $8.9 billion in 14 years in the September quarter followed by $2 billion loss in the December 2019 quarter. "Oyo's lofty valuation has helped SoftBank. Pinning hopes on Oyo is obvious after two of its big investments came a cropper," says a VC founder.

"SoftBank was backing Oyo blindly. But Son is in a jam, and that's why there was a need for restructuring. Now, suddenly, SoftBank is unable to raise another $100 billion for Vision Fund-II. Oyo's metrics are wrong. All these start-ups grew in the era of gross merchandise value. Nobody thought about unit economics, sustainability, and profitability. Oyo is no longer a tech play. That was also the biggest problem with WeWork. The public market said that this is not a tech company but a real estate business. They were borrowing assets for long term, and selling it on short-term leases. There was this lustre and glamour of SoftBank. WeWork has sorted out everything," says a mid-scale hotel promoter quoted above.

US-based co-working giant WeWork was one of the largest investments of SoftBank. Last year, when WeWork tried to list on Nasdaq, its valuation tanked from $47 billion to less than $5 billion in a matter of weeks as investors got spooked over its flawed business model. As a result, SoftBank had to take a severe beating on that investment, and orchestrate a $9-billion bailout.

"They [SoftBank] are the largest shareholder. We operate like a Board-run company. There's a perception out there that SoftBank is sending instructions to Oyo; that's completely untrue. It's like any other company where you continuously engage," explains Oyo's Kapoor.

The other part of the valuation puzzle is its diversification into other verticals such as co-working, co-living, student housing, and weddings. Experts say, the idea is to confuse investors as it is difficult to value each vertical separately and arrive at a fair number. If the company was just in hotels, it would be easier to value the company accurately.

Oyo, however, maintains that all these verticals are fast-growing segments. "The wedding business has upside. The demographic trends in India are so favourable to it, and there's no organised player of our size and scale. The co-living business is a strong growth area too. Thirty-five million people move cities every year – either for first and second jobs or for studies. That's a large population that is not going to buy houses. Our job is to take care of partners and keep the equilibrium going... It is never perfect," says Kapoor.

85-90
per cent
Share of franchise model in the company's India inventory. But these rooms contribute only about 30 per cent of revenues

• • • •

1
million
Number of unbranded legal hotels in India; guest houses are estimated to be two million

• • • •

What's Next?

It is now clear that if Oyo has to survive, it needs to focus on profit-making businesses. The unprofitable segments have to be either shut down or their formats changed. The future of Oyo largely depends on its ability to turn profitable, and hopefully list on bourses in future. But that's going to be a long journey with several imponderables.

One of the 'ifs' is Oyo's $10-billion valuation, which holds water in just two instances. One is if the company goes public or if a third-party buys it. "If Marriott or Accor or Hilton buys Oyo, I would be extremely surprised. These companies like the growth story but not the quality and they will not want to be associated with that. Look at Accor, which bought OneFineStay, which was the upper end of the Airbnb model; it's suffered a setback," says a hotelier.

The IPO route seems to be the only possible option.

"The restructuring at Oyo is a step in the right direction. Exponential growth always leads to some collateral damage and it was inevitable that Oyo would need to course-correct. Given where it is in its life cycle, Oyo needs to raise the next round of funding from capital markets, for which it requires better operating capabilities for analysts to find favour with the stock," says HVS Anarock's Lamba.

While there are companies that have gone for an IPO in the US and China without being profitable, regulations in India are typically strict for listing.

Apart from that, "in India, there are credibility issues with someone like Oyo. SoftBank will make them go for an IPO somewhere else. With WeWork, they were not able to build the book, and the IPO crashed. Will there be buyers for Oyo? I don't know," says Hotelivate's Thadani.

For now, Agarwal's mission has hit a speed breaker. Nobody said his journey would be easy, but nobody had thought that it would be puzzling either. Setting things in order could be Agarwal's key to solving the Oyo puzzle. BT

@manukaushik

Industry

OUT IN THE COLD

The disruption due to **coronavirus** in China has put Indian industry in a jam

BY TEAM BT

Phrases, at times, sum up global power transitions. In the nineteenth century, Austrian politician Klemens von Metternich said, "When Paris sneezes, Europe catches a cold." Paris gave way to "America" in the twentieth century, reflecting the shift in global trade. Now, it is a lot more about the East. When China sneezes, the world catches a cold. But what about India? Considering the economic disruption its northern neighbour is facing because of the breakout of coronavirus that has claimed hundreds of lives and led to shutdown of some important economic centres.

Sample this: China is India's second-largest trading partner with overall trade of $64.9 billion between April 2019 and December 2019. The country also accounts for a bulk of India's trade deficit (around 32 per cent). In fiscal 2019, India imported automobile components worth $4.6 billion from China, which was more than a quarter of component imports into the country. About 65 per cent of inputs in medicines under the National List of Essential Medicines (NLEM) come from China. In case of paracetamol, nearly 80 per cent of the material that goes into making active pharmaceutical ingredients, or APIs,

Indian Manufacturers' China Reliance

China is India's second-largest trading partner

$64.9 BILLION
Overall trade (April-December 2019)

32%
China's contribution to India's trade deficit

come from the Middle Kingdom. APIs, or bulk drugs, are raw materials to manufacture medicines.

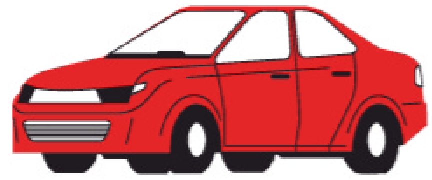
Apart from this, up to 80 per cent components of a mobile phone assembled in India come from Chinese firms. The country also supplies 80 per cent of solar cells and modules used in India and 85 per cent toys sold in India. The saving grace for now is that in preparation for the Chinese New Year, most Indian manufacturers had stocked up for a few months. Hence, most have inventories for a few weeks, at least until the end of February. If Chinese factories don't reopen in a couple of weeks, Indian assemblers would be in for a jolt. Lunar New Year holidays, called the Chinese New Year holidays, have been extended. The holidays, between January 24 and 30, were first extended till February 9-10 as the Chinese government wanted to contain the spread of the disease. They may now be extended till February 17 and beyond depending on the province.

Experts say these developments could hurt India's economy, which is not out of the woods yet. Private sector lender Yes Bank said in a recent note: "We expect expansion in manufacturing and services to continue, but at a slower pace. We see sequential recovery in domestic demand on account of positive monsoon, improved rabi sowing, recent shift in terms of trade in favour of the farm sector and higher budgetary allocation for the rural sector in FY21. Further, thawing of US-China trade relations should encourage exports and gradual progress in monetary transmission should start spurring consumption and investment demand. However, the outbreak of 2019-nCoV (coronavirus) could have a mild temporary adverse spillover."

The coronavirus, which can cause a range of respiratory illnesses, started in Wuhan in Hubei province of China but quickly spread across 18 regions of the country. The number of those infected across China has risen to over 60,000 while 1,300 people have died thus far. The virus has spread to 25 countries. Restrictions on travel and subsequent factory closures have disrupted global supply chains. According to Dun & Bradstreet (D&B), the impacted provinces in China account for over 90 per cent of all active businesses in the country. "At least 51,000 companies around the world have one or more direct or Tier-1 suppliers in the impacted region, and at least five million companies around the world have one or more Tier-II suppliers in the impacted region," notes D&B.

BT spoke to representatives of industries dependent on China to assess the potential impact on them.

Automobiles: The automobile industry in India contributes as much as 49 per cent to the country's manufacturing GDP. Although India has its own auto component industry, it is still not completely insulated from China. In fact, import of components from China has been on the rise. In FY19, India imported auto components worth $4.6 billion from China. In the first six months of the current fiscal, imports from China were worth $2 billion. "There is not a single country in the world that produces everything. It's

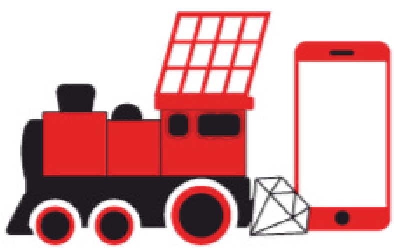


Auto

- India imported automobile components worth $2 billion from China in the first six months of the current fiscal
- In FY19, imports were worth $4.6 billion, more than a quarter of the overall component imports into the country
- Transition to BS VI emission norms in April may be affected if components are not available

Pharma

- India imports $3 billion worth of APIs from China in a year
- 65% of inputs in medicines under the National List of Essential Medicines come from China
- The country is a major global supplier of antibiotics such as penicillin G, its derivatives, cephalosporins, its derivatives, and tetracyclines, apart from Vitamin C and D.
- 80% of the material for paracetamol API and nearly 90% for first line of anti-diabetic metformin API come from China



Mobile Phones, Solar, Toys, Diamonds

- Up to 80% components in mobile phones assembled in India are imported from China
- 80% of solar cells and modules used in India come from China
- 85% of the toy market by value is accounted for by Chinese imports; no new consignments from China in last one month
- 37% diamonds exported from Surat go to Hong Kong, where two international diamond expos have been postponed

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Lion Dr. Kiron
CEO, Suchirindia Group
Hony. Counsul of Bulgaria
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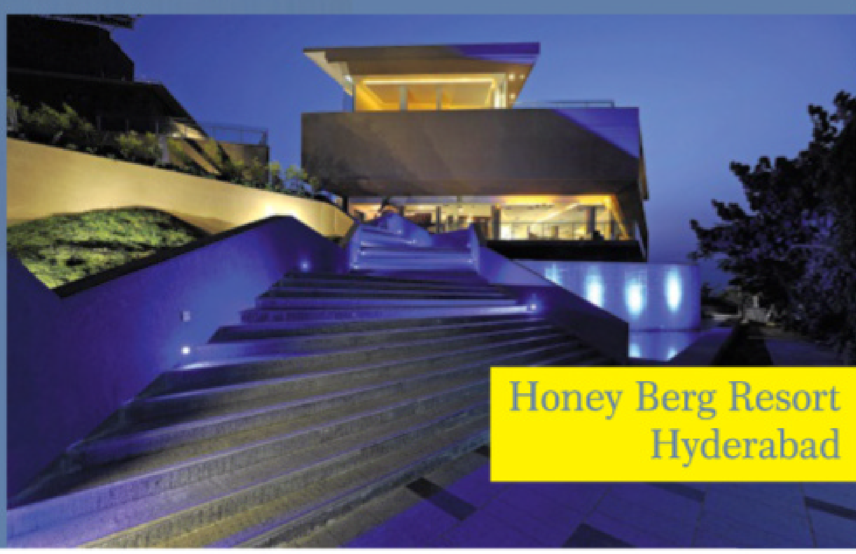
The group is powered by the astute leadership of Lion Dr Y Kiron, an authority on the subjects of realty, construction, infrastructure and continuum. He drives the group up the value curve backed by experience, expertise and exposure in executing large projects. The group is now experiencing hyper growth and is uniquely placed to create a pan India footprint. Under the able leadership of Dr Kiron, the organization has executed some prestigious international projects in Sri Lanka, Kazakhstan etc. Suchirindia has developed over a staggering 5.1 million sq. meters of townships spread across 9 different geographical locations. In terms of revenue the total value of these projects runs into 500 Crores. Brand Suchirindia has been at the forefront in bringing value, global expertise & experience, and creating job opportunities.

Pursuing perfection in every endeavor

Dr Kiron is not only an industry captain but also dons many hats. He is the Honorary Consul of Bulgaria to Telangana and Andhra Pradesh. He is also a prolific author who has penned numerous books on realty; his latest publication Earth Shastra was recently released by HE, Governor of Telangana Dr.Tamilisai Soundararajan and is garnering rave reviews. The successful entrepreneur is an avid sports lover and adventurer. He has circumnavigated the globe including Arctic and Antarctica. He recently received the Indian Achiever Award as Outstanding and Trendsetting Contributor to Real Estate. It was given away by Sri Ramesh Pokhriyal, Union HRD Minister, in the presence of former CJI KG Balakrishnan, BJP National Vice President Sri Shyam Jaju and a host of other dignitaries. Talking about his vision the multi-talented professional avers "For me, Suchirindia symbolizes change and better living. Offering projects which combine great ROI and smart living is the true game changer. In fact our latest project Ivy Greens is testimony to the same. It's a one of its kind's greenhouse themed project that promotes ecofriendly living. By commissioning this venture, we are vigorously driving home the concept of good living in tandem with Mother Nature.We are also planning a bunch of ventures across the nation with ecofriendly living as the call to action. As always each of the projects is devised to deliver utter delight to customers in the form of ROI and instant appreciation. And yes, every project is loaded with signature Suchirindia amenities and facilities."

A man of action

When asked about his favorite leisure time activities he states "I love adventures. Skydiving, scuba diving, bungee jumping and mountaineering are some of my favorite adventure activities. My recent skydive from a height of over 40,000 feet in Honolulu was an amazing experience. Am also an avid Golfer with an honest sixteen handicap. Wanderlust is my biggest weakness. I have explored more than 150 countries till date including Arctic and Antarctica."



Honey Berg Resort
Hyderabad

the same with the automotive industry. We are weak as far as electronics are concerned. Depending on the product, there's always a piece of China. So, coronavirus might have an impact," says Guenter Butschek, Managing Director and CEO of Tata Motors. "We expect people to get back to work at the beginning of the next week. So, we need another reference check to see what has been produced, what has been shipped, what is available for shipment, and then to do the math to see where we are against our production plan. This is currently an operational concern and we will discover it as our regular contacts get back at work," he adds. Jaguar Land Rover (JLR), the subsidiary of Tata Motors, has extended a plant shutdown in China and asked its 3,000 employees to work from home. The plant of the joint venture firm, Chery Jaguar Land Rover, is located in Changshu, about 800 km from the epicentre of the outbreak in Wuhan.

India's largest two-wheeler maker Hero MotoCorp has said the outbreak in China is likely to impact its planned production for February by 10 per cent as supply of some components has been affected. Another company that has admitted it would be hit is MG Motor, owned by SAIC, China's biggest automobile company. MG entered the Indian market last year and sells the Hector mid-size SUV. Last month, it launched its maiden electric SUV, ZS EV. "We expect significant disruption in the supply chain from European and Chinese/Asian suppliers," says Gaurav Gupta, Chief Commercial Officer, MG Motor India. "Our sales will get impacted in February as our inventory levels have been minimum because of the bookings backlog. We are working to ensure that the impact on the consumer and our operations is minimised," he adds.

We expect significant disruption in supply chain from European and Chinese/Asian suppliers. Our sales will get impacted in February as our inventory is minimum

Gaurav Gupta
Chief Commercial Officer, MG Motor India

In case of paracetamol, nearly 80 per cent of the material that goes into making the API is imported from China

Krishna Prasad Chigurupati
CMD, Granules India

The transition from BS IV to BS VI emission norms in April this year is complicating things. Mahindra and Mahindra (M&M), for example, says there are still some vehicles in the last lot of BS IV production that may get impacted if parts do not come in time from China. A delay in production of these vehicles will put the company in a tight spot with dealers as no BS IV vehicle can be registered after March 31. "I don't see any risk in the transition from BS IV to BS VI except for the impact of the coronavirus. We have one or two parts that are procured from China for our BS IV vehicles. These are now in the quarantine process," says Pawan Goenka, Managing Director, M&M. "I am hoping that supply will open up in the next week to 10 days and there won't be any impact. But if it goes beyond that, we will have a challenge of 3,000–3,500 BS IV vehicles for which other parts are already in our inventory," he says.

Pharma: Indian drug manufacturers are heavily dependent on China for sourcing their drug ingredients or APIs. This is largely for penicillin G, tetracycline and vitamins such as vitamin C and D. All these are based on drug ingredients made using the fermentation process, an area where China has achieved dominance. There is dependence on other areas, too. Officials from the Pharmaceutical Export Promotion Council of India say that for medicines under NLEM, import dependence on China is to the tune of 65 per cent of inputs. For imports outside NLEM, it is up to 90 per cent. In case of paracetamol, nearly 80 per cent of the material that goes into making the API is imported from China, says Krishna Prasad Chigurupati, Chairman and Managing Director of Granules India. Overall, API imports from China are in the range of $2.5-3 billion or about ₹17,000 crore, as per estimates from the Pharmaceuticals Export Promotion Council of India. For now, the fallout of the coronavirus scare has been on prices of APIs; prices of paracetamol have increased by 30-35 per cent. Chigurupati says prices will settle down as most of the inputs do not come from Wuhan.

The Indian government has approached most Indian pharmaceutical associations and companies for data on inventory and shortages. These companies talk of an ability to last another five to six weeks. Meanwhile, the scare is making India's pharmaceutical industry seek enabling policy environment to make India self-reliant in at leastsome key areas. Satyanarayana Chava, Founder and CEO of Laurus Labs, a supplier of APIs from India, says, "India needs a long-term

MERCEDES-BENZ IS RESTLESS FOR TOMORROW

Martin Schwenk, MD & CEO, Mercedes-Benz India opens up about the company's strategy going forward and how its new products are bringing forth a tech revolution in the industry.

Q We're now seeing a technological revolution in the country. Initially, it was design that was playing up Mercedes-Benz and you got it back into the reckoning as a young people's brand and now I think it is both technologies under the skin and inside the car that is totally revolutionary?

Absolutely! But not only that, at the same time we go into electric vehicles. The overall strategy of CASE – Connected, Autonomous, Shared and Electric – has shown its first results in the form of high-tech interiors featuring big screens in our cars and at the same time electrifications as well as assistance systems. I would want to add one sentence there, our motto for India for 2020 is "Restless for Tomorrow" and that's exactly the spirit you need to have if you want to push the boundaries and move the brand forward.

Q To accomplish this "Restless for Tomorrow" motto what are you plans over the course of the year with the brand and the cars?

Product-wise, we have quite a strong lineup planned for 2020. We have the new version of the GLA and the A-Class Limousine, which is a completely new product for India. At the same time, we have just launched the GLE, a completely new car, and also the renewed GLC prior. Over the year, we have been introducing lot of new cars and in 2020, at least 10 more cars will be launched.

Q MBUX is the architecture you are using for infotainment, so how does it revolutionize the infotainment and the connectivity features of the car?

I think why it stands out is that it is based on artificial intelligence and natural language recognition. Any statement you make or a question you ask, for instance, "Hey Mercedes!", there will be an intuitive answer. It can be some functionality of the vehicle or can be some random question where the system will understand and provide you with an answer. That's a completely new way of interaction between the driver, passenger and the vehicle itself.

Q The customers you are trying to attract through the "Restless for Tomorrow" theme is also for your certified pre-owned cars business?

We believe that a lot can happen in the pre-owned car space and it will not only help brand growth, but also make vehicles accessible at a different price point to a broader audience. We have our e-commerce platform through which you can book and purchase a certified pre-owned vehicle. I think that brings a lot of transparency to the market and it will help a lot of customers who otherwise might not consider a Mercedes because they might not go to the showroom and are not aware of pre-owned product offerings from our dealers. This network now already has quite a few cars and I would encourage people to take a look.

Q For you, the BS IV to BS VI transition wasn't much of a problem because you started very early. You were the first company to launch a BS VI car in the country so, how has the progress towards BS VI been for you?

You are absolutely right! We started our BS VI product introduction as early as January 2018. Right now, up till this point, we have already sold 6,000 BS VI compliant vehicles, which is significant if you take into account the just under 14,000 cars we sold last year. Our engines are basically even better than BS VI compliance requirement. They comply with EURO 6d-TEMP norms which helps us undercut the limits of BS VI with these engines on the diesel side. That's why, we strongly believe that diesel is a very good proposition for India as they are very efficient engines with 20-25 per cent less consumption, and also lower CO2 emissions. At the same time pollutant are at the same levels as petrol engines and far below the current BS VI regulations.

strategy to strengthen supplies of key raw materials for the pharma industry. We need to become self-reliant and create global capacities in India."

Mobile phones, solar products: Chinese mobile phone makers dominate the Indian smartphone landscape — four out of top five vendors are currently Chinese. These are Xiaomi, Vivo, Realme and OPPO. Xiaomi recently reported its highest ever smartphone shipments (12.6 million units) in the third quarter, a rise of 8.5 per cent over the year-ago period.

While many of these companies assemble smartphones in India, the components come from China. Xiaomi India says its current operations aren't affected as it had planned ahead for the Chinese New Year. "Business might get affected only if China shuts down for additional two-three weeks but then all the other industries will also be affected. At present, it's a wait and watch situation for all players dependent on China for supply or support," it says. "China accounts for almost 85 per cent of mobile phone components imported into India. If the lockdown continues in China, it will spell serious trouble for smartphone brands in India in the first half of 2020, and potentially even beyond," says Prabhu Ram, an analyst with CyberMedia Research. One model of Asus India is getting ready for a shortage. "While we had steady availability for long, due to disruption in supply caused by the prevailing situation in Asia, ROG Phone II will face a temporary shortage. Rest assured, we are working hard to ensure that your favourite gaming smartphone will be back in stock soon," says the company

China accounts for almost 85 per cent of mobile phone components. If the lockdown continues, it will spell serious trouble for smartphone brands

Prabhu Ram
Analyst, CyberMedia Research

India's solar industry appears to be more worried. Indian companies buy 80 per cent of their solar cells and modules from China "Supply disruption, delays in production, delays in quality checks and transport of components due to the outbreak are already visible in China," says Gyanesh Chaudhary, Managing Director, Vikram Solar. The company makes solar equipment. He adds that project developers in India, already dealing with challenges such as safeguard duty and GST, are expected to face more difficulty. "As power purchase agreements signed by developers specify strict commissioning deadlines, failure to meet them will result in fines and encashment of bank guarantees. Considering the scenario, government support should be extended to the affected industries. A prolonged slowdown in China will cause raw material shortage and affect many domestic manufacturers as well," he says. The value of solar cells/photovoltaic cells imported from China jumped to $3.41 billion in 2017/18 from $596.73 million in 2013/14.

Diamonds and toys: The sparkle in Surat, the world's largest hub for polishing diamonds, may wane. If the coronavirus outbreak isn't contained soon, the city is likely to lose business worth between ₹8,000 crore and ₹10,000 crore over the next two months. "Polished diamonds are transported from Surat to Mumbai and polished diamonds worth around ₹50,000 crore are exported every year to Hong Kong, where the international trading community comes for purchases. Hong Kong has been shut for over a month and that is likely to impact us in the coming two months," says Chirag Mehta, Director of Leela Diamonds, a diamond selling company. Following the outbreak of the disease, more than 3,000 representatives and traders from Indian diamond companies have returned to India, he adds.

According to the Gems and Jewellery Export Promotion Council (GJEPC), Hong Kong accounts for 37 per cent of the total exports from Surat. Sources say two international diamond expos in Hong Kong have been postponed. The Hong Kong International Diamond, Gem & Pearl Show, which was due to take place from March 2-6, and the Hong Kong International Jewellery Show, scheduled for March 4-8, will now be held between May 18-21.

Holi is around the corner and the sparkle from India's toy industry could wither as well. India's toy industry, worth around ₹4,000 crore, imports 85 per cent of goods by value from China. Most toys imported into India are manufactured in Guangdong, a coastal province in south China. Indian importers typically do not stock for more than a month, and to make matters worse, no new consignments have arrived from China in the last one month.

Normally, Indian toy traders start ordering Chinese Holi colours and sprinklers soon after the Chinese New year as consignments don't take more than 14-30 days to reach. In Mumbai alone, 20-25 Chinese toy importers bring in about five lakh pieces of water guns attached with small water tanks. This year, the traders have no stocks for this toy. "We are assessing the situation and are hopeful of ordering the consignments," says Abdullah Sharif, Vice-President of United Toys Association of Mumbai.

Industry captains agree that the next fortnight is critical. They have some sleepless nights ahead. BT

Policy

IN A STATE OF BOTHER

States are facing a funds crunch. As GST revenues moderate and fiscal deficits balloon, they must look for new sources of revenue to fund welfare schemes and infrastructure needs

BY DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

In the recent Delhi elections in which the incumbent Aam Aadmi Party (AAP) scored a resounding victory, the issue of politicians doling out freebies (a charge levelled at AAP for providing subsidised power and water, among other things) to win votes was the talk of the town. Fiscal fundamentalists — those who want governments to keep a tight leash on 'unproductive' spending — have always fretted over subsidies and free basic amenities saying these put unnecessary pressure on finances of governments, which in turn may try to exact more from honest taxpayers.

The case of Delhi is different. Despite the freebies, its finances are in the pink of health. The state generates, on its own, over 85 per cent of its total annual revenue (₹51,000 crore in 2019/20), and so depends less than others on central grants. Its fiscal deficit was 0.08 per cent of gross state domestic product (GSDP) in 2018/19, likely to be 0.7 per cent in 2019/20. However, Delhi is a city state, and a lot of its administration costs are borne by the Centre. For example, the Delhi police comes under the Union home ministry. The Union Budget has allocated ₹8,020 crore for Delhi police for 2020/21 as against ₹7,893 crore for 2019/20. To put this number in perspective, for 2019/20, Delhi has budgeted for total expenditure of ₹60,000 crore and fiscal deficit of ₹5,902 crore.

However, the other states are not as lucky. With Goods and Services Tax (GST) collections, the mainstay of states' revenues, way below target, shortfall in compensation promised by the Centre for revenue losses due to GST implementation and limited fund-raising avenues, finances of most states are in tatters. These factors may push the average fiscal deficit of states towards 3 per cent of GSDP from 2.6 per cent — excluding Ujjwal DISCOM Assurance Yojana (UDAY) payouts — affecting their ability to spend on infrastructure and other schemes. The plight of states was summarised by Kerala Finance Minister Thomas Isaac while presenting the state Budget this year. "The average growth of state expenditure from 2013/14 to 2018/19 was 16.13 per cent whereas revenue income during the period rose only 13.26 per cent. This gap between income and expenditure has accelerated the crisis .... the revenue deficit can be reduced and the state led towards a stable financial path by increasing revenue income by 18–20 per cent. However, the expected growth in GST collections has not materialised."

While some states like Tamil Nadu, Karnataka, Gujarat and Maharashtra continue to fare better than most, the others are facing challenges.

State Revenues: A Break-up

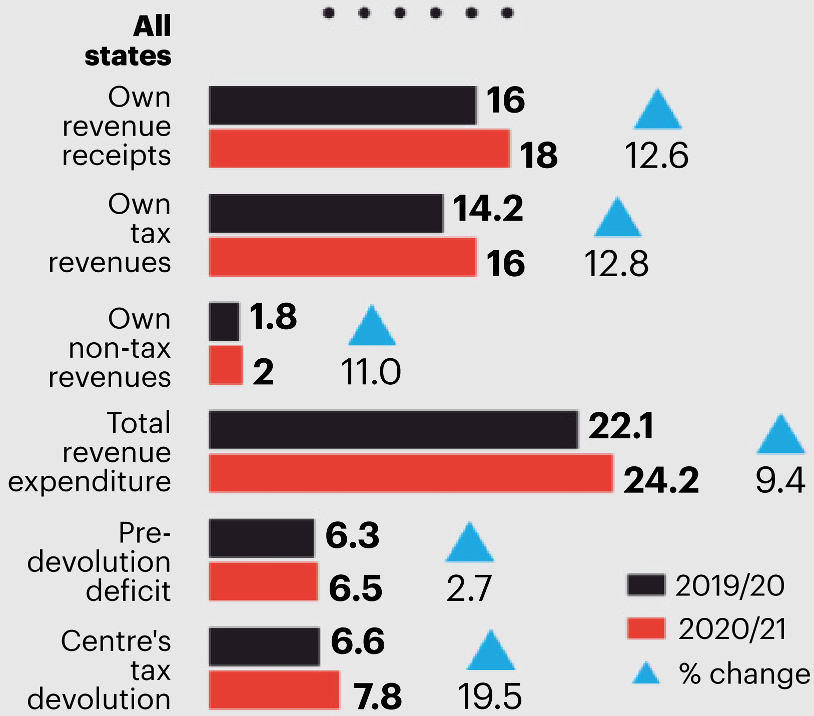
To understand why states are struggling, let us look at their sources of revenue. States' revenue comes mainly from four sources — own tax revenue, own non-tax revenue, share of central tax pool and grant-in-aid. Own tax revenue has components such as state GST, share from integrated GST (IGST), state excise (levied on alcohol), state VAT/sales tax (largely on petroleum goods), stamp duty, land revenue, property tax, etc. On the basis of 2019/20 aggregate tax revenue projections, state GST (including share from IGST) accounts for 40-45 per cent, VAT/sales tax 20-25 per cent and state excise 10-15 per cent of states' own tax revenue. Non-tax revenue includes interest, dividend/profits, royalty, receipts from irrigation, forestry/wildlife, etc. Another big source is share of central taxes. The Finance Commission decides the proportion in which the Centre's tax revenues have to be shared with states. The 15th Finance Commission has recommended that the Centre devolve 42 per cent of its tax kitty to states from 2021 to 2025. How this 42 per cent is shared with each state depends on criteria such as population, area, per capita income (the lower the per capita income, the higher the allocation), performance in controlling population, etc. The fact that per capita income (45 per cent), area (15 per cent) and population (15 per cent) together have 75 per cent weight means states such as UP, Bihar and MP get a larger chunk of the funds while southern states like Kerala, Tamil Nadu and Karnataka get a lower share. This has become an area of contention among states. The Centre's grant-in-aid includes the Union government's contribution to central government schemes and a few more grants recommended by the Finance Commission.

A look at state finances is enough to show their high dependence on central funds. In 2018/19, out of states' total revenue, own tax revenue contributed 44 per cent, own non-tax revenue 8 per cent and share in central taxes and grants 27 per cent and 21 per cent, respectively. Own revenue (tax, non-tax) accounted for 52 per cent while the rest, 48 per cent, came from the Centre. The contribution of own revenue to total revenue receipts has been coming down since 2015/16, when it was 55 per cent. Bihar, Uttar Pradesh, Madhya Pradesh, West Bengal and Chhattisgarh generate less than 50 per cent revenue on their own and depend largely on share of central taxes and grants. For Haryana, Maharashtra, Gujarat, Tamil Nadu and Kerala, the figure is 70 per cent-plus.

States' growing reliance on Centre is a worrisome trend that has become worse with GST. "The GST replaced many indirect taxes levied by states. As a result, states rely on the central government or the GST Council for majority of their revenue, with variations across

STATE FINANCES: An Overall View

While states can bank on GST compensation from the Centre till 2022, they will have to find alternative sources of revenue as their own tax revenue may fall

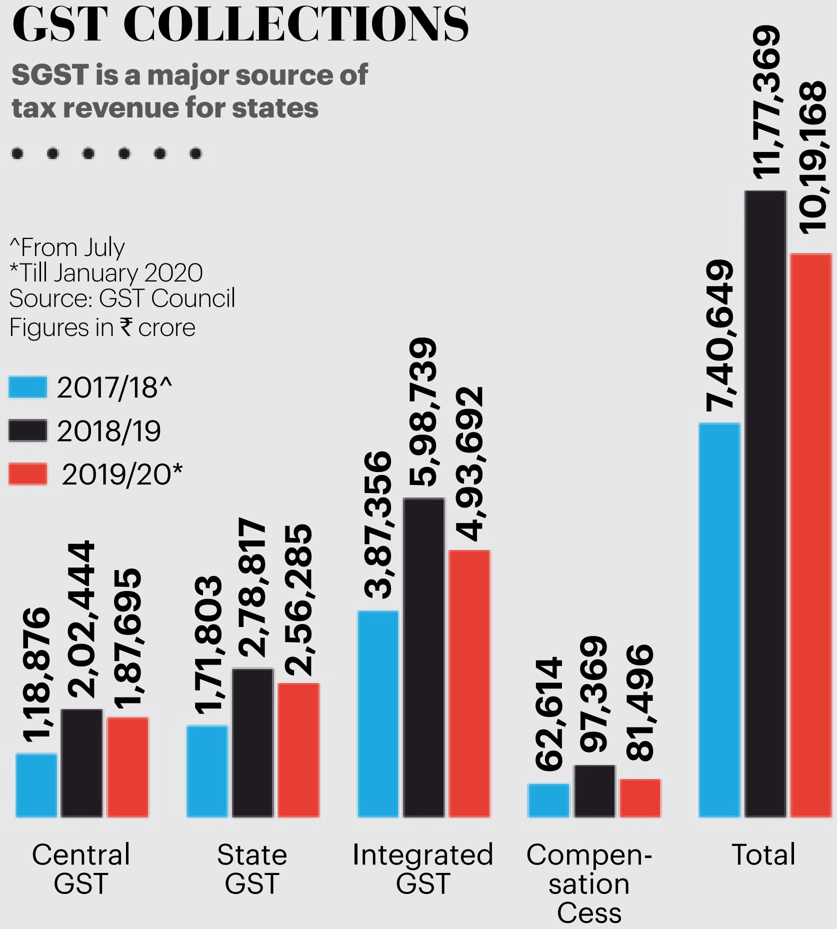


Figures are in ₹ lakh crore
Source: 15th Finance Commission Report; Budget 2020

GST COLLECTIONS

SGST is a major source of tax revenue for states

^From July
*Till January 2020
Source: GST Council
Figures in ₹ crore



states," says a November 2019 Moody's report. The report says GST has limited states' flexibility in raising revenue. The Comptroller and Auditor General of India pointed at a similar trend in its report on Kerala: "The share of the state's own tax revenue in revenue receipts fell from 65 per cent in 2013/14 to 56 per cent in 2017/18, indicating low tax revenue growth when compared with other components of revenue receipts."

GST: The Villain?

GST, the tax reform India was waiting for decades, finally came into force in July 2017. However, it reduced states' tax sovereignty. Most state taxes such as VAT and sales tax have been subsumed into GST and states cannot unilaterally fix GST rates. The decisions are taken at the GST Council, comprising representatives of all states and the Centre. Any decision has to be passed by a 3/4th majority with the Union government having a weight of one-third of the votes cast. State GST, which has replaced VAT/sales tax in states, now accounts for 40-45 per cent of states' own tax revenue. Overall, state GST now accounts for 20 per cent of states' total revenue, and states do not have control over the rates and the manner of collection. GST collections, as pointed out by the Kerala finance minister, have not been as per expectations. This has put a drag on state finances. For example, Kerala had budgeted for ₹29,000 crore SGST collections in 2019/20. In its budget, announced recently, it revised this by ₹5,300 crore to ₹23,700 crore.

14.5%
The revenue spent on asset creation; almost 80 per cent of states' budget goes into revenue expenditure

3%
The likely average fiscal deficit of states, excluding the UDAY Scheme payouts

Nationwide GST collections have been less than expected with average monthly collections in the first 10 months of the year at ₹1.02 lakh crore as against the target of ₹1.1 lakh crore. The government is looking at an overall (state & centre) shortfall of around ₹1 lakh crore. Any shortfall in states' GST revenue is supposed to be compensated by the Centre. But now, with the Centre itself facing a serious revenue crunch — it has to revise its gross tax collections lower by almost ₹3 lakh crore in 2019/20 — it is unlikely to be in a position to pay the full compensation amount. Ratings agency ICRA expects a shortfall of ₹15,000-25,000 crore in the compensation cess balance. Jayanta Roy, Group Head, Corporate Sector Rating, ICRA Ltd, says: "ICRA projects GST compensation required by all states for October 2019 to January 2020 at ₹60,000-70,000 crore, which the Centre is likely to disburse to them in the remainder of 2019/20. Given the balance of around ₹17,000 crore available in the GST Compensation Fund in December 2019, and the amount of compensation cess of around ₹28,000 crore estimated to be collected in the January-March quarter, this suggests a shortfall of ₹15,000-25,000 crore in the GST compensation fund in the current financial year." If this happens, the statement by West Bengal Finance Minister Amit Mitra after the GST Council meeting on December 18, 2019, may come true. "From the projection that the central government made in its presentation during the meeting, it appears that there would be no money left by February 2020 to compensate states," he had said. The central government has already delayed payment of compensation to states, leading to some states threatening legal action. The Centre had promised to compensate states for revenue losses till 2022.

The 15th Finance Commission report says non-GST taxes of states should show a significant improvement in rate structure, compliance and collections as these taxes have shown lower buoyancy than taxes subsumed under GST.

However, when it comes to non-GST tax revenues, some states, such as Gujarat and Bihar, face a peculiar situation. Both have banned sale of alcohol and, hence, get nothing from state excise, which accounts for 24 per cent of own tax revenue of some states. The Finance Commission has also asked states to rationalise fees and user charges of services like irrigation, forestry and wildlife so that non-tax revenues keep pace with GSDP growth. According to the Finance Commission report, these revenues grew at a trend rate of 9.9 per cent between 2011/12 and 2017/18. For example, Kerala earned ₹9,034 crore (81 per cent of non-tax revenue) through state lotteries in 2017/18. However, a CAG audit found that an equally high expenditure of ₹7,628 crore on distribution of prizes, agent commission, etc, reduced the net yield (from lotteries) to ₹1,406 crore during the year.

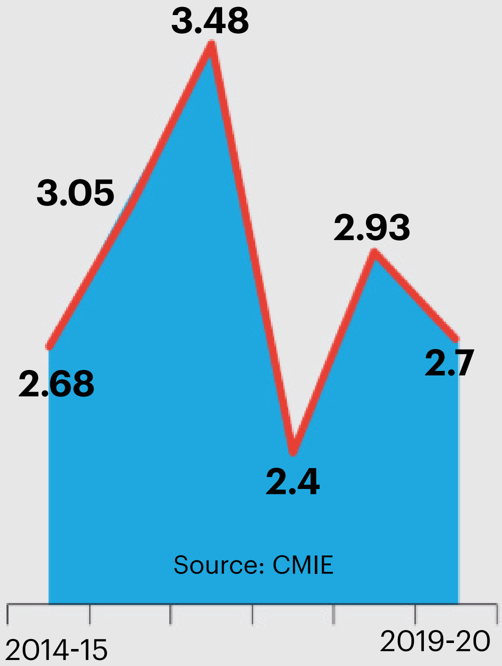
Quality of Expenditure, Fiscal Health

The Finance Commission expects 12.76 per cent revenue growth between 2018/19 and 2020/21. But the quality of expenditure is unlikely to see an improvement. According to CMIE data, almost 80 per cent of the money is spent on revenue expenditure, which is basically the cost of running the government. Only a paltry 14.5 per cent is spent on asset creation while 6 per cent goes into debt servicing. There has been no improvement in these numbers (spending on asset creation and servicing of loans) since 2015/16. In fact, interest costs as percentage of expenditure have risen from 3.62 per cent in 2015/16 to 5.5 per cent

DEFICIT Blues

Over the years, states' expenditure has overshot their revenues

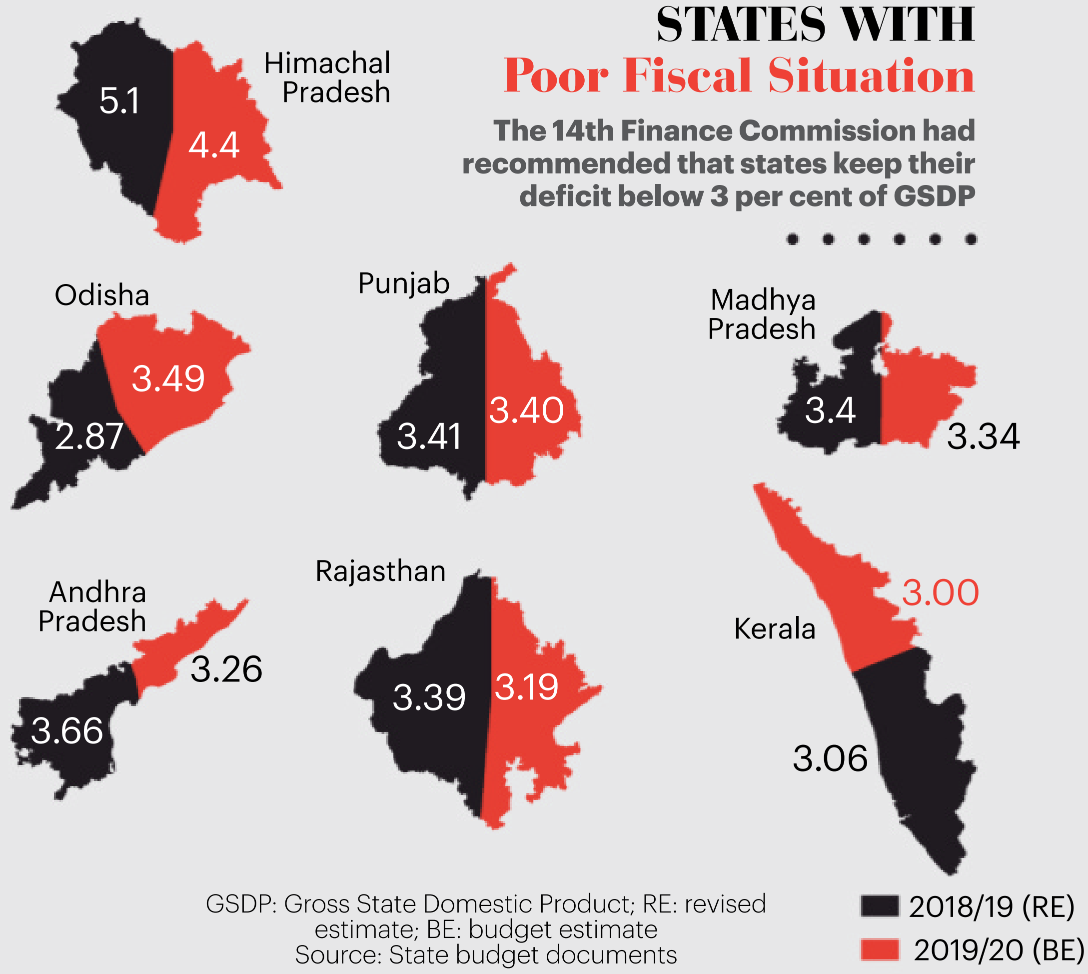
Fiscal deficit as % of GSDP



Source: CMIE

STATES WITH Poor Fiscal Situation

The 14th Finance Commission had recommended that states keep their deficit below 3 per cent of GSDP



GSDP: Gross State Domestic Product; RE: revised estimate; BE: budget estimate
Source: State budget documents

in 2019/20. With the Centre expecting state governments to contribute 38 per cent funds for its ambitious ₹103 lakh crore infrastructure pipeline by 2025, the plan could turn out to be a pipedream if states finances do not improve. States' total annual capital outlay at present is ₹5.5 lakh crore; the plan requires them to spend around ₹8 lakh crore on infrastructure alone every year.

Not just the quality of spending, states' total fiscal deficit is likely to worsen in the next financial year, say analysts and economists. India Ratings and Research expects the aggregate fiscal deficit of states to come in close to 3 per cent of GDP in 2019/20, higher than the budgeted 2.6 per cent. It expects states to continue witnessing revenue pressure in 2020/21 as GDP growth is likely to be low next financial year. India Ratings expects states' revenue account on aggregate to clock a deficit of 0.4 per cent of GDP in 2020/21 compared with the 2019/20 budgeted surplus of 0.01 per cent. The 2.6 per cent fiscal deficit budgeted for 2019/20 does not cover interest cost and repayment of UDAY loans. The Reserve Bank of India (RBI) pegs UDAY outstanding dues at ₹1.97 lakh crore by the end of March 2020. Under UDAY, state governments had taken over 75 per cent outstanding liabilities of DISCOMs in the form of grants or equity. As many as 16 states had signed comprehensive financial and operational turnaround agreements under. The programme was funded through UDAY bonds worth ₹2.1 lakh crore. According to the RBI, finances of these states in bond issuance years (2015/16 and 2016/17) were significantly impacted. Interest payments, redemptions and funding of DISCOM losses continue to impact state finances. State governments are mandated to fund a progressively greater share of DISCOM future losses from their own finances and prevent ballooning of losses on DISCOMs' books. The impact of this on state finances could increase significantly in 2019/20 and 2020/21, says the RBI.

44%
Contribution of states' own revenue to their total revenues

With hands tied down by the Finance Commission, which requires them to keep fiscal deficit at 3 per cent of GSDP and keep their total borrowings at 3 per cent of internal revenue, states are in a tight corner even as they see no buoyancy in their own revenue growth. **BT**

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Whistleblower Process

The person(s) (employee or director) can file a complaint through mail to a specially created whistleblower account

The complainant can also raise concern by writing to the relevant business head, HR head or legal head

The complainant is encouraged to file in his/her name, though anonymous complaints are not ignored

The complaint can be investigated internally, by a third party, external auditor or even the police

Complaints raised are periodically reported to the management or the audit committee

Fault Lines

Most whistleblower policies are meant for employees and company directors, not for vendors

Anonymous complaints are usually discouraged or ignored

Fear of retaliation by the company or its senior directors and executives works as a deterrent

The whistleblower mechanism can be misused by an employee with a grudge

Policy – Corporate Law

CHINKS IN WHISTLEBLOWER ARMOUR

Despite rise in number of whistleblower complaints, the lacunae in the system are proving to be a deterrent in the fight against corporate unethical practices

BY DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

On **October 22, 2019,** the Infosys share price tumbled 16 per cent, wiping out ₹44,000 crore in market cap, after a complaint accusing Chief Executive Officer Salil Parekh of indulging in unethical practices came to light. Two anonymous whistleblower complaints sent simultaneously to the US Securities and Exchange Commission (SEC) and Infosys board members accused Parekh and the Chief Financial Officer, Nilanjan Roy, of indulging in accounting fraud, among other things. An investigation by the company's audit committee later found no wrongdoing. But the damage was done. It took Infosys shares, which ended October 22 at ₹643 against the previous session's close of ₹767, almost three months to recover the losses.

In a similar case, in June last year, two shareholders of Indiabulls Housing Finance filed a whistleblower complaint with the Supreme Court accusing the Chairman, Sameer Gehlaut, of siphoning off public money through shell companies. The news shaved ₹7,000 crore off the company's market cap. In November, the Ministry of Corporate Affairs gave the company a clean chit.

While the whistleblower mechanism, introduced in the Companies Act in 2013, is a useful tool in pursuit of higher corporate governance standards, instances like these beg a

question if it is being misused by people with 'vested' interests to settle professional scores or harass business rivals. Arvind Gupta, who exposed the alleged *quid pro quo* between the then ICICI Bank Managing Director Chanda Kochhar and Videocon Group Chairman Venugopal Dhoot, agrees that the whistleblower policy can be misused like other anti-corruption tools such as RTI. Gupta's complaint that Videocon was given undue advantage in grant of loans had led to action against Kochhar. However, in spite of such obvious successes, the whistleblower mechanism is facing a crisis of credibility, due to several reasons. One is the several lacunae in the system. Then there have been cases where it has been used to settle scores, prompting many to demand punishment for those who use it with malicious intent.

However, most experts say that India where corporate governance standards are poor, attempts to muzzle whistleblowers can only backfire. Even Arvind Gupta, who admits the policy can be misused, feels it is a powerful tool for corporate employees to expose wrongdoings. "It is a platform for them to raise their voice," he says. Still, the gaps are serious and need to be filled to ensure that the system is not held hostage to vested interests.

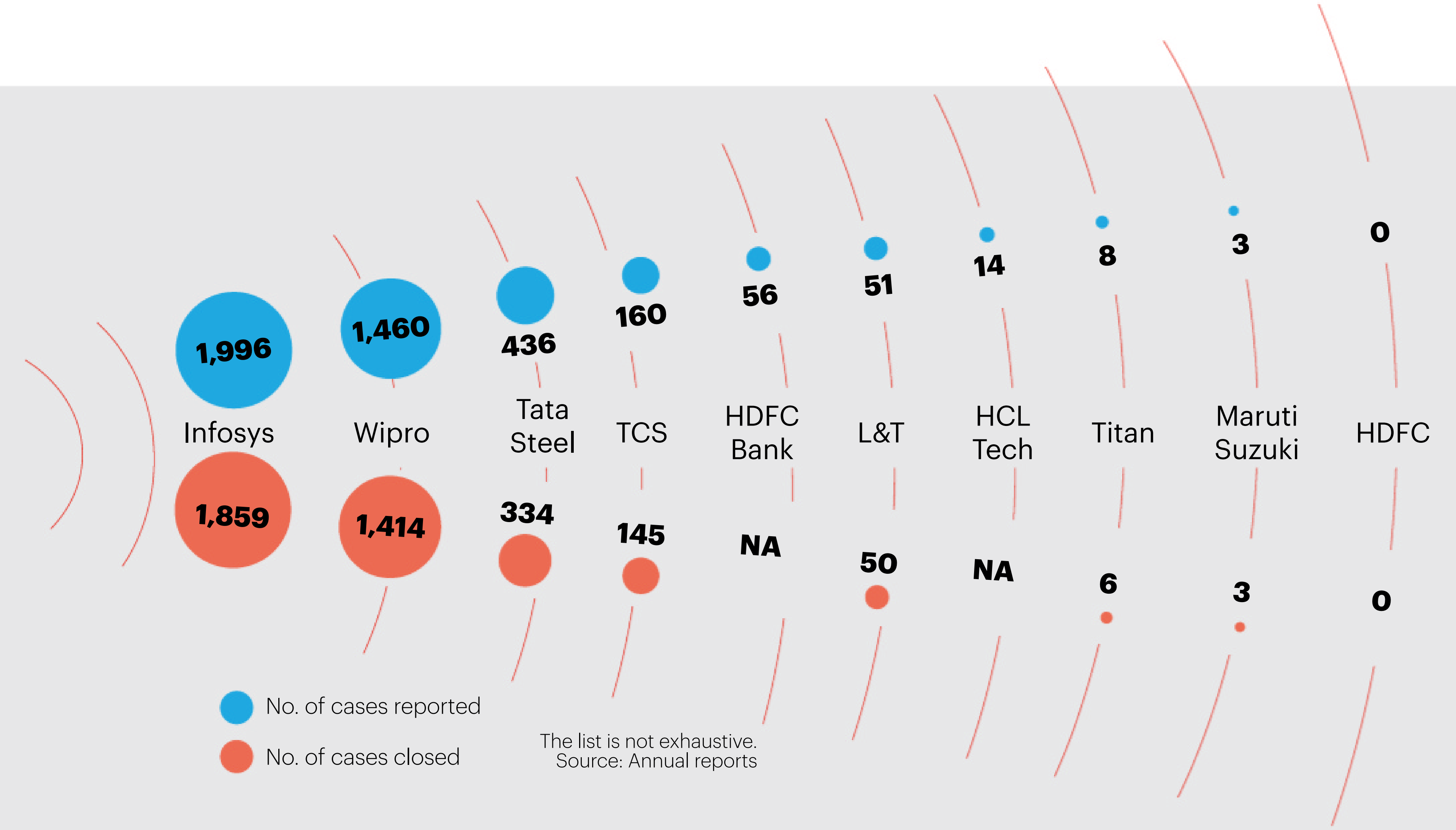
Frivolous, Malicious Complaints

The Companies Act requires listed companies, or those which accept deposits from the public, or those which have borrowed more than ₹50 crore from banks and public financial institutions, to build a whistleblower system with a hotline number, a mail id or a designated person with whom employees can lodge complaints. The complaints can relate to inaccuracy in financial records, financial misappropriation and fraud, conflict of interest, misuse of company assets and resources, inappropriate sharing of sensitive information, corruption & bribery, insider trading, discrimination in any form, etc. The complaints can be investigated internally, by a third party, by an external auditor, or even police. They have to be periodically reported to the management or the audit committee. However, many experts say these are merely compliance requirements, and in many places, even in listed companies, managements usually have a tick-box approach to whistleblower complaints and do not take them seriously.

₹1 CRORE
The award that Sebi is planning to give to anyone giving information on insider trading

A partner with a law firm points out at the Infosys case. "Somebody in the management should have explained why the audit committee was sitting on a complaint for two or three months, whatever the time is. They were sitting on a time bomb. Why? Because if I am a whistleblower, I might be thinking that I've blown the whistle twice on the company mechanism, but nothing is happening. So, I'm going to go straight to the regulator because the regulator has a bounty programme (in the US) that is big and I want to get a share of the bounty," he says on condition of anonymity. In the US, the SEC can provide monetary awards to 'individuals who come forward with high-quality original information that leads to a Commission enforcement action in which over $1 million in sanctions is ordered. The range for awards is between 10 per cent and 30 per cent of the money collected'. Whistleblowers in Infosys, which is listed in the US, could have been eligible for such a reward. India does not have a whistleblower bounty programme but the Securities and Exchange Board of India is planning a ₹1 crore reward for anyone giving information on insider trading practices.

Experts attribute the attitude of managements to lack of due process and absence of maturity among some of those who file the complaints. "If you get 10 complaints, half could be either not relevant or frivolous," says Arpinder Singh, Leader, Forensic & Integrity Services, EY India and Emerging Markets. "We've seen complaints that the coffee machine is not working and that the company doesn't care about us. You also get a lot of complaints at the time of appraisal. Someone would file a complaint that he saw his manager doing something unethical three years back. How come you remember this only when you're not promoted?" he says. Kunal Gupta, partner, white-collar crime investigation, Trilegal, says, "I have heard someone say that the whistleblower hotline in his company is most active between 1 pm and 4 pm. Why? Because that is the time employees have lunch. That is when they are in the most disgruntled mood and want to



The list is not exhaustive.
Source: Annual reports

Blowing the Lid Off

Recent big whistleblower complaints against companies

ICICI-VIDEOCON LOAN
A shareholder alleged that Videocon promoter Venugopal Dhoot had invested in the company of Deepak Kochhar, the husband of ICICI Bank's former MD and CEO Chanda Kochhar, in return for the bank extending a loan to Videocon group companies

INFOSYS ACCOUNTING FRAUD
A group, which called itself 'ethical employees', alleged that CEO Salil Parekh and MD had taken unethical steps to boost revenue and profits in recent quarters

PMC BANK-HDIL LINK
A group of employees reported a nexus between top executives of the bank and promoters of real estate company HDIL that led to the co-operative bank extending 70 per cent of its total outstanding to HDIL and its 44 related companies

YES BANK STRESSED ASSETS
A whistleblower filed a complaint in September 2018 alleging wrong disclosure of non-performing assets and other irregularities

DELOITTE-IL&FS AUDIT
A Deloitte employee alleged that his employer, which was then the auditor of IL&FS, ignored red flags in books of the infrastructure financing company, recommended creation of complex structures and in a quid pro quo received high fees

rant it out."

Experts say frivolous complaints or complaints with malicious intent can cause irreparable damage either to the company or the individual against whom the allegation is made. In case of a listed company, this could have a huge impact on shareholders due to fall in share prices. There is also a concern that the policy could turn out to be a double-edged sword. This concern was raised after reports that Infosys whistleblowers were being used by a former disgruntled director. Such instances give rise to demand for action against those who make 'false' allegations. Pavan Kumar Vijay, founder of corporate legal advisory firm Corporate Professionals, says there should be a law to penalise a person making wrong and frivolous complaints. "The rule of whistleblowing is that you should have authentic information with proof. A complaint based on hearsay could damage the company or the person. If the complaint is against a small company, people are least bothered, but a complaint by even an irrelevant person against a big company can be blown out of proportion," he says.

Live With the Beast

Should the whistleblower mechanism be ignored only due to fear that it could be misused? It is true that the system is not fully mature yet, genuine whistleblowers do not feel protected, and so the complaints are often anonymous. But these inadequacies should not be held against a system that seeks to improve corporate governance, say experts. Whether it is the ICICI-Videocon quid pro quo case, the PMC Bank-HDIL link (the bank came close to bankruptcy due to excessive exposure to HDIL) or understatement of stressed assets by Yes Bank, whistleblowers have brought to light a number of cases of wrongdoing. The mechanism may not be as evolved as in more mature markets but is probably getting there. "It is now better than earlier. Look at the number of cases we have today. Earlier, it was never heard of," says Kalpana Unadkat, Partner, Corporate and Commercial Practice in Khaitan & Co, a law firm. Kalpana is on boards of three companies.

Kunal Gupta of Trilegal says misuse of the policy is not a ground to kill it. "There will be people who will do it. And that's okay. You have to live with the beast," he says. Pavan Kumar Vijay of Corporate Professionals, who demands penalising of those who file frivolous or wrong complaints, admits the policy has led to unearthing of big scams. So, how can one strike a balance? Some experts call for a clear policy on anonymous complaints while others suggest a more thorough study of such complaints.

The companies have different approaches towards anonymous complaints. ITC's whistleblower policy on its website says: "Anonymous complaint will not be entertained. If the complainant has reasons to believe that the immediate reporting authority or his/her superior is involved in the suspected violation, the complaint may be addressed directly to the Head of Corporate Human Resources." But others, such as Hero MotoCorp, welcome anonymous complaints. "A whistleblower will be given the option to keep his/her identity anonymous while reporting an incident on Ethics Helpline," says the policy.

Kalpana Unadkat of Khaitan & Co says that "rather than look at who is filing the complaint, look at what the complaint is about" even as she insists that not all companies take anonymous complaints seriously. She, however, admits that investigating anonymous complaints is difficult. "The investigation becomes difficult as you have to just keep digging without knowing who to question. You cannot keep asking questions about the complaint to many people as you don't know who may leak the information. And it could have repercussions such as on the share price of the company."

Deepak Bhawnani, the founder and CEO of investigative consulting firm Alea Consulting, which has investigated several whistleblower complaints for companies, agrees that disgruntled employees or vendors may misuse the system. "If it's a disgruntled employee, and he does it anonymously, there are ways of figuring it out." But not giving the option of anonymously filing complaints can prevent reporting of genuine fraud cases given the fear of retribution the complainants may face.

"The rule is that you should have information with proof. A complaint based on hearsay could damage the company/person."

Pavan Kumar Vijay,
Founder & CEO, Corporate Professionals

If it's a disgruntled employee, and he does it anonymously, there are ways of figuring it out"

Deepak Bhawnani,
CEO at Alea Consulting

Whistleblower Protection

Even as the call for penalising unscrupulous complainants becomes louder, the question is — is the whistleblower protection mechanism good enough? While there is the Whistleblower Protection Act, 2014, it covers individuals who blow the whistle on ministers, Members of Parliament, members of the lower judiciary, regulatory authorities, central and state government employees, etc. There is no provision for whistleblower protection under the Companies Act though companies have 'safeguards' for retribution against the whistleblower. But such safeguards have a lot of conditions. For example, one such whistleblower protection manual reads: "Protection under this mechanism would not mean protection from disciplinary action arising out of false allegations made by a whistleblower." Such a wording may not evoke confidence among whistleblowers. "The Whistleblower Protection Bill primarily relates to the government. It doesn't talk about the private sector. So, a lot more can be done from a legal perspective to protect whistleblowers in the private sector," says Arpinder Singh of EY India.

With little whistleblower protection in the corporate sector, the call for punitive measures against false allegations may be detrimental to a mechanism which is evolving and which has helped blow the lid off many corporate frauds. "I don't quite agree with the point that penalties should be levied. I think you have to ensure the right level of sensitisation. You have to tell employees that ultimately it is your organisation and baseless complaints will get it in trouble," says Kunal Gupta of Trilegal. BT

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Corporate

Tata Group's DEBT Threat

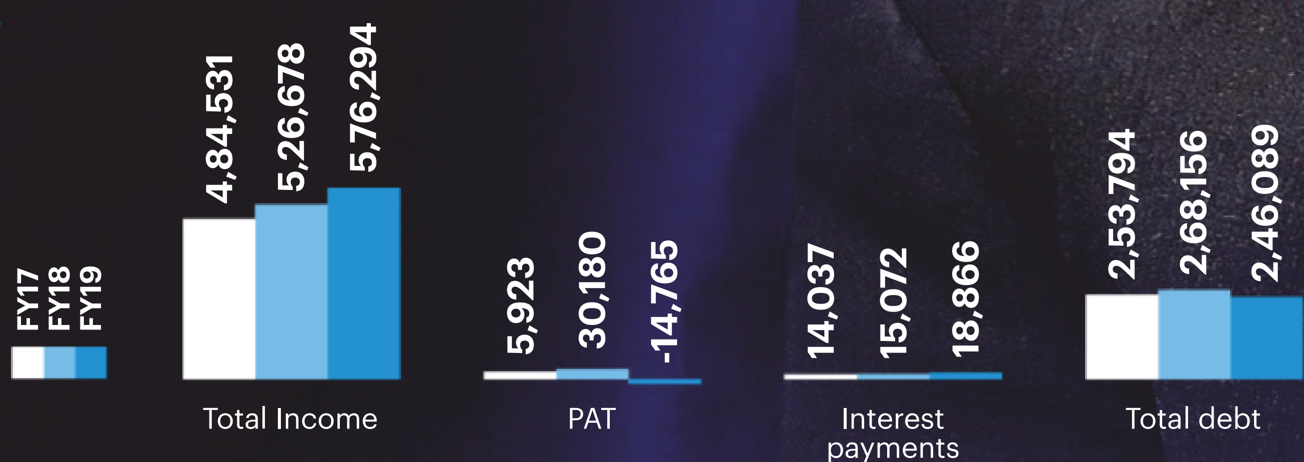
MOST LEADING TATA COMPANIES, INCLUDING TATA POWER, TATA STEEL AND TATA MOTORS, ARE BURDENED BY DEBT, MAKING THE GROUP OVERDEPENDENT ON TCS, ITS SOLE MONEY SPINNER

BY NEVIN JOHN

• • • •

THE Burden

The PAT of 11 most indebted group companies has worsened while debt has risen despite asset sales and big payments to lenders



Figures (consolidated) in ₹crore; The companies include Tata Chemicals, Tata Motors, Tata Power, Tata Steel, The Indian Hotels Company, Titan, Tata Communications, Tata Consumer Products, Trent, Voltas, Tata Teleservices; Source: Companies, Ace Equity

N. Chandrasekaran
Chairman, Tata group

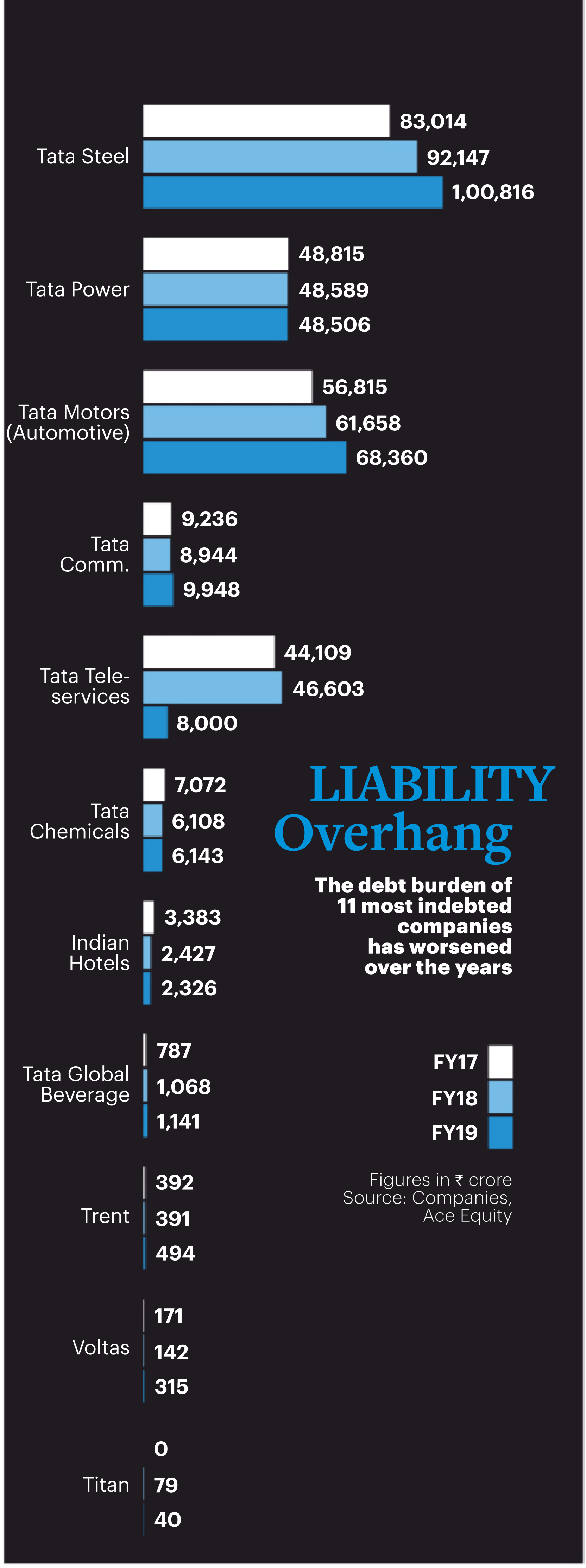
Tata Power, set up in 1915, held its 100th annual general meeting on June 18, 2019. While it should have been an occasion to celebrate, with net debt of ₹47,552 crore in FY19 and a net debt-to-EBITDA (earnings before interest, taxation, depreciation and amortisation) ratio of seven, there was not much to celebrate. When shareholders asked Tata Group Chairman N. Chandrasekaran what he was doing to reduce the company's liabilities, he looked visibly irritated. "We're working on a solution; it's not that we are not trying hard," he said.

In the first nine months of FY2020, Tata Power repaid ₹2,257 crore debt. But for Chandrasekaran, who completes three years as the head of the Tata group on February 21, that is little relief. The gross debt of 11 major indebted listed companies in the group – excluding financing companies and holding company Tata Sons — stood at ₹2.46 lakh crore in FY19 compared to ₹2.22 lakh crore in FY18 and ₹2.1 lakh crore in FY17.

Debt pressure is mounting on marquee Tata companies such as Tata Steel and Tata Motors. In the first nine months of FY2020, Tata Steel's net debt increased 10.2 per cent to ₹1,04,628 crore, while that of Tata Motors' automotive business (excluding lending subsidiary Tata Motors Finance) surged 59.8 per cent to ₹45,376 crore. While the steel business has been dogged by troubles in Europe, the auto business faces headwinds in India and China and slowdown in demand for diesel cars, which account for a vast chunk of its UK and European business.

BT sent a questionnaire to the Tata group, which provided details of its debt handling plan. Besides, Tata Sons executives briefed *Business Today*.

The net debt – gross debt minus cash in hand, including liquid investments — in these companies stood at ₹1.39 lakh crore in FY19. If Tata Sons had not cleared the ₹50,000 crore loans and spectrum liabilities of Tata Tele-



Total Gross Debt

₹2.46

LAKH CR

top 11 indebted companies; 91.5 per cent (₹2.18 lakh crore) comes from Tata Steel, Tata Motors and Tata Power

TCS Contribution

to Tata Sons' Dividend Income is

90%

TCS accounts for 79 per cent of the market value of Tata Sons' quoted investments

Tata Sons Net Debt

₹27,587

CRORE

Standalone net debt as of March 2019 versus ₹18,142 crore in the previous year

T.V. Narendran, MD, Tata Steel

Guenter Butschek, MD, Tata Motors

Praveer Sinha, MD, Tata Power

WHAT TATA Steel Says

We will continue to pursue our efforts to keep the European business cash-neutral or cash-positive... We are chasing a target of $1 billion of debt reduction...We will look at consolidation of our portfolio and explore opportunities to sell non-core assets

WHAT TATA Motors Says

The debt metrics are comfortable with net automotive debt to equity at 0.68 and net automotive debt to last 12 month trailing EBITDA at 1.66. The debt maturities are well spread out till 2027 and the liquidity is further enhanced by committed undrawn revolving credit facilities of ₹19,700 crore

WHAT TATA Power Says

CGPL (Mundra) is in discussions to amend the power purchase agreements with five states. It is reducing finance costs and optimising coal costs. Tata Power is monetising non-core assets. It has sold stake in Tata Comm. and put assets such as defence business, Arutmin, Cennergi and ITPC Zambia on sale

services in the last fiscal with dividend and buyback windfall from Tata Consultancy Services (TCS), the debt numbers would have been even higher.

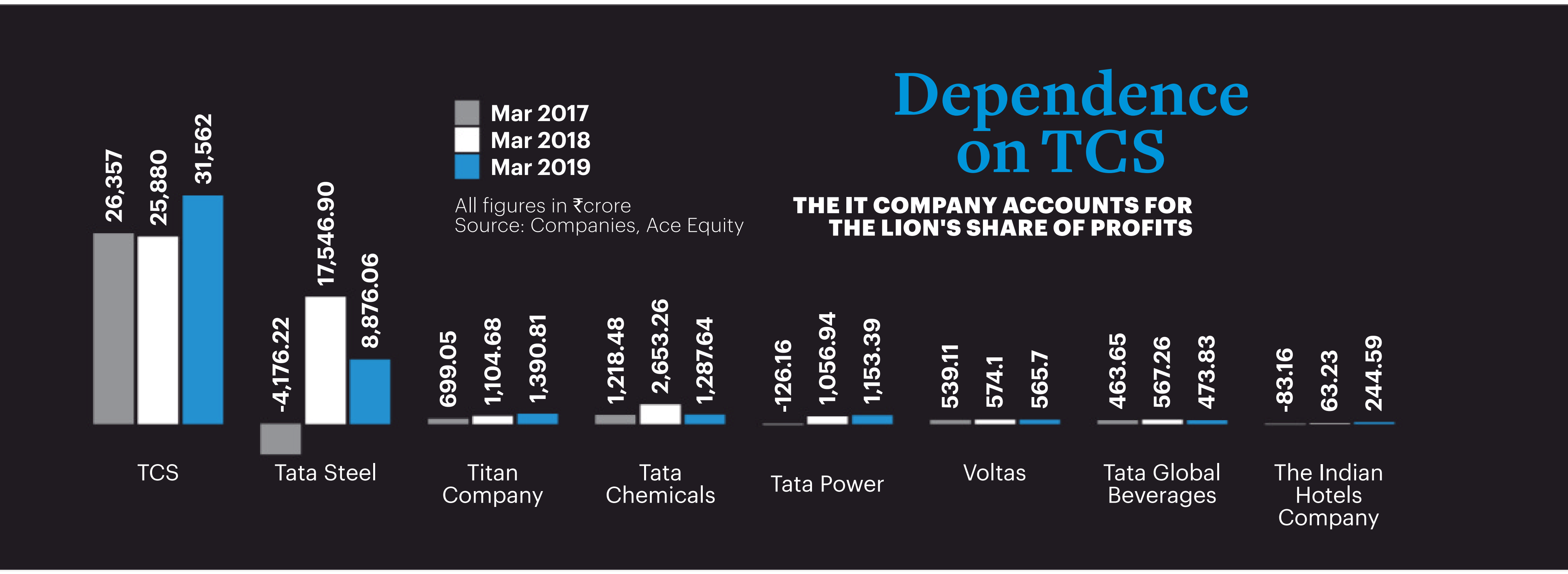
All this would not have been a problem if the companies were earning robust profits to service the debt. But that is not the case with Tata Steel, Tata Motors and Tata Power.

The 11 companies (see *The Trap*) posted an aggregate loss of ₹14,765 crore in FY19. This was primarily due to the ₹28, 934 crore loss incurred by Tata Motors. It was Tata Motors' net loss of ₹28, 934 crore that ate away the modest profits of other firms. The most-debt laden firms in the group would struggle to clear their debt with such losses. Tata Steel, for instance, is saddled with a gross debt of ₹1,00,816 crore, Tata Power ₹48,506 crore and Tata Motors' automotive division ₹68,360 crore (as of March 2019).

In comparison, Reliance Industries (RIL) has massive debt but its financials are healthier. RIL had a net debt of ₹153,132 crore as on December 31, 2019, but the company posted a profit Rs 33,006 crore in the first nine months of the fiscal, which ensures its loan repayment capability. Vedanta Ltd notched a net profit of ₹9,698 crore in FY19, good enough to repay the loan amount of ₹23,384 crore. JSW Steel posted a standalone profit of ₹8,259 crore in the last fiscal, as against its net debt of ₹49,500 crore.

An executive told *BT* that the group is significantly comfortable with aggregate net debt of ₹1.65 lakh crore (which includes all significant businesses in the group for which separate data is not available). The aggregate net debt is lower because of surplus cash on books of TCS, Titan and Voltas. "The group generates an EBITDA of ₹1.16 lakh crore. So, the net debt is less than 1.5 times the EBITDA," he says.

Being bogged down by debt is a sea-change for the Tatas. In 2006, it was cash-surplus. Then came a series of overseas acquisitions. Tata Steel acquired Anglo-Dutch steel giant Corus for $12 billion in early 2007; this was followed by Tata Motors' purchase of Jaguar Land Rover for $2.3 billion in 2008. Yet, in FY10, the entire group debt was just below ₹1 lakh crore. The acquisitions continued after a lull as Tata Power picked up Welspun Renewable Energy for ₹9,249 crore in 2016. The other recent acquisitions are Bhushan Steel (₹35,200 crore) and the steel business of Usha Martin (₹4,094 crore). "Debt overhang is typically not observed when conglomerates grow organically," says Lakshmanan Shivakumar, Professor, Accounting, London Business School. "It is more common when growth



is through acquisitions." This is indeed the case with the Tatas.

But in case of the Tata group, with group revenues of over ₹8 lakh crore and market cap of around ₹11 lakh crore, some organic investments too have gone wrong. It invested heavily in building the telecom business in collaboration with Japan's NTT DoCoMo. It invested ₹18,000 crore to build India's first 4,000 megawatt (MW) ultra mega power plant at Mundra. Many of these investments have failed to bear fruit like the overseas acquisitions.

₹11 lakh
CRORE
Market cap of Tata Group companies

₹8 lakh
CRORE
Total revenue of the group

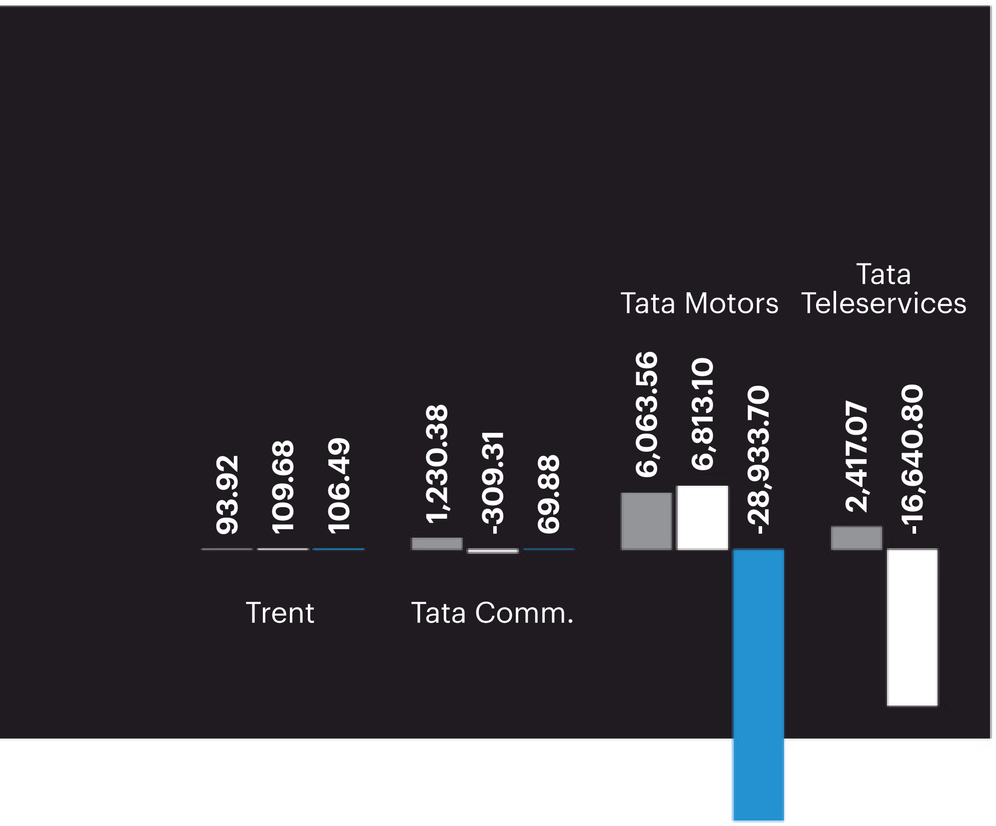
Because of mounting losses, Tata Steel is shutting down units in Europe one by one. Tata Power says it will not be able to run its Mundra plant beyond February. Tata Tele has paid off its ₹50,000 crore debt and handed over the mobile services business to Bharti Airtel for free. Tata Motors has shut down production of Nano. In recent news, Tata Sons has initiated the process of arranging funds from TCS to pay Tata Teleservices' adjusted gross revenue dues of ₹13,823 crore.

This leads to the second issue. The group is over-dependent on TCS, which earned a net profit of ₹31,472 crore in FY19 and is for all practical purposes the biggest cash generating engine. TCS accounted for around 90 per cent of Tata Sons' dividend income in FY18. Such concentration of risk cannot be good news as things are getting tougher for India's largest IT services firm too. Its large clients in banking, financial services and insurance (BFSI) in the US and the UK, which contribute over 30 per cent to its revenue, are cutting costs. The company is facing structural challenges in the US and the UK, Managing Director and CEO Rajesh Gopinathan said after announcing the results for the third quarter of FY20 in which TCS reported flat profit growth at ₹8,118 crore vis-a-vis ₹8,105 crore in the same period last year, largely due to headwinds in BFSI and retail.

Can Chandrasekaran Resolve Big Issues?

It is a wrong perception that Chandrasekaran is not addressing key issues, says the executive working with the chairman's office. "Tata Tele was one of the lingering concerns that has been addressed in the last three years. JLR has improved performance. Tata Steel has refocused back to its core market, India, and acquired Bhushan Steel and the steel business of Usha Martin and acquired steel businesses in the country. We are working to resolve the Mundra crisis," he says. At any point, there will be a running list of issues in the Tata group, considering its size and scale. But a major worry for investors is legacy issues in key businesses which are dragging down market value. The executive says innumerable issues have been resolved in the last three years. "The group has monetised non-core assets, including Tata Business Support Services and Tata Petrodyne. The group tried to disentangle cross-holdings of group companies which helped some companies find capital. For FMCG ambitions, the group demerged the consumer business of Tata Chemicals and merged it with Tata Global Beverages, which has since been renamed Tata Consumer Products. We are consolidating defence businesses across the group. The most recent is Tata Motors, Tata Chemicals, Tata Power and Tata Croma pooling resources to build the electric vehicle ecosystem," says the executive.

"The retail businesses – Croma, Westside and Star Bazaar (a joint venture of Tata and Tesco) — are grow-



ing market share. Tata Capital's book has grown from ₹50,000 crore to ₹80,000 crore in the last three years. Insurance joint venture Tata-AIA's market share has gone up from 3.7 per cent to 5.6 per cent. Tata-AIG's share has moved up from 3.3 per cent to 4.6 per cent," he adds.

Still, in spite of these efforts, past acquisitions trouble the group. How did things come to such a pass?

Power Drain

Tata Power's major wealth drain is its 4,000 MW ultra mega power plant at Mundra, Gujarat, run by subsidiary Coastal Gujarat Power (CGPL). The project has been jinxed ever since it was commissioned in March 2013. It has made profits only once in the last eight years. The company has informed the power ministry that it would be forced to stop operating this imported coal-based plant — built at a cost of ₹18,000 crore — after February unless the five consumer states allow pass-through of additional fuel costs to consumers.

Tata Power had won the project in an open auction by quoting the lowest tariff of ₹2.26 per unit which, it believed, would be viable if it used cheap coal from Indonesia where it had stakes in coal mines. Soon after, in 2010, the Indonesian government banned export of coal below the notified price, upsetting Tata Power's calculations. Though the Appellate Tribunal on Electricity agreed that Indonesia's decision was an unforeseen one and allowed Tata Power to increase tariff, the Gujarat distribution company it was selling power to contested the verdict in the Supreme Court, which ruled in April 2017 that consumers should not have to pay for Tata Power's misjudgment and the company would have to stick to its quoted tariff.

However, the Supreme Court reconsidered its view in October 2018 and asked the Central Electricity Regulatory Authority (CERC) to decide on changes to power purchase agreements (PPAs) for three imported coal-based plants in Gujarat to let them pass on higher fuel costs to consumers. In April 2019, Adani Power, which had also set up a plant at Mundra, expecting to use the Indonesian coal and was in a similar fix, was allowed by CERC to pass through the increased costs to consumers.

Sources say CGPL has not been able to generate working capital for its operations and had cumulative net losses of about ₹9,000 crore until the last financial year, funded by Tata Power through equity financing of around ₹5,000 crore. CGPL's consumer states – Haryana, Rajasthan, Punjab and Maharashtra – have expressed willingness to rework the PPAs but not yet got approvals from their cabinets. Only Gujarat has approved the revised PPA. The five states need to approach the CERC once they approve the revised PPAs.

Tata Power has taken steps to reduce finance costs through refinancing loans and optimising coal costs. "With regard to reducing debt, Tata Power is monetising non-core assets. It has already sold its stake in Tata Communications and put assets such as defence business, Arutmin, Cennergi and ITPC Zambia on sale," says the Tata Power spokesperson.

However, Tata Power added to its debt burden with its subsidiary, Tata Power Renewable Energy, buying the solar and wind power assets of Welspun Renewable Energy – around 1,141 MW – in June 2016 at an enterprise value of ₹9,249 crore. It raised Tata Power's clean energy capacity to 2,169 MW, making it one of the biggest players in the segment, but profits from the venture have so far been modest, falling 52 per cent to ₹92.53 crore in FY2019. To deleverage, Tata Power is

Major Contributors TO DEBT

TATA STEEL

Corus Plc (now Tata Steel Europe) acquisition for

$12 billion;

expansion of Kalinganagar plant at a cost of ₹22,000 crore; acquisition of Bhushan Steel for ₹35,200 crore in 2018

TATA MOTORS

Jaguar Land Rover's

$2.3 billion

acquisition

TELECOM

The loss-making telecom business, where Tata Sons paid off its entire

₹50,000 crore debt

– ₹40,000 crore to the lenders and ₹10,000 crore to the government

TATA POWER

The Mundra plant has made profit only once in last eight years due to low tariffs committed at the time of bidding. Still, Tata Power went for a costly acquisition like Welspun's renewable power assets for

₹9,249 crore

in 2016

DEBT Reduction Plans

Chairman N. Chandrasekaran recently said that India cannot keep on funding the mounting losses in the UK business. He said that the Port Talbot steelworks in Wales, one of the largest in Europe, needs to be "self-sustaining". Up to 3,000 jobs were cut last year in Europe. The target is to generate more internal capital. The company has reduced capital expenditure plan to ₹8,300 crore from ₹12,000 crore and refinanced euro 1.75 billion of European debt

Jaguar Land Rover plans to cut 500 jobs at the UK factory to optimise production. Tata Sons infused ₹6,500 crore into Tata Motors and raised promoter stake by four per cent to 42.39 per cent to build investor confidence

Coastal Gujarat Power is in talks with Gujarat, Maharashtra, Haryana, Rajasthan and Punjab governments to amend purchase agreements. Only the Gujarat government has approved a revision. Tata Power divested its stake in Tata Communication and is selling the defence business. It is divesting international assets in South Africa and Zambia, besides investments in shipping business and coal companies. It plans to raise $1 billion from divestment in the next one year to repay debt. It wants to deleverage the renewable portfolio

Tata Chemicals repaid ₹250 crore NCDs in July 2019 and the term debt of ₹439 crore in October through internal accruals. It plans to service its debt from operational cash flow

Indian Hotels is pursuing an asset light approach. It realised ₹250 crore last fiscal through monetisation of assets and will continue to unlock value and monetise non-core assets

exploring to set up an infrastructure investment trust for its renewable energy portfolio which will reduce debt on its balance sheet by 25 per cent and help it raise equity.

In March 2018, Tata Power sold its stake in Tata Communications and its holding firm Panatone Finvest to Tata Sons for around ₹2,150 crore to pare debt. Later, it agreed to sell the defence business to group firm Tata Advance Systems at an enterprise value of ₹2,230 crore. But the deal is yet to conclude.

Consolidated finance costs of Tata Power rose 10.9 per cent to ₹4,170 crore in FY2019, but the company posted a 6 per cent decline in profit to ₹2,440 crore on operational revenue of ₹29,559 crore. Tata Power posted a 12 per cent rise in consolidated profit after tax (PAT) to ₹246 crore for the third quarter of FY20, thanks to the deferred tax benefit of ₹272 crore on power purchase agreement (PPA) extension in the Mumbai licensed area. Consolidated revenue went down by 9 per cent to ₹7,171 crore. The losses at the Mundra power plant decreased, the company said.

Cracked Steel

In 2007, Tata Steel acquired Corus plc for $12 billion, outbidding Brazilian conglomerate CSN in a trophy takeover that made global headlines. The consolidated profit of Tata Steel shot up three times and revenue five times, but the celebration was short lived. What no one had expected was the worldwide downturn of FY09 and the subsequent steel slump which ravaged Corus, by then renamed Tata Steel Europe (TSE). Every year, TSE's financial health deteriorated, its cumulative losses (excluding exceptional income) rising to ₹48,245 crore in 10 years. The large loans taken for its acquisition had to be serviced. The losses were bridged by cash flow from Tata Steel's domestic operations.

Even a last-ditch effort for a merger with German steel giant Thyssenkrupp AG – which had been two years in the making – came undone in May-June 2019 after the European Union anti-trust authority denied permission, maintaining it would be monopolistic and push up steel prices. The joint ventures, suggested by Cyrus Mistry during his short tenure as Tata Group chairman, and pursued by Chandrasekaran, along with Tata Steel Managing Director T.V. Narendran and TSE CEO Hans Fischer, would have absorbed TSE's debt of around €2.5 billion – a little more than one-fifth of Tata Steel's total debt – had it materialised. "It is obvious that in Europe we have limited options because Thyssenkrupp was the best option in many ways," Narendran told media when the merger was called off. But Tata Steel will continue to look for another partner, preferably one outside the Euro zone.

Around 38 per cent of Tata Steel's annual production of 27 MT came from overseas in FY19. But its current strategy is aimed at dispensing with its overseas acquisitions and focus on the domestic market. Its investments in South-East Asia, which, too, had belied expectations, are waiting for a buyer. The company acquired NatSteel, Singapore in 2004, and Millennium Steel, Thailand in 2006. Both struggled to report profits. In January 2019, it agreed to sell 70 per cent stake in the combined entity to China's state-owned HBIS Group for $327 million, but the deal fell through. "We will continue our efforts to make the European business cash-neutral or cash-positive," said the company earlier. "We're chasing a target of reducing debt by $1 billion."

Chandrasekaran recently said that the Indian entity cannot keep on funding the mounting losses at the UK business. He said that the Port Talbot steelworks in Wales, one of the largest in Europe, should become self-sustainable. The company announced up to 3,000 job cuts last year in Europe. Tata Steel has cut its planned capital expenditure from ₹12,000 crore to ₹8,300 crore because of the slowdown.

In the domestic market, Tata Steel has remained aggressive despite its debt, no doubt because of control over raw material supply. It has captive mines for all the iron ore it needs, and about 30 per cent of its coking coal requirements. It is building a steel plant at Kalinganagar, Odisha, of which the first phase of 3 MT was completed in 2016 at a cost of ₹22,000 crore. The second phase, which will raise capacity to 8 MT at a capital expenditure of ₹23,500 crore is under way. It has also been bidding for stressed assets that went up for sale through the insolvency court. The acquisitions – Bhushan Steel and Usha Martin – further increased debt. Bhushan Steel, renamed Tata Steel BSL, which had profits of ₹1,713 crore in the last fiscal has posted a loss of ₹504 crore in the third quarter of FY2020 on revenues of ₹5,038 crore. But profitability of Indian operations of Tata Steel remains high, and with it the hope of bringing down debt. On a standalone basis, the Indian business posted a profit of ₹10,533 crore on operational revenues of ₹70,610 crore in FY19. However, consolidated profit declined to ₹9,098 crore because of losses overseas. It posted ₹1,229 crore consolidated net loss in Q3FY20 on lower steel prices. The net profit from India operations was ₹1,194 crore, down 47 per cent.

79%
The contribution of TCS to the group's quoted investments

$1 bn
The planned reduction in Tata Steel debt

Limping Jaguar

Neither Jaguar nor Land Rover, despite being iconic brands had much commercial success under previous owner, Ford Motor Co. which lost $1 billion on the two units in 2008. There was a turnaround soon after the acquisition by Tata Motors. The combined unit was made profitable in just two years, thanks to a crack team led by CEO Ralf Speth, who announced retirement recently. In FY2011, JLR had profits of £1.1 billion and was the second-largest contributor to the group's total profits until FY2016. This was at a time when the domestic operations of Tata Motors was posting losses. Between 2010 and 2018, JLR sales grew over 200 per cent as it launched a range of successful new models. A slowdown in the Chinese and to a lesser extent, European luxury auto markets starting 2018, triggered JLR's rapid descent.

In FY2019, China sales tanked 34.1 per cent, while in Europe (barring the UK), they fell 4.5 per cent, leading to a mountain of unsold cars for JLR and an investment write-off. This included a humongous 'impairment charge' – a permanent reduction of book value – of ₹27,838 crore in its financial results for FY2019, which resulted in a consolidated net loss of Rs 28,826 crore. Just the previous year, it had earned a profit of ₹8,989 crore. China accounted for 13.7 per cent of JLR's revenue in FY2019. The Indian business (mainly passenger vehicle and commercial vehicle) improved performance and posted a profit of ₹2,021 crore in FY2019, compared to a loss of ₹1,035 crore in FY2018.

"It (JLR) faced headwinds from external factors, including slowdown of sales in China and Europe, along with internal factors of high fixed cost, dealer network profitability and high investment leading to cash outflows," Chandrasekaran said in the last annual report of the company. In October 2018, JLR announced a plan to cut costs and improve cash flows. In January 2019, it announced the slashing of 4,500 jobs worldwide. However, Tata Motors' domestic business has got a new fillip with the launch of several new models, but the momentum has failed to sustain of late.

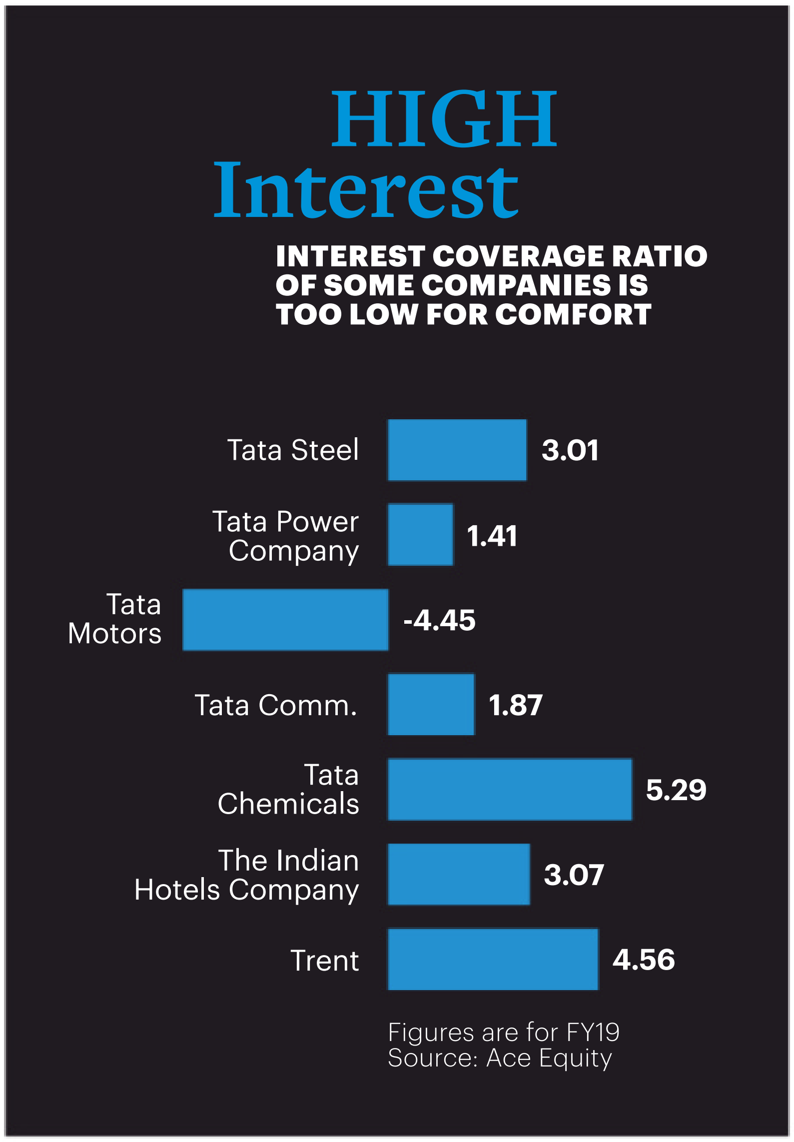
The China slowdown is attributed to many factors – the trade conflict with the US, changed regulations on auto use and high household debt. Europe sales are said to have been affected by new emission norms, reduced demand for diesel cars and worries over Brexit. With the JLR reversal, the net debt of Tata Motors' automotive business rose to ₹28,393 crore in FY19, of which JLR's share was ₹6,500 crore. The rest of the gross debt – ₹1,06,175 crore in FY2019, but offset by cash balances and investments of ₹41,782 crore to reach a net ₹64,393 crore – came from its vehicle finance company.

Tata Motors, however, insists the situation is under control. Tata Motors' debt overhang forced Tata Sons to infuse fresh equity of ₹6,500 crore, besides ₹3,500 crore financing through external commercial borrowings, to meet repayments and working capital requirements.

The gross debt of the company — which includes Indian automotive operation, JLR and Tata Motors Finance – stood at ₹1,28,675 crore in December 2019. The net debt of the automotive business in the December quarter is at ₹45,376 crore.

Business in China showed signs of revival with JLR registering 24.3 per cent growth in retail business during the December quarter. The British company delivered cost and cash savings of £2.9 billion, ahead of schedule, which envisaged saving £2.5 billion by March 2020. "We are extending project charge with focus squarely on profit and loss items and it will have a target of delivering further £1.1 billion of cost and cash savings by March 2021," says P.B. Balaji, Group Chief Financial Officer at Tata Motors.

The Indian business was free cash flow positive for the last two years and after facing a challenging first half of the year, has turned cash flow positive from the third quarter, says the company. "We expect to continue to drive improved profitability of our passenger vehicle business with the launch of a fully refreshed exciting range of BS VI ready products and electric vehicles," it says.



How are Others Faring

Debt is also a concern for Tata Communications, Indian Hotels Company and Tata Chemicals, while Titan, Voltas and Tata Global Beverages are cash-surplus. Tata Chemicals' debt rose 26 per cent in FY19 to ₹1,939 crore. For Indian Hotels Co, acquisitions in New York and San Francisco have proved to be trouble spots. Its US subsidiary, United Overseas, has been loss-making over the last three years, though losses have been reducing – from ₹267 crore in 2016/17 to ₹120 crore the following year to ₹49 crore in FY19. "The net debt of the company has been reduced by half in the last four years," said the company. The losses of the group's aviation firms rose in FY2019, with AirAsia India's net loss widening four times to ₹671 crore and that of Tata SIA (operating as Vistara) nearly doubling to ₹831 crore. Tata Sons holds a 51 per cent stake in both.

Tata Sons, the holding company, had standalone debt of ₹27,587 crore in March 2019 as against ₹18,142 crore in the previous year, while the finance businesses — Tata Capital and Tata Motors Finance — had over ₹1 lakh crore borrowings on books.

Lone Rockstar

Only one Tata company continues to soar. The entire group is now over-dependent on TCS, which has been the biggest Indian IT player for decades and is also India's second most-valued company after Reliance Industries. Watch and jewellery maker Titan is the second most-valued company in the group at over ₹1 lakh crore, though it's been hit by slowing consumption.

According to rating agency ICRA, TCS accounted for 79 per cent of the market value of the group's quoted investments. The 1:1 bonus issue by TCS in June 2018 and its buyback in September 2018 brought Tata Sons a windfall of around ₹22,500 crore in buybacks and dividend income in 2018/19.

In 2017, too, Tata Sons had earned ₹24,760 crore from TCS by tendering promoter shares in a buyback and through dividend. It was these funds that Tata Sons used to settle Tata Tele debt and saving it from earning the tag of being the Tata Group's first bankrupt company.

In the third quarter of this financial year, the TCS board has recommended an interim dividend of ₹5 per share, taking the total dividend in the nine months until December at ₹55. It translates into over ₹24,000 crore returned to shareholders, majorly Tata Sons, which holds 72 per cent stake in the IT bellwether.

In a recent New Year message to employees, Chandrasekaran said the conglomerate is well placed to face challenges in 2020 and is on course to executing its "One Tata" strategy. He wrote, "We are on course and executing our 'One Tata' strategy around the pillars of simplification, synergy and scale." But that may not be enough.

The group needs to tackle the debt burden to be future ready for fresh investments when the economy turns around. BT

@nevinjl


An IMPACT Presentation
SMART CITIES
& URBAN
DEVELOPMENT

From **Smart Cities** to Smart Living

Mr. Gaurav Basra,
Chief Strategy Officer, STL (Sterlite Technologies)

Smart cities have been in focus since 2015 when the Government of India launched the Smart Cities Mission. Out of the 100 cities shortlisted, the first 20 are implemented and are already helping citizens achieve a significant improvement in urban living.

The government is all set to launch smart cities mission 2.0 in 2020 which aims to cover all 4000 cities in India. However, with the first phase seeing less than 10% project completion, we need to relook at few things.

- Firstly, if we critically assess these cities, the work on technology front is laudable. There is a lot of focus on connectivity, metering, traffic monitoring and surveillance. These are good starting points to make the city modern. But modern does not really mean smart.
- Secondly, the completion rate itself highlights the need for more agile execution and that too at scale. We need to make the smart city execution, repeatable.

Smart cities – technically there, let's solve human needs

Start-ups and established company's world over are leveraging technology to solve customer problems. Drawing a parallel, smart cities need to become more about solving the citizen problems beyond just deploying gigabit Internet and IoT.

> *"Smart is not just using technology, it implies something that gets the pulse of the city and its problems and then uses technology to solve them."*

Some of the challenges that can be addressed are:

- Pollution - Chronic issues like air and water pollution, can be solved through a combination of environment monitoring and a set of incubated technologies like liquid fuels or smog free mega structures
- Public safety - Sensing and surveillance technologies combined with advanced video analytics, strong forensic foundation and an automated workflow like authority action can provide great preventive and reactive frameworks for security
- Congestion – The issue of congestion and resource crunch can be targeted in combination with areas like traffic, housing and resource utilisation

Be human by design, and execute at scale

To make this concept of Smart Living for Citizens turn into something repeatable and scalable, we need to design for impact and look at deployment practices that can ensure fast, cost optimised build outs. **The following design and execution principals can go a long way in making it scalable and repeatable:**

- Re-imagining smart cities as 'digital urban ecosystems' rather than a bouquet of technologies
- Thinking 2050, at the concept design stage and focus on creating enduring innovations, rather than quick fix innovations
- Not undermining the role of service engineering and on field operations. Here is where the win ability lies. Many projects are jeopardised by considering execution as just an activity, without intelligent feedback loops

Kakinada- A smart city, which keeps citizens at its core

When STL got an opportunity to transform Kakinada into a smart city, we focused our work around the strategic and human goals of the city.

- **Connected** – Around the clock connectivity for 3.25 lakh people with high speed fibre, MPLS network and Wi-Fi hotspots
- **Safe** – We targeted road safety and crime with a sophisticated network of CCTVs, coupled with advanced analytics, face recognition, emergency alarm boxes and automatic number plate recognition
- **Well controlled and governed** – With a futuristic command and control centre which has 1600 elements speaking to it constantly, we plugged the much needed gap between data and action.

Kakinada now has 50,000+ daily Wi-Fi users. The city speaks to citizens with around 90,000 + minutes of public announcements including critical support during the recent Phani cyclone. More than 60,000 energy units are saved annually through smart lights and over 100 police cases are supported with CCTV recordings at the Command and Control Centre (CCC). The project has tangibly improved everyday living experiences of over 3.25 lakh citizens of Kakinada.

Smart cities have a bright future and with this combination of living and agile build outs, we can actually tap their full potential. Smart cities can pave way for modernisation, growth and prosperity of the country as a whole.

1 MILLION people die every year due to MOSQUITO borne diseases

Germany-based Bayer AG has a formidable solution to this problem : **Aqua K-Othrine**

Advanced Mosquito Control for Smart Cities

The tiny mosquito is perhaps the most dangerous animal in the world! Worldwide, over one million people die each year from mosquito-borne diseases such as dengue, malaria, chikungunya, Japanese encephalitis and zika. In India, these diseases pose a significant risk due to rapid urbanization, increased movement of people and goods and environmental changes.

These diseases impede economic development through direct medical costs and indirect costs such as loss of productivity and the impact on tourism, in addition to the enormous mortality.

The typical approach most people use to control adult mosquitoes is via household aerosols or vaporizers. While that may be effective for small, enclosed spaces, it cannot be used for bigger spaces such as car parks, common areas of buildings or public areas such as parks and streets.

Aqua K-Othrine : a New Approach to Fogging

Fogging is the first line of defense for most societies to safeguard their inhabitants, whether residential housing associations or entire cities. In most fogging operations, diesel is used to dilute and spray the insecticide. While diesel serves no value for efficacy of mosquito control, it causes the fumes and odour experienced during fogging. It also stains walls and damages plants as the fumes settle. As cities combat increasing pollution and look for efficient and environmentally friendly options, they can benefit from adopting newer products such as **Bayer's water-based space spray solution: 'Aqua K-Othrine'.**

Economical Cost

Aqua K-Othrine eliminates the need for oil-based diluents such as diesel. In addition to the positive environmental impact, it also significantly reduces the operational costs of fogging. With over 60 years of global leadership in mosquito control, Bayer is committed to safeguarding public health and is collaborating with municipal corporations and residential societies to adopt a new and smarter approach to fogging. As India's urban footprint expands to create more smart cities, safer and innovative techniques of mosquito control can be a game - changer in creating healthy communities and safeguarding the spaces where we live, work and play.

The most dangerous animal in the world is the *mosquito*

The Aedes mosquito spreads both the *dengue and zika virus*

BAYER

For more information, visit : www.nopests.in or call toll-free : 1800 212 7650

Smart & Green

When citizens, companies and governments come together, a smart city is born

Good air, smooth roads, bills paid in a jiffy, no jams, no queues, free wi-fi--that's what the thought of a smart city brings. And the government's 'Smart Cities Mission' kept all these points on its agenda when it created this mission to change the way India lives. The government portal, smartcities.gov.in, gives a better understanding of a smart city, "The focus is on sustainable and inclusive development and the idea is to look at compact areas, create a replicable model which will act like a lighthouse to other aspiring cities."

Smart cities need smart solutions such as good town planning, clean environment and participative citizens. It all begins with good infrastructure. And under this come water and electricity supply, sanitation, solid waste management, public transport, affordable housing, digitalization, safety and security, healthcare facilities and education centres etc.

Nikunj Parashar, Sagar Defence Founder & CEO

"As team Sagar Defence, we want to change the landscape of India's maritime ecosystem, creating digitally connected harbours, ports, and ships in the times to come."

Dr. Arun Kumar
Head of Environmental Science Division,
Bayer South Asia

Advancing Public Health in Smart Cities

When cities expand, infrastructure often cannot keep pace. Stagnant water pockets in coolers, flower pots and roads give mosquitoes the opportunity to breed and spread malaria, dengue and chikungunya. These vector-borne diseases impact health and well-being, mortality and incomes without regard to socio-economic status.

Bayer, with a 60-year history of vector control, is committed to advancing cost-effective and sustainable solutions to prevent these diseases. As a signatory to the 'ZERO by 40' initiative to eradicate malaria globally by 2040, we have pledged to research, develop and supply innovative vector control solutions.

We continue to build on this long-term commitment through meaningful partnerships with the government, municipalities, residential societies and private foundations. A collaborative approach ensuring adoption of modern techniques of mosquito control is our best opportunity to achieve the United Nations Sustainable Development Goals #SDG3 'Good Health & Well-Being' and #SDG11 'Sustainable Cities & Communities.'

"Bayer is committed to advancing cost-effective and sustainable solutions to prevent vector-borne diseases."

CAPABILITY BEYOND IMAGINATION

WHEN THE 26/11 ATTACKS HAPPENED IN MUMBAI IN 2008, MANY QUESTIONS WERE RAISED ABOUT THE ACUTE LACK OF COASTAL SECURITY SYSTEMS IN THE COUNTRY. IT HAD SPARKED OFF A SERIES OF DIALOGUES ON TRANSFORMING INDIA'S COASTAL DEFENCE INFRASTRUCTURE, THE CHINKS IN OUR SYSTEM AND THE LIMITS OF MAN AND MACHINE TO GUARD OUR SHORES.

This is where it changed tracks of our maritime tech startup Sagar Defence Engineering (SDE) where we realised that our technology could help prevent such a grave threat from occurring again. "Though SDE was born with a mission to help ships become autonomous and keep sailors at home, the 26/11 Mumbai attack completely changed our mindset. It is an example of our porous maritime boundaries despite the presence of a large Navy and Coast Guard forces. This clearly paved the way for technologies like ours. These systems could act as the eyes and ears of the soldiers for monitoring each and every entry/exit points of the ports, harbours and coast.

Our 'Boat in a Box' Autonomous Navigation System - Genesis - uses AI to accomplish a repetitive and quantifiable marine task more reliably as compared to direct human control. Genesis is a forward-looking autonomous technology, which has AI-enabled advanced control systems for all kinds of boats and ships that increase operational safety, efficiency, and productivity on the water.The technology is such that it provides a simple vessel the ability to carry out tasks which were earlier done only by special purpose vehicles. Unlike designing an autonomous vehicle from scratch, the beauty of the system is that it can turn any vessel into a sailor-less one. This, in turn, also helps to save lives.

As far as our AI-enabled system is concerned, it took the startup four years and numerous sea trials with Indian Navy to develop, test and induct it with the armed forces. This system could be retrofitted upon a regular vessel, giving it all the capabilities of an intelligent vessel as well as the ability to execute repetitive missions without human intervention.

Mr. Nikunj Parashar, Founder and CEO of Sagar Degence Engineering says, "The story of Sagar Defence dates back to 2011 when I had quit my job in a shipping company that was based in Denmark and was working on innovation in autonomous technology with my wife. Recalling the early days of struggle, I remember how getting a contract or even an appointment from the nodal agencies was extremely tough in the beginning. And, at one point, we even contemplated going back to our previous career. It was one such fateful night and Invest India had just launched their website for the first time. At around 2330 hours late in the night, I wrote an email on their given mail ID but thought that nobody would reply back as had been the usual norm till then. That is when an email came back soon enough asking our requirement and what we were doing. The chat continued till the early hours of the morning the next day. And the next morning we had a meeting fixed in different ministries to explain the workings of our startup. This brought in new life in our motivations and changed us forever. Since then we never looked back support from Ministry of defence, startup India and Invest India made us who we are today.

The opportunity for the product in India, we feel, is huge. Our unmanned vehicles have already been used for applications like security and surveillance, target tracking and disaster management by the armed forces. We feel that even bigger opportunities are waiting to be discovered in this space. "The development of unmanned systems will allow researchers to better understand unpredictable oceans and uncover new possibilities. Current market composition is fragmented as there area wide variety of unmanned systems. The given market is segmented into defense, commercial, scientific research and others. SDE plans to take our hybrid technology with smart software algorithm engines/hardware that can be utilised in manned and unmanned operations, configured to suit the particular vehicle irrespective of the vehicle type. Plans are underway now to set up a manufacturing plant in India with the Indian government already allotting a waterfront in Mumbai for the same. Besides this, we have export orders for multiple such vessels and autonomous systems and are looking to expand into the North American markets. In the year 2017, we were adjudged as one of the top ten maritime Startups in the world and in the year 2016 were adjudged as one of the best maritime startup of the country given by Ministry of Shipping and the award was conferred to us by Honourable Shri Rajnath Singh then former Home Minister. Recently in the year 2019 ONGC has invested in us close to $1 million.

Nest-In Cottage, Gajoldoba – West Bengal

> *Tata Steel Nest-In: Changing Lives through Revolutionary Construction*

Infrastructure

Cities of the future or cities created for the future and to boost economic growth are inclusive and need participation of all. Each part of the city is developed in uniformity. When focusing on smart solutions, the planners keep in mind that the development is done in way so that the areas are less vulnerable to disasters, there is less use of resources and citizens get cheaper services. Local area development can become a model for other areas, which means there is a cluster of smart cities within a smart city. Technology is to be harnessed. Development of slums into better planned areas is focused on. Greenfield areas are developed around the cities. There is scope left for expansion to accommodate expanding population in urban areas.

As India surges forward to a smarter time and age, there has come a need for construction to be revolutionized and reimagined – India needs smarter, faster and greener construction solutions. Nest-In is Tata Steel's modular construction solutions brand, which aims to bring its expertise in steel into designing high-quality, impactful construction solutions. Nest-In today has seven offerings including modular toilets, automated public toilets, drinking water vending machines, prefabricated housing, rooftop homes, tensile fabric structures and portable cabins. With a Pan-India presence (25 states), and an efficient delivery mechanism, Nest-In offers high speed, turnkey construction solutions with unique customer experience at its core. Moving forward, Nest-In bids to help India build faster and set world standards in all fields of light construction.

Under comprehensive development, smart cities are places where data is managed and technology is used to improve infrastructure. To give an example of FAStags, which make for smooth travel, metros connecting even the farthest corner of the city for easy and seamless movement. The Delhi Metro has been a boon, as have been the water ATMs reducing the use of plastic bottles. Toilets on roads and markets in Noida have brought about a massive shift in cleanliness.

Airport Infrastructure

Air travel has become the norm with most people preferring to use this fast mode of transport. In fact, the aviation sector has been growing at a rate of 20% for last four years, with most of the rise coming from the domestic market. The government is also giving a boost to UDAN scheme and promoting regional connectivity.

In fact, the government's Vision 2040 for the aviation sector charts out a comprehensive strategy. India will require 200 airports and a financial commitment of $40-50 billion to handle 1.1 billion passengers flying to, from and within the country. Currently, India has around 100 airports. In the recent budget, the Finance Minister announced development of 100 airports by 2025 under UDAN scheme. It has earmarked Rs 1.7 lakh crore for 2020-21 in the transport sector, opening up a door of opportunity for the aviation sector and allied industries. And here too, experience and expertise of firms such as the 100-year-old ShinMaywa can play a crucial role. ShinMaywa started as Japan's first aircraft manufacturer in 1918, Since then, its product range encompasses special purpose trucks and water treatment equipment, industrial machinery, car parking system and environmental systems.

Upgradation and expansion of airports require development of new greenfield airports and expansion of existing brownfield airports, and these will be funded by the Indian private sector and Airports Authority of India (AAI). NABH Nirman was launched to create enhanced airport capacity to handle 1 billion trips in the next 10-15 years. To name few cities where the government has given a nod for airports--Noida International Airport (Jewar), Mopa (Goa), Purandar Airport (Pune), Bhogapuram Airport (Visakhapatnam), Dholera Airport (Ahmedabad), Hirasar Airport (Rajkot) . AAI has privatised six airports, namely Ahmedabad, Jaipur, Lucknow, Guwahati, Thiruvanthapuram and Mangalore, boosting the PPP model.

Abhijit Sinha, Director & CEO, Shinmaywa Industries, India

Solar Power

Going back to the government's 'Smart city Mission', the portal says that "Smart people involve themselves in the definition of the Smart City, decisions on deploying Smart Solutions, implementing reforms, doing more with less and oversight during implementing and designing post-project structures in order to make the Smart City developments sustainable."

Ravindra Prabhudesai, MD- Pitambari Products Pvt. Ltd.

And harnessing solar power is part of sustainable development. In an article Renewables (em)power smart cities, the website https://www2.deloitte.com/ says, "As cities expand, so does their energy use. And as cities strive to become "smart," renewable solar and wind power can play a crucial role in helping them achieve their goals…. The goals of a people-centered smart city are economic growth, sustainability, and quality of life, while the goals of a utility are to provide reliable, affordable, and environmentally responsible energy. Solar and wind power are the linchpins to aligning and achieving both sets of goals." Going into the details, the article states, "Smart cities and utilities share an interest in deploying two energy sources that align with their goals: solar and wind. Utilities are embracing wind and solar power as they reach price and performance parity with conventional energy sources across the world, help to cost-effectively balance the grid, and become more valuable assets thanks to increasingly cost-effective storage and other new technologies…"

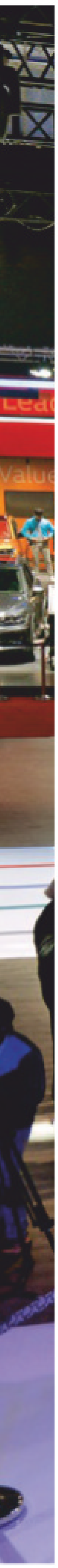
To give an example of how usage of solar power is a cost-effective and a smart choice leading to a whole new unit, the 30-year-old Pitambari Group with diverse verticals was facing problems of huge electricity bills. They had to bear the electricity bill of Rs. 10 Lac/ month for all the factories. Hence they drifted to Solar Energy & the result was miraculous, the new bill amount was just Rs. 3 lac/ month. This means they had saved Rs. 7 Lac/month. Hence they decided to avail this service to their Suppliers & Agents; who also experienced handsome savings in their electricity bills. Thus 'Solar care Division' came into existence.

Pitambari Solar care are in the solar industry since 1.5 years, wherein they have executed more than 1.5 MW roof top solar across India. Also they are authorized distributors of Vikram solar for Mumbai, Navi Mumbai and Raigad. They have highly qualified and skilled EPC to provide turnkey solutions i.e. from Design till installation, commissioning, maintenance and further operation as per client requirements. They believe in excellence and delivering solutions to their respectable customers.

In Solar Business most customers face problem of quality of material, quality of installation and commissioning and service after sale.

Pitambari not only assures you the best solutions in renewable energy, but also reliability, trust and faith of our organization.

"Till today we have always bowed to the sun, but now it's time to use solar power to stop pollution."



BIG AUTO'S EXPO WOES

As footfalls decline at **Auto Expos** globally, what is the way forward?

BY SUMANT BANERJI
PHOTOGRAPH BY YASIR IQBAL

Rajesh Menon, Director General, Society of Indian Automobile Manufacturers (SIAM), one of the main organisers of India's biggest auto show, Auto Expo, heaved a sigh of relief on Sunday evening as the gates shut for the day. The weekend had passed off without a glitch with more than two lakh people visiting the show on the two days. The show could now be called a success. He had not taken it for granted, though.

"I can breathe a bit easy now," Menon said on Monday morning. "The weekend has gone off well. We got the crowd we expected. It is all good."

The intense slowdown in the domestic automobile industry – sales dropped 14 per cent in 2019 – the steepest ever annually in more than two decades, led to a number of dropouts this year.

Regulars such as Honda Cars, Toyota and Nissan and luxury carmakers BMW, Audi, Jaguar Land Rover and Nissan decided to miss the expo. They were joined by commercial vehicle makers – Ashok Leyland, Volvo Eicher – and almost the entire two-wheeler industry, including Hero MotoCorp, Honda Motorcycle and Scooters India, TVS, Bajaj and Yamaha. The organisers feared this may land a telling blow to the show and footfalls may drop.

The New Delhi Auto Expo is not an isolated case. Globally, major automobile exhibitions are facing an existential crisis as new-age customers, mostly millennials, prefer to stay away from the traditional exhibition format. The axing of the Frankfurt Motor Show – among the biggest shows globally – from the schedule for next year is a case in point.

2,35,000
SQUARE METRES
Total space occupied by exhibitors at the expo that is spread over 58 acres

"The number of auto shows globally is going down and participation in some of the biggest shows such Frankfurt and Tokyo have come down," Rajan Wadhera, President of SIAM, said in December. "Even we were thinking of postponing the event by a year taking into account the slowdown and the disruption that we are facing due to the transition from BS IV to BS VI emission norms in April 2020, but we ultimately decided against it as it would have done a grave disservice to the stature of Auto Expo which has been painstakingly built over the last decade or so."

Participating in a global automotive exhibition is a costly affair and not for the faint hearted. The average rack rate per square metre of space for the Indian expo is around ₹9,000. This compares favourably with Paris, Frankfurt and Geneva, while Tokyo and Shanghai are a tad more expensive. Effectively, companies end up spending anywhere between ₹5-20 crore for the week-long event. At a time when the industry is going through a period of prolonged slowdown, not many companies see merit in participating in an expensive marketing event like an Expo.

"It is a very 1980s concept and needs to be reimagined. Then there was no social media or Internet, so the Expo was a good platform to showcase products. Now things have changed," says a senior official with a two-wheeler firm. "I can create an event on my own for less than a tenth of the cost and still meet targets on customer acquisition. I am not even sure if people who come to the Expo are interested in buying vehicles at all."

75+
Products and concept vehicles unveiled

108
Number of exhibitors at the show, including 34 original equipment manufacturers (OEMs)

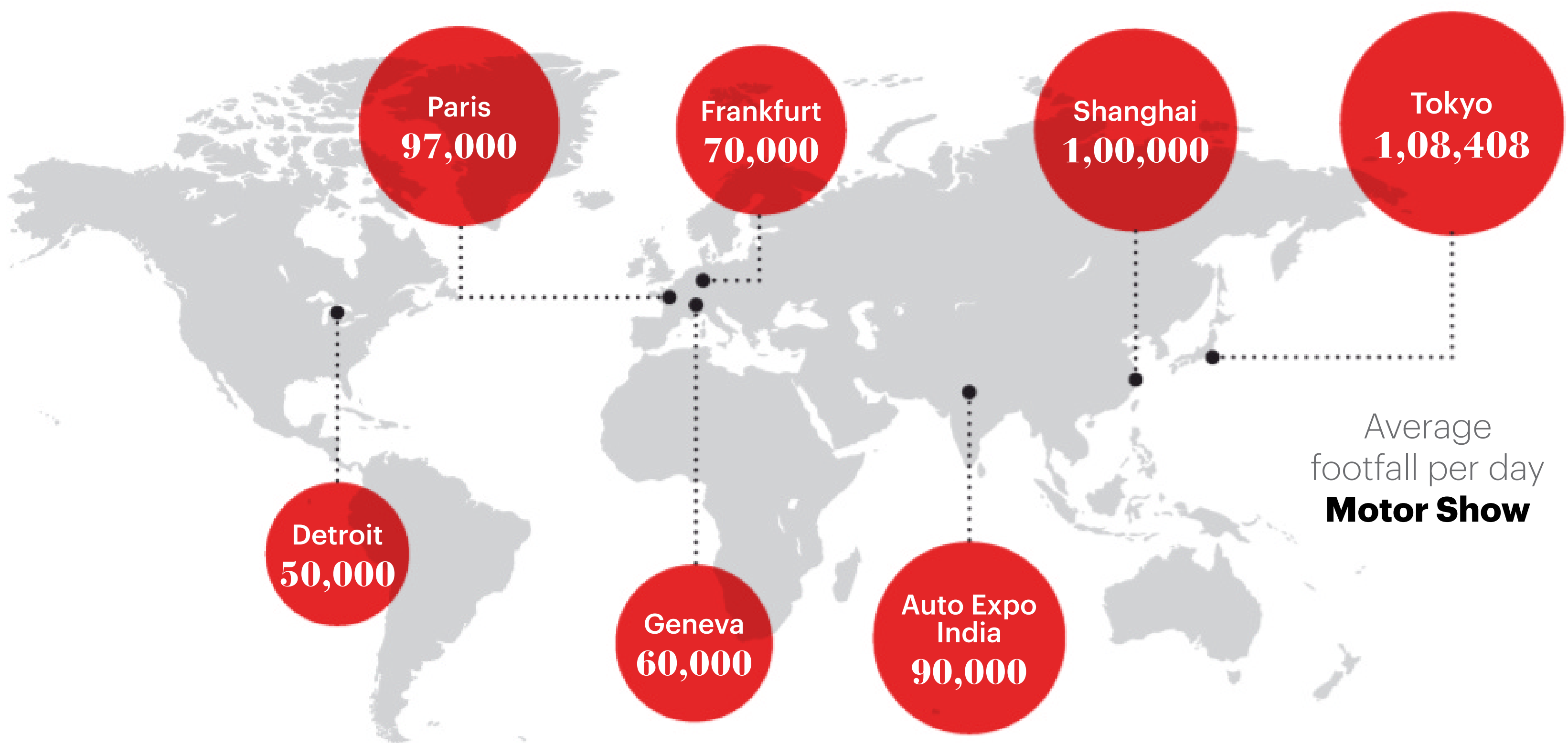
20
Number of OEMs that have given it a miss this time, including Hero MotoCorp, Honda, Toyota, BMW, Audi and JLR

Further, the industry is bracing itself for a number of disruptions in the future like electric mobility, which is likely to test the financial mettle of the industry. Conserving resources is the buzzword. What makes matters worse for companies in India is the inequitable growth in the industry. In passenger vehicles, the top three companies – Maruti Suzuki, Hyundai Motor and Mahindra and Mahindra – command a near 75 per cent share of the market, leaving the last quarter for the rest of the players to fight over. That's 18 companies fighting for a 25 per cent share. Similarly, in commercial vehicles and two-wheelers the top two players account for 70 per cent and 65 per cent of the market, respectively. This top heavy structure makes it extremely difficult for fringe players to make money or newer players to find traction.

"It is a very unique situation in India where only two

KA-CHING

The Delhi **Auto Expo** is in the league of **the biggest auto shows in the world**



companies have a double-digit market share and the market leader has a 50 per cent share," says Jnaneswar Sen, Partner at Maven Partners, a consultancy firm for automobiles and component industry. "Only these two companies manage to sustain sales for a particular product over the lifetime. In most other cases, one product works at one point but others don't. This creates stress in the system which reflects in their balance sheets."

The dominance of the bigger players makes it difficult for fringe players to break in or for new entrants to gain traction. It also dims the attractiveness of the world's fourth-largest car market that is tipped to become the second-largest by the end of this decade. An example is the failure of American companies in the market exemplified by the exit of General Motors in 2017. It grabbed a lot of headlines then but did not come as a surprise. The other big American auto firm Ford also decided to exit the market last year, leaving most of its operations, including production facilities in a joint venture with Mahindra and Mahindra. Even the Europeans have not found the going easy. The Volkswagen group that has been in the mass market here for over two decades with Skoda and more than a decade with the VW brand also admitted it did have an option to exit two years back before drawing up a new plan with fresh investments.

"A few years ago, our plan was weak and it was a time when we could have decided to exit the market," says Jurgen Stackmann, Head – Sales and Marketing, Volkswagen group. "We had to decide to either stay weak and play along or go bold. Our decision to invest into a new platform for India is a statement that we believe in India's future. It is a very tough and competitive market but market dynamics will always change faster in an economy like India. It is the potential at the end of the day that is attractive, which is why we decided to embark on our India 2.0 plan and stay invested."

Many of these fringe companies are also not profitable which, in turn, impairs their ability to participate in an exhibition that costs a lot of money. Even luxury carmakers that always attract more eyeballs, make more money per car but are faced with a stagnant market for almost five years now, have felt the strain. The slowdown in the market, in its 20th month now, has not helped.

"A number of manufacturers are missing this time as the industry is going through a tough time, but in other countries the problem is bigger as young people are not so much interested in buying cars. In India, the potential is still big, so an event like this is important," says Kenichi Ayukawa, Managing Director and CEO, Maruti Suzuki India.

Rajeev Chaba, President and Managing Director, MG Motor, has been a regular at the Expo and admitted it felt a bit scaled down this year. "It obviously feels a bit scaled down this time. It only makes sense for a company to be here if they have anything exciting to show or tease consumers with," he says. "We had to be here because we are new and have so much to show. Same goes for Great Wall Motor, which is making an entry into India. Everybody takes a call based on their needs."

Sen, a veteran in the industry having worked with Maruti Suzuki and Honda Cars, however, believes the higher number of no shows this year was largely due to the downturn and most will be back in the next edition.

"The bigger question is whether the aspiration to own a car is going down? The jury is still out on this one but, I believe, except for a small fraction of the market, consumers still want to own a vehicle," he says. "Yes the way in which information is consumed has changed a lot with the Internet and social media and the consumer behaviour is also evolving rapidly. Everybody from manufacturers to even show organisers have to keep pace with it."

There is one silver lining. Unlike the Frankfurt show, footfalls did not decline at the Indian expo this year. Industry would now hope, some of those would make their way to the showrooms as well. **BT**

@sumantbanerji

"A number of manufacturers are missing this time as the industry is **going through a tough time... In India, the potential is still big,** so an event like Auto Expo is important"

Kenichi Ayukawa
MD and CEO, Maruti Suzuki India

"Globally, the number of auto shows is going down **and participation in even some of the biggest shows,** such as in Frankfurt and Tokyo, has come down"

Rajan Wadhera
President, SIAM

Interview

Expect double-digit growth in second half of next year"

It has been four years since **Guenter Butschek** has been at the helm of **Tata Motors,** the country's largest automobile manufacturer. Known as a turnaround expert, a moniker he earned in his previous stint at Airbus, Butschek is not new to managing crisis such as the current downturn in the domestic automobile industry. He, though, remains unfazed and is prepping up Tata Motors for the future. Basking in the attention the company's vehicles got at the recent Auto Expo in Greater Noida, he talks to **Sumant Banerji** about what the future holds for the industry and his plans for localisation of electric vehicles. Edited excerpts:

PHOTOGRAPHS BY YASIR IQBAL

What are the major takeaways at the Auto Expo this year?
I think there's one trend clear across pavilions. It's towards green. It's towards new mobility solutions.

The industry has been under tremendous pressure over two years. Did you see signs of that at the exhibition?
We know that last two years have been tough for the industry. It seems Auto Expo is a little damp than previous editions. Some of this was expected due to fewer participants. The coronavirus threat is also there.

What are your thoughts on the current fiscal? What do you expect from the next fiscal? When will we see a revival?
There's not much time left as far as fiscal 2020 is concerned. Let's as-

sume that the coming six weeks are not going to be fundamentally different from what we have seen during the part of the year that's behind us. Even in the festive season, there was a spike in demand only for a short period. This fiscal is most probably going to go into the books as a washout. We might end up in the vicinity of 2.6-2.7 million (passenger vehicle sales) from more than three million in the last fiscal. This comes after years of consistent growth.

Maybe we all got used to a CAGR of 5-8 per cent and now there is a sudden decline. I am told by colleagues that this crisis is unlike the others in the past that lasted for just three-six months. This (slowdown) is now more than 18 months old and is affecting not only passenger vehicles but also commercial vehicles, which has hit us particularly badly. In the last quarter, we saw a decline of 47 per cent. This is extraordinary.

Do you think the government realises that this crisis is extraordinary as we often get statements (from government functionaries) that this downturn is also cyclical and comes every five years?
I won't like to comment. On the one hand, it's an overlay of cyclical issues directly linked to economic activity and economic development of India. And on the other hand, it's structural, because of changes in the regulatory environment. One change was increase in axle load for commercial vehicles in July 2018. We are yet to recover from it. It brought additional capacity at a time when demand had dropped. If you take passenger vehicles, the transition to BS VI emission norms, again driven by a change in the regulatory environment, is structural. The BS VI regime is going to make diesel (vehicles) particularly more expensive than petrol (vehicles). So, we will be expected to move from diesel to petrol. At the same time, customers may think twice before committing to buy a BS VI version, as they will do a simple comparison of prices of BS VI and BS IV vehicles.

How will fiscal 2021 be if we do not see any policy intervention?
The year will probably be two half-year stories. The first half is going to be tough as it will be a transitional period from intention to delivery as far as the Union Budget is concerned. We as an industry are going to suffer from the transition from BS IV to BS VI. So, I am cautiously pessimistic, and for the second half, I am cautiously optimistic.

If I'm right about the second half, the Budget will kick in, money will start circulating, GDP will get back into the growth mode and with it we will see higher personal consumption. I do hope that we cross 6 per cent (GDP growth rate) at least. At the same time, confusion over BS VI, diesel versus petrol, new technologies, electrification, will be cleared. And in the next fiscal year, you should actually see growth, but it will be in single digits. I expect the low base effect to ensure double-digit growth in the second half of the year. But is it going to be double-digit for the year? There is a question mark on that. It's possibly too much of a bold statement.

In the first half, we need to do our homework to ensure that all the required actions are taken so that in the second half, at the beginning of the festive season, we can actually start to fire.

We need to build valuable capabilities and **set up engineering footprint** to create intellectual property suitable for export

Is electrification about to become affordable?
We launched the Nexon EV late-January. There has been stunning feedback and interest in the market. Later this year, we will also launch the Altroz EV that has been showcased at the expo. Yes, it's still roughly 25 per cent more expensive than a comparable ICE version, but it's just 25 per cent.

How big is the threat of disruption in the automotive supply chain industry due to the outbreak of Coronavirus in China?
There is not a single company in the world that produces everything in one country. It's the same with the automotive industry. You know we are rather weak as far as electronics are concerned. So, coronavirus might have an impact. The Lunar New Year holidays, casually called Chinese New Year holidays, have been extended by one week and we expect people to get back to work then. We need to check to see what has been produced, what has been shipped, what is available for shipment, and then to do the math to see where we are against our production plan. This is currently an operational concern and we will discover it as our regular contacts get back to work. I hope it's not a threat but it is, at least at this point of time, uncertain.

The government has been increasing import duties in a host of sectors, including automobiles, and laying stress on Make in India. How do you look at this?
It is a clear statement for imported parts. Higher import duties create a more level-playing field. There's a clear direction in the statement of the government. I have a slightly different view. I'm not just of the opinion that it is about Make in India.

It needs to be designed in India and engineered in India as then we will actually build valuable capabilities and set up our engineering footprint to create intellectual property suitable for export. This is not going to happen as long as you just leverage the low-cost manufacturing environment.

As far as the contribution to GDP is concerned, an engineer counts for multiple times than a blue collar worker. Don't get me wrong; it's not a negative statement on the blue collar worker. We have all the capabilities. This country has invested a lot in education. We need to leverage this unique opportunity. The government's stance sets the trend in combination with last year's changes in the corporate tax rate. This combination encourages people to enter the country to take advantage of the reduced corporate tax regime, which is significantly more attractive than in the past. It incentivises the setting up of the full value chain in India.

How much of your electric vehicles (EVs) is made locally?

In Nexon EV, a good part of electronics is imported, and is now about to be localised under strategic collaborations like the one recently announced with Tata AutoComp Systems.

What actually tracks my local content is the cell. The 7.1 kilowatt pack of cells easily claims, with other components, 35-40 per cent imported content. That is the reason it's important that Tata Chemicals is investing ₹800-1,000 crore to establish a plant in Gujarat to build lithium-ion cells. Land has been acquired and construction started to set up cell manufacturing facilities for different technologies and cell types. At present, the motor is also imported, but is about to be localised. With our volume, we are going to prove the business case for an investment. Our phased manufacturing plan is in place.

Your long-cherished ambition has been to become the third-largest player in passenger vehicles market. How far are you from achieving that?

Number five is not necessarily the most comfortable starting point. I would say fiscal 2021 will probably be very challenging because the first half of the year is unpredictable. Some launched products need to get their feet on the ground. I am convinced that the moment the market starts firing, we will have an opportunity to outperform it. That makes me pretty positive on the way forward. We are well-positioned to take off. If I don't have an inspiration for FY22, we lose the game even before we get to the podium. The podium is our target and needs to be reached. Otherwise, there is no motivation. BT

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Technology

The Gene Business

Technology advances in gene sequencing are creating new opportunities for enterprises in healthcare and other sectors

BY JOE C. MATHEW
ILLUSTRATION BY RAJ VERMA

Are you genetically predisposed to some diseases? Do you carry genetic mutations that can impact the health of your child? A debit card-sized IndiGenome card, recently unveiled by the government, will help you find the answers if your genetic information is captured in a database that India's umbrella research organisation – the Council of Scientific and Industrial Research (CSIR) – is building. Once your genome is sequenced from your blood sample and added to this database, the card can be used to read the information embedded in your genes, just as your debit card is used to generate a financial transaction statement from your bank's database.

$10-12 BILLION
SIZE OF THE GLOBAL HIGH-THROUGHPUT GENOMICS INDUSTRY

$25-30 BILLION
EXPECTED SIZE OF THE MARKET IN THE NEXT THREE-FOUR YEARS

₹500 CRORE
THE MARKET IN INDIA, INCLUDING REAGENTS, INSTRUMENTS AND SERVICES

Well, the card is not the key. Genome sequencing – or mapping the pattern of the basic building block of every living cell – is. A genome contains all of a living being's genetic material (simply put, the genome is divided into chromosomes, chromosomes contain genes, and genes are made of DNA). Each genome has approximately 3.2 billion DNA base pairs, and the way they are arranged, or variations and mutations in their pattern, can provide clues about the individual's health or ill health, inherited or acquired. Already, 1,008 individuals, chosen to represent India's social, ethnic and geographic diversity, have been issued such cards. Over 280 doctors in 70 institutions have been trained to make sense of such data. A CSIR institute, the Institute of Genomics and Integrative Biology (IGIB) – which is spearheading the Genomics for Public Health in India, also called IndiGen project – is planning to enrol 20,000 Indians for whole genome sequencing in the next couple of years to build a larger database. The data will be important for building the knowhow, baseline data and indigenous capacity in the emerging area of precision medicine. IndiGen will have applications in a number of areas, including faster and more efficient diagnosis of rare diseases. The other benefits are cost-effective genetic tests, carrier screening applications for expectant couples, enabling efficient diagnosis of heritable cancers and pharmacogenetic tests to prevent adverse drug reactions.

In fact, IGIB leads two other programmes – Genomics for Understanding Rare Diseases India Alliance (GUaRDIAN) Network and Genomics and other Omics tools for Enabling Medical Decision (GOMED), led by Dr Mohammed Faruq, to see that the genome database and genetic screening leads to development of cost effective diagnostic tools and tests that are licensed out to private and public medical institutions.

The world over, fall in cost for genome sequencing (a reason for which is increase in computing power) is leading to path-breaking applications spanning the entire spectrum of healthcare – diagnosis to treatment and drug development to prevention and wellness – and unrelated fields such as agriculture, animal productivity, environment, sports and many more. Consider this: CSIR took six months to sequence the genomes of 1,008 Indians. Seventeen years ago, a global initiative led by the US National Academy of Sciences, had taken 12 years, and spent $3 billion, to complete the sequencing of the first human genome. Today, sequencing a person's genome does not cost more than $1,000. In fact, Sam Santosh, Chairman of MedGenome Labs, a private venture, says he can sequence a complete human genome in his Bengaluru lab for $500-600.

The Industry

The catalyst for the IndiGen project was advent of Next Generation Sequencing (NGS) in the last decade or so. (NGS helps an entire human genome to be sequenced in a day. The previous Sanger sequencing technology used to take over a decade.) The technology is being used by both IGIB and MedGenome for high-throughput sequencing, i.e. sequencing hundreds of thousands of genes in one go.

IndiGen is a good start but there are countries that are much ahead. Genomics England, a public-private partnership between the UK government and world's biggest NGS sequencing machine maker, Illumina, has completed sequencing of 1,00,000 genomes of British citizens comprising a mix of cancer patients, rare disorder patients and healthy people. A new agreement for sequencing of 3,00,000 genomes, with an option to increase it to 5,00,000 over the next five years, was signed by the two partners on January 13. "Countries such as Estonia and Iceland are attempting to sequence every single citizen and link the data with their health schemes. The US has decided to do it for every single rare disorder patient," says Praveen Gupta, Managing Director & Founder, Premas Life Sciences – the authorised partner of US-based Illumina in India.

"The global high-throughput genomics industry will be in the range of $10-12 billion. With an estimated 25-30 per cent annual growth, it is expected to become a $25-30 billion market in the next three-four years," he says. Premas sells tools (reagents, platforms, software, training) to labs that do genetic testing in India. With 90 per cent market share, it drives NGS technology in India, too. "The high-throughput genomics market in India, including reagents, instruments and services, will be about ₹500 crore. Approximately 50,000 samples must be reaching India's clinical (service) market on an annual basis," says Gupta.

WHAT IS GENOME?

An organism's complete set of DNA, including all its genes, which contains all the information needed to build and maintain that organism. In humans, a copy of the entire genome – more than three billion DNA base pairs – is contained in all cells that have a nucleus

HOW IS GENETIC MAP CREATED?

Researchers collect blood or tissue samples from members of families where a certain disease/trait is prevalent. Using laboratory techniques, scientists isolate DNA from these samples and examine it for unique patterns seen only in members who have the disease/trait. These patterns in chemical bases that make up DNA are referred to as markers. DNA markers don't, by themselves, identify the gene responsible for the disease/trait but can tell researchers roughly where the gene is on the chromosome

Source: Genome.gov/ National Human Genome Research Institute

Dr Sridhar Sivasubbu and Dr Vinod Scaria, IGIB scientists at the forefront of the IndiGen programme, say genome sequencing is just one piece of the initiative. IGIB has two other programmes – Genomics for Understanding Rare Diseases India Alliance (GUaRDIAN) Network and Genomics and Other Omics Tools for Enabling Medical Decision (GOMED) – to ensure their genome database and genetic screening lead to development of cost-effective diagnostic tools and tests that can be licensed out to private and public healthcare institutions. "GUaRDIAN focuses on rare diseases. Given that we


PHOTOGRAPH BY RAJWANT RAWAT

"GIVEN THAT WE ARE A BILLION-PLUS PEOPLE, EVEN THE RAREST OF THE RARE DISEASES ARE FOUND IN A FEW LAKH PEOPLE"

Dr Sridhar Sivasubbu
Researcher, CSIR Institute of Genomics and Integrative Biology

are a billion-plus people, even the rarest of the rare diseases is found in a few lakh people. So, this programme caters to 70 million people living with some genetic disease. We find technological solutions for these 7,000-odd diseases and partner with a network of 280 clinicians across 70-odd institutions to offer our solutions," says Sivasubbu.

"Patients and their families connect with us through the GUaRDIAN network. We sequence their genes to find the mutation, and once we find it, we go back to their communities with a cost-effective test to identify that mutation. You just have to look for that single mutation in others, and that's cost-effective," says Scaria. Instead of whole genome sequencing, which costs between ₹50,000 and ₹1,00,000, a single assay developed by IGIB through these programmes costs ₹2,000. The team led by Sivasubbu and Scaria has developed 180 tests for 180 genes and transferred the technology to private diagnostic labs. The institute itself has catered to about 10,000 patients and carried about 25,000 tests in the last two years. "We have entered into partnerships with about a dozen companies. The format of the collaboration depends on the business models they follow," says Sivasubbu.

The Private Hand

Dr Lal PathLabs, a pathology lab chain with big plans in the genetic testing space, has an entire department for such tests. "We offer tests of all levels – Karyotyping, which looks at the macro level, Microarrays, which offer intermediate resolution, and NGS, used to elucidate the DNA sequence at the micro level. The fields we are active in include prenatal reproductive health, cancer diagnosis and pharmacogenomics (study of how genes affect a person's response to drugs). We have more than 200 tests and conduct around 300 tests per day," says Dr Vandana Lal, Executive Director, Dr Lal PathLabs. The company has licensed tests for 27 conditions from IGIB. "The imported technology is expensive. The idea to partner with CSIR labs is to bring these cutting-edge technologies to Indian masses at a reasonable cost," says Dr Lal.

Lifecell International is another player in the genetic testing space that has tied up IGIB. "We offer tests ranging from basic screening (prenatal screening, newborn screening, etc.) to high-end ones based on NGS. We test more than 50,000 samples a month. PCR-based tests range from ₹2,000-5,000 whereas tests based on NGS and those involving sequencing of large parts of the genome can cost upwards of ₹20,000," says Ishaan Khanna, CEO, Biobank & Diagnostics, Lifecell. He believes the IndiGen database will help in development of better analysis and interpretation tools. "Our focus is on developing rapid genome testing for children in NICU (Neonatal ICU) and similar other scenarios where doctors need clear actionable results in the shortest possible time. IndiGen provides the right mix of Indian genome database," he says.

But not every partnership is for access to cost-effective tests. Mahajan Imaging, a medical imaging chain, has set up a Centre for Advanced Research in Imaging, Neuroscience and Genomics to focus on research and helping radiology and genomics companies develop clinically relevant products. The idea is to integrate imaging and genomic data. "We started the project six months ago and are among the first imaging companies to get into genomics. In the next three-five years, it will be possible for an AI algorithm to look at the radiology image and give genomic readings on it," says Vidur Mahajan, Associate Director, Mahajan Imaging.

Chennai-based Trivitron Healthcare sees in IndiGene data an opportunity to develop multiple testing platforms. It wants to develop tools using genomic data that can work on conventional platforms. "There are almost 1,00,000 pathology labs in India. Hardly 500-1,000 must be doing genetic testing. Companies like ours are talking to IGIB and trying to get the knowhow to manufacture products for a larger population," says Jameel Ahmad Khan, Head, R&D, Trivitron. "IGIB will develop the knowhow, provide proof of concept, and we will convert it into a product which pathology labs

WHO IS DOING WHAT

Premas Life Sciences
- The authorised partner of US-based Illumina in India provides tools (reagents, platforms, software, training and troubleshooting) to labs engaged in genetic testing in India. With 90 per cent market share, it drives the New Generation Sequencing technology in India
- It works in areas other than healthcare, too. For example, Tagtaste, an online platform for food professionals, uses the company's services to understand the genomics of taste. It has customers and partners such as Pepsico, Coca Cola, Nestle and ITC

Dr Lal PathLabs
- The company has licensed diagnostic tests for 27 conditions from Institute of Genomics and Integrative Biology (IGIB)
- Has a portfolio of more than 200 different types of tests
- It is active in fields like reproductive health, cancer diagnosis, pharmacogenomics

Medgenome Labs
- The Bengaluru-based player considers itself as the private sector avatar of IGIB. It offers not just genetic tests but also carries out research. It has collaborated with Singapore's Nanyang Technological University to sequence 1,00,000 whole genomes from Asia. The Genome Asia project has already completed sequencing 10,000 whole genomes, of which about 8,000 are from India
- MedGenome's research associates recently sequenced and analysed the genome of the Cobra snake. The findings, published in Nature, suggest the possibility of developing a new method of producing anti-venom completely in the lab.

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- The company has set up a new R&D wing to focus on cutting-edge scientific and clinical research and help radiology and genomics companies develop world-class clinically relevant products. The idea is to integrate imaging and genomic data

Trivitron Healthcare
- The Chennai-based chain wants to develop tools using genomic data that can work on conventional platforms. It is talking to IGIB and trying to get its knowhow for manufacture of products for sale to pathology labs

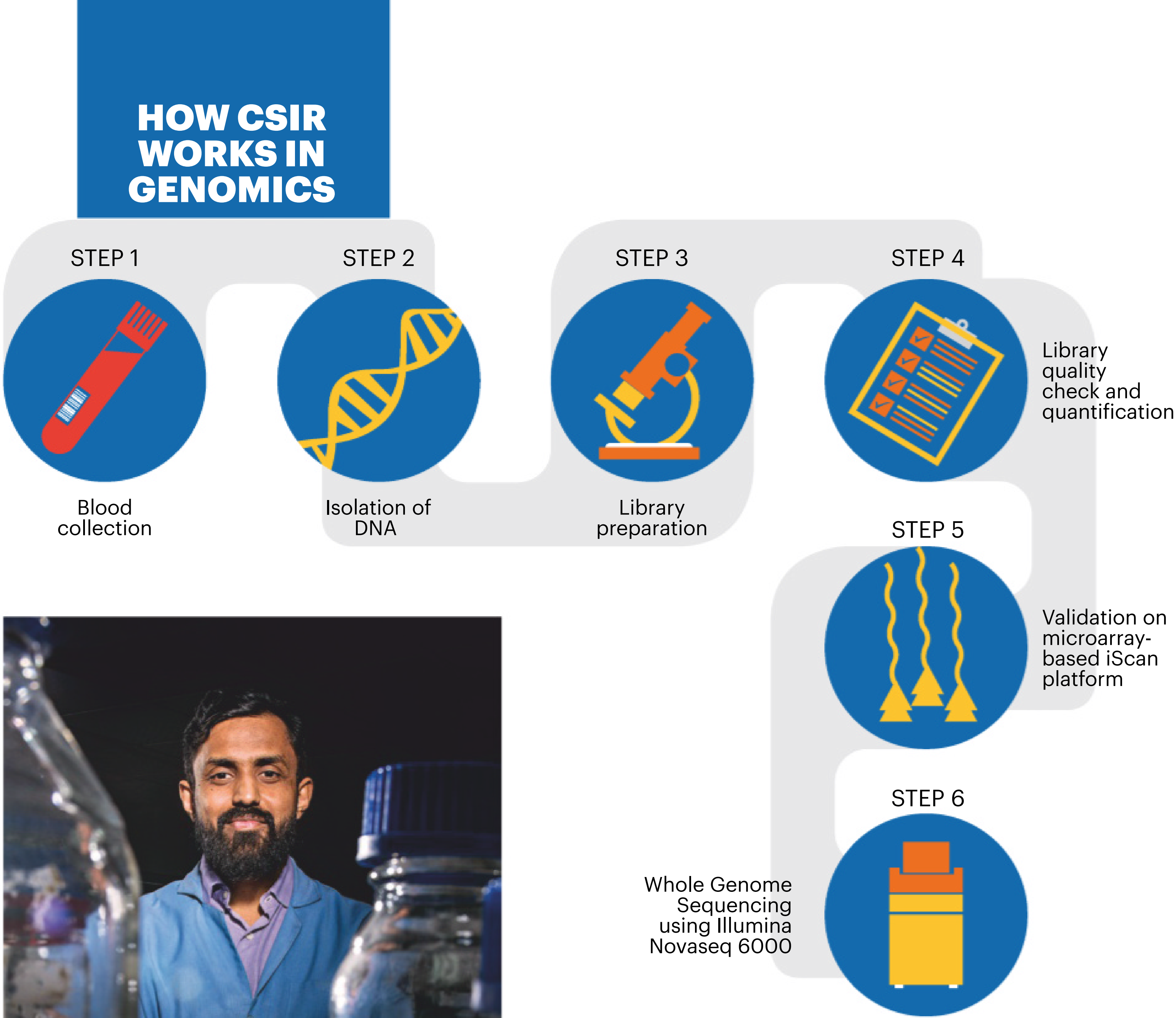
without highly trained manpower can also run," he says.

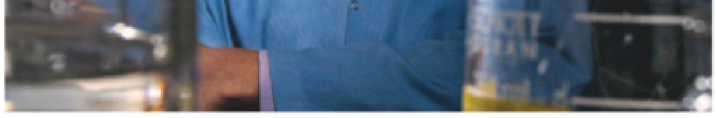
Bengaluru-based Medgenome Labs considers itself a private sector avatar of IGIB, perhaps even a couple of years ahead in research and development. The company not only does genetic tests but also carries out research. It has collaborated with Singapore's Nanyang Technological University to sequence 1,00,000 whole genomes from Asia. The Genome Asia project has already completed sequencing of 10,000 whole genomes, of which about 8,000 are from India. On December 4, international journal Nature published the initial findings from the project – genetic variation, population structure, disease associations, etc., from a whole-genome sequencing reference dataset of 1,739 individuals of 219 population groups and 64 countries across Asia. "We sequence a person's genes and other relevant parts of the genome for specific mutations to understand what is causing the disease and specific drugs and dosage the person will respond to. We also help pharmaceutical companies understand genomes and discover new drug targets and biomarkers," says Sam Santosh, Chairman, MedGenome. With about 120 sales people, the company claims it is generating samples from around 10,000 clinicians across the country. "We were the first to enter the market. In that sense, we created the market, and would be having 60-65 per cent market share. The sequencing market must be in the range of $70-75 million," says Santosh. The company expects its diagnostic business to touch $100 million in four years. Interestingly, MedGenome's research associates recently sequenced and analysed the genome of Cobra snake. The findings, published in *Nature*, suggest the possibility of developing a new method of producing anti-venom completely in the lab.

Other Sectors

Illumina's India partner Premas Life Sciences is not selling its next generation sequencers only to healthcare firms. Gupta says it has more than 200 installations in India alone. "Anything which is living has a DNA nucleic acid and can be sequenced. We have a mass research market and practically every institute has the sequencer. Somebody will be working on cow, somebody on rice, a third institute on some bacteria," says Gupta.

IGIB researchers Dr Sridhar Sivasubbu and Dr Vinod Scaria vouch for this. The institute is getting requests, including partnership offers, from non-medical players. Tagtaste, an online platform for food professionals, wants to understand the genomics of taste. "In a lighter vein, you could say that the efficiency of a professional wine taster depends on his genes," says Scaria. With customers and partners such as Pepsico, Coca Cola, Nestle and ITC, and a clientele that includes chefs of global hotel chains, taste is serious business. "The point is, if a person is paying ₹3,000 for a curry or ₹5,000 for a soup, you better get the taste right," says Scaria. IGIB also works with Adam's Genetics for R&D and product development in the area of fitness. "One of the companies





PHOTOGRAPH BY RAJWANT RAWAT

"IN A LIGHTER VEIN, YOU COULD SAY THAT THE EFFICIENCY OF A PROFESSIONAL WINE TASTER DEPENDS ON HIS GENES"

Dr Vinod Scaria
Researcher, CSIR Institute of Genomics and Integrative Biology

works in the cricket industry. Each player can be genetically tested for performance and food intake because not all muscles have the same size and some people gain weight, some don't gain muscle mass, while some may be more prone to injury. Genetic tests can find out who is prone to injury, or whether weightlifting is the right exercise for a player or not," says Sivasubbu.

The Future

Indians are 17 per cent of the world's population. But only 0.2 per cent genomic data is from the Indian population. This is one area where India can lead. We have so many diseases, and if we can provide the genetic design, the world can develop diagnostics and therapies. "We can create ideas. We didn't invent computers but we created the IT industry. In the same way, we didn't invent genomic sequences but tomorrow we can create a genome informatics economy," says Premas' Gupta.

There are other possibilities, too. "A lot of pundits say that in the next five-six years, 15 per cent of the world's population will be whole genome sequenced. If I require 100 GB data for a genome sequence, for 1.5 billion people, 25-30 exabytes of data will be needed. The entire data content on YouTube, globally, is 0.8 exabytes. Imagine the kind of data generation and analytics possibilities we are talking about," says Gupta. "We need people to analyse this data. If we can take the lead and train our manpower, we can move the world, we can create a new industry which can lead for the next 20 years just the way the IT industry did," he adds. Incidentally, Gupta claims that TCS has already bought Illumina's sequencing platform. So has WIPRO. It seems IT companies are already sensing an opportunity.

Sivasubbu says it took India 10 years to scale up from sequencing one genome to 1,000 genomes. "In the next decade, it may be a million." BT

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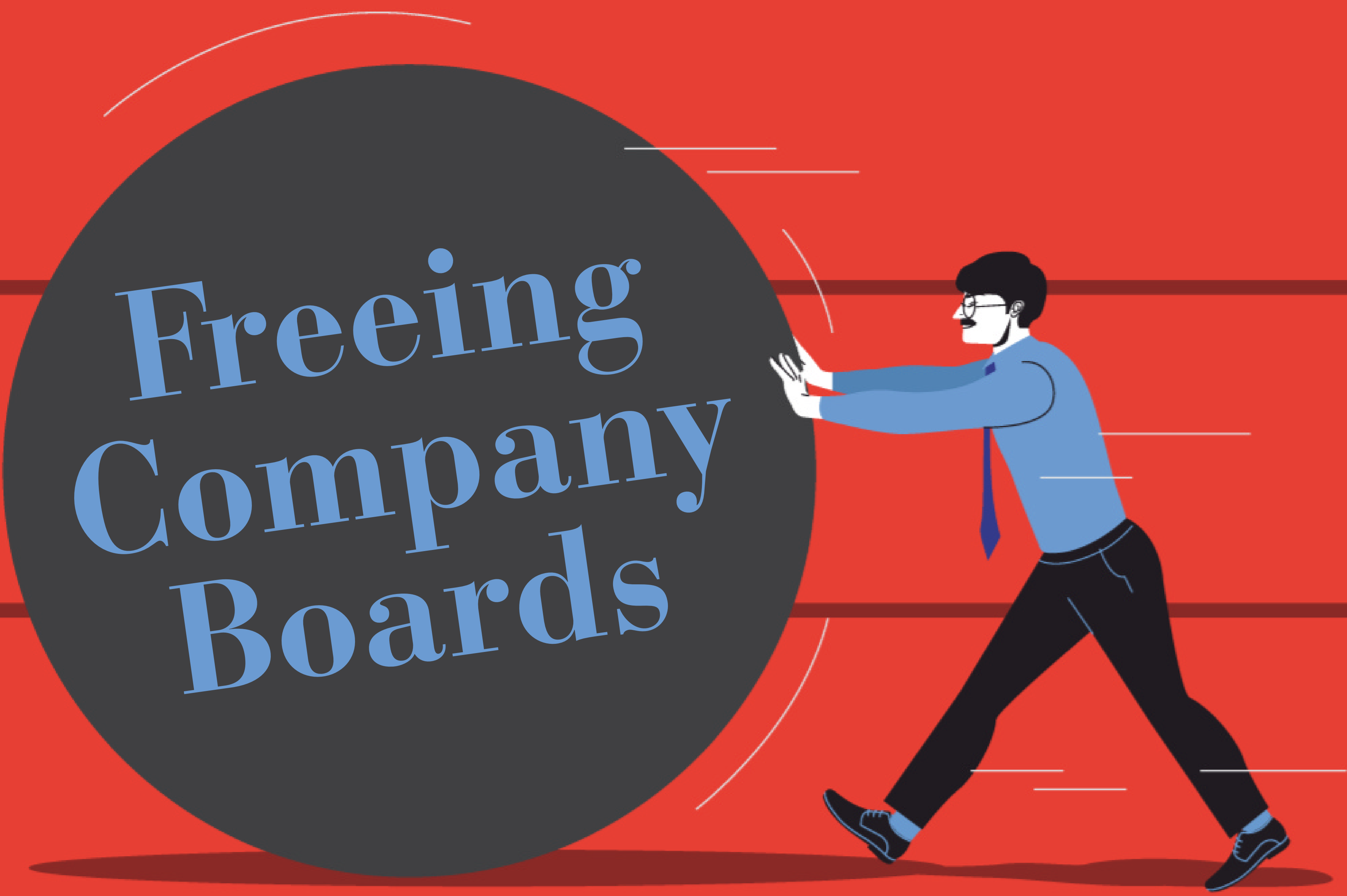


Freeing Company Boards

Provisions seeking independence of board members have been tightened. Can the companies catch up?

BY E. KUMAR SHARMA
ILLUSTRATIONS BY RAJ VERMA

It seems like an exodus. In just six months of FY 2020 – April to September – 826 independent directors ceased to be directors, among all NSE-listed companies, as against 922 in the whole of previous fiscal (FY19). Of that, 128 cited pre-occupation; 83 personal reasons; 86 were not interested; 92 did not give any reason; and 49 said they were complying with the Companies Act and Securities and Exchange Board of India (Sebi) regulations. The numbers are from the NSEInfobase. Experts in the field believe perhaps some of it has to do with the

developments in the recent past. This includes default of Infrastructure Leasing & Financial Services which led to a crisis in the NBFC sector and the bid for renewal of Rana Kapoor's tenure at Yes Bank. The role of independent directors had come under the spotlight in both the cases.

That is not all. As tremors have hit board rooms of groups and companies as big as the Tatas, Infosys and ICICI in the past few years, questions are being raised on the part played or not played by independent directors who were supposed to protect the interests of shareholders. In the Tata group, could independent directors have ensured an amicable settlement between the then group Chairman Cyrus Mistry (who was removed from his post in January 2017) and the board, one that did not hurt the brand or group image? After all, these matters did not appear overnight and would have been festering over time. The board is responsible for interests of stakeholders of a $100 billion empire; not to miss the fact that over the past 18 months, four directors on Tata Sons board have left; their posts have not been filled. At Infosys, N.R. Narayana Murthy is a tall leader but what did his return say about the board and its independence, especially in addressing issues of succession planning? If all it could do in response to a crisis was to bring the founder back, what was the message being sent out to internal talent and leadership? Industry watchers point out that such moves demotivate employees. At ICICI, first a clean chit was given to CEO Chanda Kochhar, and a few months later, she was accused of irregularities with demands that even her bonuses be recovered. Was the board, despite having people of high calibre, effective?

This raises a question – are independent directors on boards of some of India's biggest companies truly independent?

Governance Issue

Samir K. Barua, Professor and former director of the Indian Institute of Management (IIM), Ahmedabad, who has studied the subject closely and is on several boards, says: "In all three situations, the boards were required to intervene as fiduciaries, with well-defined duty towards all stakeholders of the companies. The governance issue, therefore, is whether they acted correctly and effectively to deal with issues that arose? My view is that the boards were found wanting in all three cases."

Several elements need to come together if independent directors are to function in a truly independent fashion. It begins with the intent of the promoter group and its willingness to live with open dissent and board members asking tough questions and not succumbing to groupthink. The stature of board members is also a crucial component that decides the degree to which members will act independently. However, the key factor is the nature and quantum of information that is shared with board members and the time provided for serious deliberations, followed by the extent to which their feedback is incorporated and suggested changes implemented.

HOW TO FOLLOW THE LAW IN LETTER AND SPIRIT

ATTENDANCE RECORD
Focus on regular attendance at board meetings and seek time commitment while onboarding directors

ALIGNING WITH COMPANY, NOT PROMOTER
Make stakeholder interests the key priority. Clarity on social, family connections and eye on conflict of interest crucial

PORTAL/APP/MIS
Make it easy for directors to access papers ahead of meetings

ALLOW OPEN DISSENT
Give members scope to ask difficult questions that are taken seriously

CALIBRE
Seek subject experts and people of high stature as independent directors. Efforts are on address these though some highly debated provisions around director data and making them sit for examinations

INDEPENDENT DIRECTOR SESSIONS
Take meetings of independent directors without promoters seriously and incorporate the feedback

MONITORING
Keep an eye on internal workings with updates and reports of different committees

EXPERT VIEWS
Ensure access to independent consultants for views on key matters

Promoter Intent

Many subject experts with deep understanding of business landscape and seasoned bureaucrats (post their retirement) join as independent directors. However, independent directors need to ensure the intent of the promoter. As Arun Bharat Ram, Chairman of SRF, puts it: "The management must have a clear vision of what they intend to achieve, and if they want a truly independent board." Arun Bharat Ram says today a large number of companies in India are run by business families and much depends on their approach towards independence of board members.

WHILE THERE ARE NORMS AND SECRETARIAL STANDARDS, IT IS HOW ENABLED THE BOARD IS THAT MATTERS

While intent is important, more critical is execution. "The real test happens when you allow independent directors to work effectively for which they should be free from all conflict of interest with promoters," says Amit Burman, Chairman of Dabur India. "At Dabur, we feel the interest of the organisation is paramount. We were one of the few business families in India who separated

PHOTOGRAPH BY RACHIT GOSWAMI

"Independent directors have to put their foot down if what they say is not followed or they don't like what they see and want the management to change it"

Deepak Parekh, Chairman, HDFC

ownership from management way back in 1997. Once we did that, we decided we needed more board independence and be a board-run company. Then, we had six family members on the board. Today, there are only four family members on the 13-member board, and seven of these are independent members. We were among the first companies to have a woman board member."

Enabling Independence

To ensure that board independence is alive, kicking and functioning, enablers need to be put in place. G .V. Prasad, Co-chairman and Managing Director of Dr. Reddy's, says that eight out of his company's 10 board members are independent. "The issues that need to be debated must be put before the board and members given enough time to absorb and understand those. You need to give them adequate notice and time." While there are norms and secretarial standards to be put in place, it is how empowered the board is that matters. Dr. Reddy's fixes its board meeting calendar two years in advance for each quarter's board meeting spread over two days. Others do it too. T.N. Manoharan, Chairman, Canara Bank and an independent director on boards of Mahindra & Mahindra and Tech Mahindra, says the calendar is finalised three years in advance at Tech Mahindra and a year in advance at Mahindra. The agenda items are posted on the board portal and circulated well in advance.

After all, directors need relevant information well in advance and adequate time for discussions. Dr. Reddy's also has a board portal which gives every information the members need and a board Management Information System. This is not only for board meetings but also to ensure that committees get enough time to discuss each issue threadbare and bring it back to the full board. For the past six years, the company has been uploading all the documents on an app, called BoardVantage. It is an app that some other companies also use.

The idea is to go beyond statutory demands, says Prasad. At Dr. Reddy's, all statutory committees are headed by independent directors and other than the committees on stakeholders'relationship and on CSR, all have only independent directors as committee members (these include committees on audit; risk management; nomination, governance and compensation). Even a non-statutory panel such as on science, technology and operations is also headed by an independent director.

Why Stature Matters

Much of the independence of directors depends on the calibre of people on the board, feels Kiran Mazumdar-Shaw, who has roped in people ranging from the deputy prime minister of the Irish republic to corporate governance expert and former Sebi Chairman M. Damodaran as independent board members.

While some companies rope in big guns, the vast majority are far removed from this. As Nupur Pavan Bang, Associate Director, Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business, points out: "Despite enough statutory provisions in the Companies Act and the listing agreement that make it mandatory

PHOTOGRAPH BY QAMAR SIBTAIN

"The real test happens when you allow independent directors to work effectively for which they should be free from all conflict of interest with promoters"

Amit Burman, Chairman, Dabur India

for companies to have truly independently functioning boards, this is still a concern in India. Out of 6,000-odd listed companies, only a fraction would have enlightened promoters who are keen to follow the law in spirit and not just in letter." She feels awareness of the importance of independent directors and the value they can add to the long term sustainability and growth of the firm is the first step. The second is getting them to add value to the firm. "The majority of companies may not be able to attract industry stalwarts even if the intention is there. In fact, getting such people is becoming a challenge for companies. Yet, if intentions are there, it may take time, but the firm will be able to put together a board that contributes to the strategic and sustainable growth of the firm."

How Time Is Spent

But even those who are able to find some big guns as independent directors many not get what they expect. Kiran Karnik, one of the directors appointed by the government to save Satyam Computer before its takeover by Tech Mahindra, feels board independence is an area of concern "as we have seen in recent years some highly-respected companies, sometimes with high-profile independent directors, going through serious problems."

An equally important worry for him is the items on which boards are spending time. Says Karnik: "Perhaps because of the increasing number of frauds, the focus seems to have shifted to looking at accounts and finances than taking a strategic view over a much longer term and dipping deeper into issues around succession planning, company image, etc." Barua of IIM-A says, "The key challenges I have faced as independent director include aggressive reporting of accounting performance when significant portion of executive compensation is linked to profits; excessive risk-taking by management to enhance performance in the short run; and uncalled for interference in management by the dominant shareholder." Karnik feels it is important to differentiate between a business failure and fraud so that we do not reach a point where high-calibre people lose interest in taking on role of independent directors.

HDFC Chairman Deepak Parekh says the responsibility of independent directors has increased enormously after the Sebi regulation seeking at least one meeting of independent directors in a year without non-independent directors and management in which all independent directors must be present. The aim of such meetings has to be review of the performance of non-independent directors, chairperson and the board.

While he recognises that board independence is still an issue, he is quick to say: "See the number of companies and the number of scandals that come out. The percentages are minimal and happen all over the world and not just in India."

But then, what is his solution? "Independent directors have to put their foot down if what they say is not followed or they don't like what they see and want the management to change it. They must get promoters to adhere to their requests and if this is not done then they could resign en masse, which no promoter or management can afford, as it can seriously hurt the brand and the image." So, "there are ways and means to protect the interests of stakeholders," says Parekh.

On the unfinished agenda, Parekh says, "Promoters and managements must have a clearer conscience and should not divert money or take money out. They have to live by the rules. I am happy to see that the younger generation of entrepreneurs want to run companies differently than their fathers, and that gives me hope." BT

@EKumarSharma

Money Today

FUNDING THE FUTURE

AN EDUCATION LOAN MAKES IT EASIER TO PURSUE YOUR DREAM BUT IT ALSO MEANS LONG REPAYMENT YEARS. MAKE SURE YOUR CHOICE IS RIGHT.

ILLUSTRATION BY RAJ VERMA

Tick on the Right Education Loan

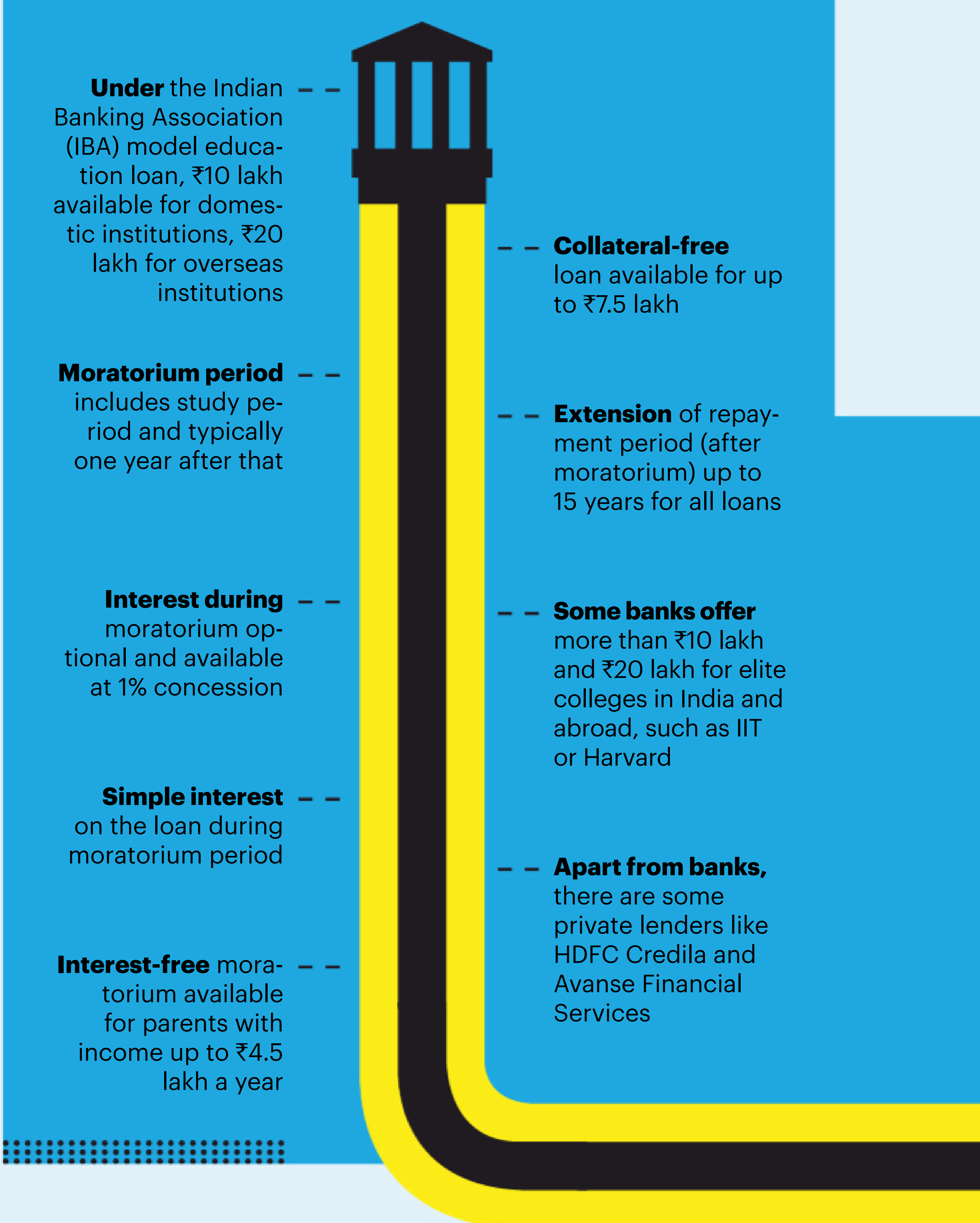
AN EDUCATION LOAN MAKES IT EASIER TO PURSUE YOUR DREAM EDUCATION BUT IT ALSO MEANS LONG REPAYMENT YEARS, SO MAKE SURE YOUR CHOICE IS RIGHT

BY APRAJITA SHARMA
ILLUSTRATION BY RAJ VERMA

Education is the best asset that parents can give to their children. As a parent, you want to make sure that whenever the need arises, the funds are available. But with the cost of education rising, there is a good chance of you falling short of the amount. Consider this – an MBA from IIM-Calcutta, which cost about ₹12 lakh in 2010, now costs ₹22 lakh. A Masters' degree from Harvard on an average cost around $48,000 in 2010, included tuition and boarding. It costs around $70,000 now, according to education consulting firm Mindler.

In such a situation it is not unusual to see parents use their life savings to help their children pursue their education. Experts, however, say you should avoid dipping into your retirement or emergency fund to finance your child's education. So, should lack of funds impede your child's studies? No, because education loans are readily available from public sector banks and private lenders, based on the track record of the college, student's academic performance and your own credit profile. However, one must note that the funding that makes life easier at the time of admission can become

How IBA Model Education Loan Works



stressful at the time of repayment if you don't choose the loan wisely. Here's how you can prepare yourself to get the right amount of education loan for the right course at the best cost.

Get an Early Start

The moment of truth is when you get the confirmation of admission along with the details of fees you have to pay. Being aware of all financial help will help you figure out how much you need to arrange on your own. You need to calculate whether you have enough funds or need an education loan.

As you know the college fee, find out about scholarship or grant options. And a look at your savings or investments will give you an idea of how much education loan is needed. If you have enough investments in debt instruments, consider utilising them. "I have seen people taking education loans even if they have sufficient money available in taxable debt instruments such as fixed deposits and postal schemes. This is not a good idea. Parents need to consult a professional before opting for an education loan if they have high amounts invested in debt instruments," says Pankaaj Maalde, a certified financial planner. For the rest, you can approach public sector banks.

The situation becomes more complicated if the admission is to a foreign institute. Most banks ask for admission confirmation before granting the loan, while most universities prefer students with assured funding. Rohit Sethi, Director, ESS Global-Study Abroad Consultant, says parents should start arranging for funds at least four-five months in advance if the study is in a foreign institute. "Colleges take at least 3-4 four weeks to accept or reject an application. If accepted, banks, with all their formalities, take another one month to grant the loan approval. Then comes the major step of applying for the visa. That takes another month or so," he says.

HDFC Credila Financial Services, a dedicated education loan lender, has the provision to grant loans without a college admission letter. "We allow students and parents to know their loan eligibility in advance," says Arijit Sanyal, Managing Director and CEO of the company.

Setting the Loan Amount

Can you borrow the full amount of the college fee from a bank? While some banks do have mandatory margin requirement of up to 5 per cent for studying in India and up to 15 per cent for abroad, there are some that fund the entire fee. Rohit Mascarenhas, who works as a strategic account manager with Vodafone Global, had received the entire ₹22 lakh college fee (with collateral) for an MBA from the Indian School of Business, Hyderabad, in 2015. Union Bank of India offered him a loan at 10 per cent interest rate for 10 years with his father as the guarantor.

Online portals are a good avenue to search for education loans. Vidyasaarthi education loan portal, an initiative by NSDL e-Governance Infrastructure, is one such portal. Here you can apply to three banks at one go. The website also has information on scholarships and subsidies by the government and companies. “Students can apply for corporate scholarships depending on their income, educational background and career choice. They can also apply for government-sponsored scholarships,” says Gagan Rai, MD and CEO, NSDL e-Governance Infrastructure.

When picking a bank, apart from loan amount, check out the moratorium period, interest rates, processing fees and best terms to pay back the loan. Some such as SBI and Indian Bank do not charge any processing fee. Check for early repayment options too. Some banks charge prepayment fee, but if the loan is on a floating rate, they cannot levy prepayment fee or foreclosure charges. Many colleges also have tie-ups with various banks. If you approach these banks, the process is simpler but do check out other lenders as they may offer other benefits. Use loan aggregator websites such as BankBazaar and Myloancare to compare banks.

What if banks reject your loan application? “Before you approach any other lender, assess the reasons for rejection, because the same may apply to other loan applications. You could also consider taking a personal loan from banks, NBFCs (non-bank financial companies) or regulated lenders. Do note that the interest rate is likely to be higher compared to an education loan, and there will be no moratorium period,” says Adhil Shetty, CEO, BankBazaar. Over the past few years, unconventional courses such as sports engineering, music, theatre, dance and acting have become quite popular. “Banks may not lend for such courses but NBFCs can,” says C.S. Sudheer of IndianMoney.com, a personal finance advisory.

Understand Repayment Options During Moratorium

Sometimes, due to lack of awareness and time, parents end up taking the first loan offer that comes their way, unmindful of other options that may suit their needs better.

Most banks advertise their loan offers highlighting the longer duration of moratorium. Banks offer a ‘holiday period’, called moratorium, which includes study period and typically one year after that or six months after you get the job. This is the period during which you are not required to make interest or the principal repayment. Do note that simple interest rate starts accruing during the study period itself and extends until the moratorium lasts. You must plan in advance to keep paying the interest during study and the moratorium period before the repayment starts. If you don’t pay it, the loan burden increases.

Saibal Das Mahapatra, who works as a consultant at Accenture in India, took a loan of ₹18 lakh (without collateral; for ₹25 lakh course fee) to do a one-year MBA course from a reputed institute. Andhra Bank offered him a loan at 10.25 per cent interest rate for 10 years. “Though I started paying back six months after completing the course, I was not aware that had I paid the interest during the moratorium period, my total loan liability would be lower,” he says.

Paying interest during moratorium also helps you save on the overall cost of the loan. As per Indian Banks’ Association (IBA) Model Education Loan Scheme, all scheduled commercial banks have to offer 1 per cent concession on interest rate if interest is serviced during the study period and the subsequent moratorium period, before repayment starts. If banks do not share such details, ask for them.

What if you have taken a loan for a Bachelor’s degree but your child chooses to continue with a Masters’ course instead of taking up a job? “The moratorium period would be extended until the course period of the Master’s programme,” says Vi-

Get It Right

Target self-funding for larger part of education fee

Avoid dipping into retirement fund to finance child’s education

Before finalising the course, make sure it has a sound placement track record to help your child repay

Scout early — 4-5 months in advance for foreign universities and 1-2 months for Indian colleges

Use Vidyasaarathi platform (a technology-enabled initiative by NSDL e-Governance) to apply for loans and explore government (and some corporate) subsidies and scholarships

Check out interest rates, processing fee, collateral and margin requirement for several banks

If the student is bearing the repayment burden, lighten it by paying interest during moratorium

Advise your child about credit history and the repercussions of missing EMI payments

If borrower is not in a position to repay the loan, approach the bank for rescheduling

At a Glance

BANKS	LOCATION	MAX. LOAN AMOUNT (₹ lakh)	INTEREST RATE
Bank of Baroda	India	80	9.4-10.15%
	Abroad	80	
Bank of India	India	30	9.7% (< ₹7.5 lakh)
	Abroad	30	10.5% (> ₹7.5 lakh)
Bank of Maharashtra	India	10	10.35% (< ₹7.5 lakh)
	Abroad	20	9.85% (> ₹7.5 lakh)
Canara Bank	India	Need-based	10.20% (< ₹7.5 lakh)
	Abroad		9.70% (> ₹7.5 lakh)
Central Bank of India	India	10	10%
	Abroad	20	
Indian Overseas Bank	India	30	8.40-11.20%
	Abroad	40	
Punjab & Sind Bank	India	10	10.45% (< ₹7.5 lakh)
	Abroad	20	9.95% (> ₹7.5 lakh)
Punjab National Bank	India	Need-based	9.95% (< ₹7.5 lakh)
	Abroad		10.55% (> ₹7.5 lakh)
State Bank of India	India	40	8.10-10.2%*
	Abroad	20-150	10.2%*
UCO Bank	India	10	10.3-10.7%
	Abroad	20	

List is not exhaustive; figures in brackets are loan amounts; 0.5% concession on interest rates for girls; *fixed rate; Source: Respective bank websites as on February 10, 2020

rendra Sethi, Head - Mortgages and Other Retail Assets, Bank of Baroda.

How to Get Collateral-free Loan

According to IBA rules, banks are required to take collateral if the loan crosses ₹7.5 lakh. "This could be in the form of land, building, government securities, public sector bonds, NSC (National Savings Certificate), KVP (Kisan Vikas Patra), life insurance policy, gold, shares, mutual fund units, debentures, bank deposits in the name of student/parent/guardian or any other third-party with suitable margin," says Ajay Kumar Srivastava, Executive Director, Indian Overseas Bank.

Some banks offer collateral-free loan for higher amounts as well if it is for elite colleges such as IIT, IIM, ISB and others. Bank of Baroda's Sethi says the bank has offered higher-value loans of up to ₹40 lakh without collateral for a few premier colleges in India.

HDFC Credila also gives loans up to ₹40 lakh without collateral. "We have extended unsecured loans without any collateral security to thousands of students. We are flexible on a case-to-case basis depending on multiple parameters such as the student's past academic track record, work experience, entrance test scores, future school/institute/university's reputation and employability, among others," says Sanyal.

If Going to Study Abroad

Aspirational India is increasingly looking abroad for higher education. But without a good scholarship, the expenses could be a deterrent. Some students get 25-50 per cent of the course fee as scholarship though the determining factors vary depending on the countries and universities in consideration, says Prateek Bhargava, CEO, Mindler.

"While the US and the UK are quite selective in granting scholarships to international students for popular courses, Canada and Australia are more liberal. Getting a fully funded scholarship for an international student to study at an Ivy League institute in the US and the G5 in the UK is very unlikely, with only a few exceptions in a year," he says.

A few governments offer subsidies to promote a university or a region. "The Australian government offers many scholarships to encourage students to opt for universities in regional and low-populated areas, but these are not under-developed areas. Such scholarships could go as high as AUD10,000 or AUD15,000 compared to the average scholarship of AUD5,000," says Sethy of ESS Global.

Most importantly, when studying abroad, your fee outgo may go higher than projected due to currency fluctuations. "Currency fluctuations should not be ignored as they can have a material impact on the total cost. Estimation errors on account of these fluctuations should be factored in at 3-5 per cent of the corpus," advises certified financial planner Arvind Rao.

Check with your bank beforehand if they will fund the additional cost if needed. "We are flexible with increasing the loan amount post loan disbursement, if required eligibility criteria is fulfilled," says Sanyal.

Government Subsidy, Support

The Ministry of Human Resource Development has launched a scheme, Central Sector Interest Subsidy Scheme, that provides interest subsidy during the moratorium period on education loans without any collateral security and third-party guarantee. This applies to technical and professional courses in India. There are some other conditions as well: students' annual gross parental or family income has to be up to ₹4.5 lakh, loan amount has to be not more than ₹7.5 lakh, and the interest subsidy is not more than ₹2 lakh.

Another scheme, Padho Pardesh, is for students belonging to minority communities and with family income less than ₹6 lakh. "The government provides interest subsidy during moratorium period, up to ₹75,000 per quarter," says Sethi of Bank of Baroda.

The Dr. Ambedkar Central Scheme of Interest Subsidy supports students belonging to categories of Other Backward Classes and Economically Backward Classes, with family income less than ₹8 lakh and ₹2.5 lakh, respectively, for overseas studies. The interest subsidy during moratorium is up to ₹75,000 per quarter.

Among corporate scholarships, some prominent ones are the Tata Scholarship, the BHEL-FAEA Scholarship and the IOCL Scholarship.

Plan Repayments in Advance

It's not enough to simply get a loan to pay for college. One has to pay it back, after all. Therefore, first do the due diligence in terms of the reputation of the college, placement record and salary levels of earlier students. The loan should not be so high that the expected salary is not enough to pay the EMIs. "When a student starts earning, all her monthly debt payments combined should ideally be no more than 40 per cent of her take-home income. Going above this limit could lead to financial stress," says Shetty of Bankbazaar.

If the college is abroad, figure out which accreditation system the particular country follows and whether the college is part of it. "To gauge if you will be able to service your loans and still save money, it is worthwhile to do a thorough assessment of the employability of the course and institution as well as past placement track records and starting packages. This will make you confident enough to repay the loan and maximise your return on investment," says Shalini Gupta, Co-founder and Chief Strategy Officer of MyLoanCare.in.

When it comes to repayment, you may allow your child to share the loan burden. This will not only make her more responsible but will also build a credible loan profile for her. EMIs anyway start only after study is over and employment starts. However, you could lighten the burden by paying the interest during the moratorium period.

3

Number of times moratorium can be extended; not more than six months each time

1%

Concession on interest rate if interest is serviced during study and moratorium period

To arrange for interest payment during the moratorium period, keep aside a part of the education fund you have. If there is a surplus after the moratorium is over, you could use it to share the EMI burden with your child. "Discussions about which portion of the EMI is to be paid by the parents and which is to be repaid by the students is important. Such an analysis in advance can lessen the chances of repayment difficulties at a later stage, reducing chances of NPAs and stress on families," says Sanyal.

Your child must understand the consequences of missing out even one EMI. "Non-payment would result in default, which will affect credit score and appear in credit report too," cautions Wilfred Sigler, Director-Marketing and Sales at CRIF High Mark, a credit information agency. A missed EMI will hurt the student's credit score, making it difficult for her to get loans in the future. "They might not be able to get even a credit card, let alone a high-value credit like a home loan," says Sigler.

If for some reason, you expect paying EMIs to be a problem, look for a solution. "Opt for longer repayment tenure, if possible. This keeps EMIs low. Do note that the cost of the loan goes up with a higher tenure," says Sudheer of IndianMoney.com. The advantage is that in the formative years of the career, the EMI burden would be lower.

If at any point, repayment of the loan looks difficult, you should approach the lender to reschedule it. With a bank, the facility is available thrice – each time for six months – during the loan tenure. Banks may restructure the loan by increasing the tenure and reducing the EMI but such an extension (after moratorium) is allowed only up to 15 years if the student is unemployed or under-employed. Do note that any extension of tenure increases the total loan liability.

Loan foreclosure can be done anytime, but some banks charge prepayment fee. If the loan is on floating rate, banks cannot levy the foreclosure charges.

Not only does an education loan make higher studies a possibility, there is a tax benefit also available. The interest paid on an education loan can be claimed as deduction, as per Section 80(E) of the Income Tax Act, 1961, up to eight years or until the interest is fully repaid, whichever is earlier. There is no upper limit to the interest deduction.

Before your child steps out to pursue higher education, do your homework and choose the education loan that works for you. **BT**

@apri_sharma

Does an Annuity Plan Work for You?

ANNUITY PLANS CAN FORM A GOOD PART OF YOUR RETIREMENT PORTFOLIO IF THE PRODUCT FIT IS RIGHT

BY NAVEEN KUMAR
ILLUSTRATION BY RAJ VERMA

You work hard to build a retirement fund. The only task left for living a comfortable life after retirement is to get regular income out of this. A safe way of doing that is to buy annuity plans, which invest your money in markets and pay you regularly from the returns generated. Many life insurance companies offer these plans. Investors in the National Pension System (NPS) and superannuation funds have to mandatorily buy annuity. Annuity plans come in different forms.

Deferred or Immediate: There are two basic plans – deferred and immediate. In deferred annuity, you deposit a lump sum and wait for it to grow; you can also regularly save over a period, after which regular income starts. In immediate annuity, payments start immediately. "Immediate products are for the 60 years old segment, while deferred products are suitable for customers in the age bracket of 50-60 years," says Puneet Nanda, Deputy Managing Director, ICICI Prudential Life Insurance.

Guaranteed income for life: The best thing about annuity plans is certainty of regular income. The rate set at the time of purchase does not change during the payment period.

> **"The life annuity option gives a tad higher rate than life annuity with return of purchase price option, but no money is returned on death"**

"One of the biggest advantages of annuities is that they eliminate reinvestment risk. In fixed rate annuities, the risk that the interest rate will be lower when one reinvests the principal is eradicated. Products such as fixed deposits or debt mutual funds or post office monthly income scheme carry reinvestment risk. Annuities guarantee the same payout rate for life," says Tarun Birani, Founder and CEO, TBNG Capital Advisors.

However, this guarantee comes at a price. The rate of return is usually lower than what is offered by the other safe debt products. "The annuity provider takes the risk of promising you a fixed amount in any market scenario. The returns provided by annuities have not been attractive. Thus, if you expect good returns, annuity is not for you, but if you want some security for a rainy day, you should opt for these plans," says Birani.

Single or Joint: In single life plans, only one individual is paid, which means that after death, no payment is made to the person financially dependent on him or her. On the other hand, in joint life annuity, after the death of the first annuitant, the second one continues to receive the money. The plan stops after the death of the second annuitant. "Single life annuity suits those who do not have a dependent, while joint life annuity should be chosen by those whose family members will be dependent on their income," says Naveen Kukreja, CEO and Co-founder, Paisabazaar.com.

Purchase Price Return Option: In this, the amount spent to buy the plan is returned to the nominee after the death of the annuitant. It is available on both single life and joint life annuities. In joint life annuity with the return of purchase price option, pension continues throughout the life of both the annuitants, and the corpus is given to the nominee after the death of the second annuitant. "A lot of customers go for this option as they want to leave a legacy for their spouse or children. We provide a range of options for the amount that is returned," says Nanda of ICICI Prudential Life

Insurance. The higher the amount you get back, the lower is your pension. "The life annuity option gives a tad higher rate (approximately 1 per cent more) than life annuity with return of purchase price option, but no corpus is returned on death," says Vibha Padalkar, MD & CEO, HDFC Life Insurance. So, if you find that the annuity income is not sufficient in the return of purchase price option, go for life option without return of purchase price. "It is more suitable for those who maintain a healthy lifestyle and believe they will live long enough to get higher income while they are alive. It is also appropriate for those who have other means to leave a legacy," says Padalkar.

Guaranteed fixed term payout and then lifelong payout: One option gives guaranteed income for a defined number of years, 10, 15, 20, and lifelong thereafter. "Under the plan without the return of purchase price option, in case of early demise of the annuitant (say within 15 years or so), the total annuity amount received will be well below the purchase price. In order to avoid such a scenario, the annuity without return of purchase price has this variant," says Padalkar of HDFC Life Insurance.

So, who should go for such a plan? "This option is appropriate for those who have financially dependent family members and want a higher stream of income than what the return of purchase price option offers. This covers loss of capital in case of early demise of the annuitant in the without return of purchase price option," adds Padalkar.

You may look for this option if you have a fixed recurring liability for a certain period like a loan or want to support studies of your grandchild. "Customers who have a fixed liability, like an outstanding home loan, prefer guaranteed income for a fixed time period, say for 15 years, irrespective of whether they are around. This can provide income to pay home loan instalments and provide financial security to families. If customers survive this guarantee period, they will continue to get an income," says Nanda of ICICI Prudential Life Insurance.

Growing Annuity Plan: The regular income you receive at the age of 60 may not be sufficient after five years due to inflation. There is an annuity option where payouts grow annually, typically by a fixed amount. "Under this, annuities increase by a certain percentage (say 5 per cent every year) for as long as the person is alive. To an extent, this protects your income from rising prices and ensures that the payouts are adjusted each year in line with inflation," says Padalkar of HDFC Life Insurance. "However, the drawback is that the amount starts at a much lower level (than a flat annuity) to allow for later increases," she adds.

Annuity in NPS

In NPS, once you reach the vesting age, you get the option to buy an annuity plan from Annuity Service Provider (ASP) appointed by PFRDA. ASPs

Types of Annuity Plans

Immediate Annuity	**Deferred Annuity**
Regular payment starts immediately	Regular payout starts after specified period. You can save regularly or make a lump sum payment to buy a deferred annuity plan
Fixed Term Annuity	**Life Annuity**
Regular payment for a specified period	Regular payout happens till annuitant is alive
Single Life Annuity	**Joint Life Annuity**
Only one person receives regular payout for entire life	Regular payout till the last survivor is alive
Fixed Pay Annuity	**Increasing Pay Annuity**
Payout remains same throughout the annuity period	Payout increases, typically at a fixed rate, annually
Return of Purchase Price	**No Return of Purchase Price**
Corpus used to purchase annuity is returned either to annuitant or nominee	No money is given back once the annuity period is over

How the Payouts Work

Annuity plans' returns are less than that of other debt products

Annuity plans give regular payouts, which remain fixed in most options

You can receive monthly, quarterly, half-yearly or annual payout, as per your choice

Annuity for a fixed period gives higher payout than annuity for life

In joint life option, payout is less than in the single life option

Payout is typically the least in the return of purchase price option

Go for the increasing payout option to keep pace with inflation

If you select the increasing payout option, you may start with a low payout are responsible for regular monthly payments. At present, there are five ASPs, as per the NSDL website. These are Life Insurance Corporation of India, SBI Life Insurance, ICICI Prudential Life Insurance, HDFC Standard Life Insurance and Star Union Dai-ichi Life Insurance. If you do not take a decision at the vesting age, your corpus goes into a default annuity scheme which is joint life with return of purchase price (provides annuity for life to the subscriber and his/her spouse with a provision for return of the purchase price). To decide which service provider is better for you, compare the returns or monthly payments they are offering on the NSDL website *https://cra-nsdl.com/CRAOnline/aspQuote.html,* by entering your personal details. Once you select the ASP, check further details about the features of the products. "There are additional benefits and features which need to be considered such as safety, liquidity, partial withdrawal, characteristics and returns. It is also essential to understand all fees and expenses. The terms and conditions of the contract must be comprehended before purchase," says Birani of TBNG Capital Advisors. Many ASPs also offer discounts to NPS subscribers. For instance, ICICI Prudential Life gives a 0.5 per cent discount on the annuity purchase price if you are an NPS subscriber.

The Tax Angle

There is no tax advantage on annuity income. "The payouts are taxable as per the tax slab of the person. Hence, post-tax returns barely beat inflation rates, especially for those in the highest tax bracket," says Kukreja of Paisabazaar.com. So, if you are in the higher income tax bracket, keep your exposure limited.

Lack of Liquidity

Annuities are not very liquid investments. If you have opted for immediate annuity under life option with return of purchase price, you can surrender the policy and get the money back after paying a fee. However, in life option with no return of purchase price, there is no exit route under usual circumstances. "Annuity providers usually do not allow premature surrender. Once an investor buys an annuity plan, he cannot access his principal for unforeseen financial exigencies. Thus, investors should plan their exposure to annuities after building an emergency fund and accounting for various short- and long-term financial goals," says Kukreja.

It is not prudent to keep your entire corpus in annuity plans as most do not offer any exit. Keep your exposure limited to ensure a decent guaranteed income and also have some readily accessible fund to meet exigencies. "The retirement corpus has two goals: to provide regular income and to make sure you stay ahead of inflation. Thus, it is advisable to put a portion of your retirement fund into inflation beating investments. I would recommend that one should invest at least 20 per cent corpus in an inflation-beating asset such as equities," says Birani of TBNG Capital Advisors. **BT**

@naveenkumar

How You Should Approach Annuity Plans

Guaranteed payout makes these plans suitable for the retirement portfolio

There is no tax advantage; the income is taxable

Keep in mind that this is a long-term product, with surrender being a costly exit option

Rather than complete dependence, it is better to keep only some money in annuity plans

Keep additional money to meet exigencies

If you have a sizable surplus, go for the return of purchase price option

If your corpus is lower, stick to a plan without return of purchase price to get maximum payout

If you have additional long-term assets, choose short fixed term payouts

20

PER CENT

The corpus one should invest in equities to beat inflation

Money Matters

MANAGING YOUR MONEY CAN BE TRICKY. SEND YOUR QUERIES, AND PERSONAL FINANCE EXPERTS WILL HELP YOU RESOLVE ANY ISSUE

AUTO LOAN

Sumit Pathak

I want an auto loan. The best reducing rate I have got from a bank is 10 per cent. However, another lender is now offering me a flat rate of 7 per cent for five years. What is the difference between reducing and flat rates? Which one should I go for?

Naveen Kukreja *- CEO& Co-founder, Paisabazaar.com*

In flat rate loans, lenders charge interest on the original principal amount throughout the loan tenure. Hence, the interest as well as the principal component in the EMI remains unchanged throughout the loan tenure. In case of loan with reducing/diminishing balance, the outstanding principal is reduced by the principal repaid each month, and interest for the next month is calculated on the reduced outstanding principal amount. Thus, the interest component keeps decreasing with repayments. In your case, the interest cost of 7 per cent flat rate would be equal to the interest cost incurred in case of a reducing loan availed at 12 per cent.

LIFE INSURANCE

Hitesh Jain

I am buying a house worth ₹50 lakh next month. I am thinking of getting it insured. But I am confused whether I should go for a term plan of ₹50 lakh or home insurance of ₹50 lakh. I have an existing term insurance cover of ₹1 crore.

Vaidyanathan Ramani,
Head, Product and Innovation, Policybazaar.com

As you have mentioned, you are already covered by term insurance of ₹1 crore sum assured. So, it is advised to cover your home under separate home insurance rather than buying another term plan that insures your home as well. Home insurance is about protecting your asset (home) against damages. This is different from a term plan. It is, therefore, advisable to always cover it separately as that risk will never be covered by the term plan. A comprehensive home insurance policy will provide your home (structure + contents) adequate coverage against earthquake, fire, terrorism, lightning, burglary and theft.

HEALTH INSURANCE

Sanjeev Gupta

My age is 48 and I am looking for a health insurance policy that can give me coverage till the age of 75. Is there any policy that can give me the medical coverage till that age without increasing the premium with age? If I go for policies with premium increase, what is the maximum hike I can expect on the initial year premium?

Answered by Ashish Mehrotra, *MD & CEO, Max Bupa Health Insurance*

There are many policies available that cover individuals till the age of 75 years and above. The premiums for most health insurance policies increase with different age brackets. That is why it is recommended to purchase a health insurance plan at a younger age. For example, the premium in a product for ₹10 lakh cover, for an individual aged 35 years residing in Delhi or Mumbai could be ₹11,200 (including GST). The premium for a similar cover for an individual aged 75 years, could be ₹75,000 (including GST), hence an increase of six-seven times. BT

Please send your queries to moneytoday@intoday.com

 ILLUSTRATION BY RAJ VERMA

WHAT IS AVAXHOME?

Network

Lohani's Smoking Beauties

His enchantment with steam engines began at an early age, but **Ashwani Lohani**, former Chairman and Managing Director, Air India, could pursue it only later in life. As a director in National Rail Museum in New Delhi in the 1990s, he would see the Fairy Queen engine, a steam locomotive used as an exhibit there since 1907. He not only got the steam engine restored but also started commercial services with it in 1997 – registering the feat in Guinness World Records for running the world's oldest steam locomotive on the mainline. Since then, he has helped restore over 40 steam engines.

Lohani, who has the history of railways and steam engines on his fingertips, says the sight of a steam engine, especially the presence of raw fire in the belly of locomotives, is a big draw for people. He has also written a book on the topic, *Smoking Beauties: Steam Engines of the World*, and is working president of the Indian Steam Railway Society.

"The first industrial revolution in the 18th century was inspired by the steam engine. It gave birth to the railways. The invention of the steam locomotive has been the single most important event in the history of mankind that marked the beginning of travel beyond frontiers. Steam is making a comeback. Steam will always continue to have a strong place in the tourism sector as it evokes nostalgia for rail travel in a bygone era," says Lohani.

His ambition now is to run a steam engine train on the Delhi-Agra-Jaipur Golden Triangle.

– MANU KAUSHIK

WEAVING MAGIC WITH WORDS

PHOTOGRAPH BY RACHIT GOSWAMI

For a hardcore finance professional to seek delight in non-fiction books, ghazals and poems is rare. **Radhika Gupta**, CEO, Edelweiss AMC, is one such rarity. Gupta has been writing poetry since the age of five. She composes her poems in Hindi and Urdu, although growing up overseas, she never studied these languages in school. "I learned Hindi and Urdu from my parents who introduced me to the beauty of languages. My father speaks seven languages," she says.

Gupta composes small pieces of poetry, sometimes linked to the stock market. She often tweets these and even sprinkles them in her interactions with investors and colleagues.

Gupta equally loves prose and public speeches. Communication is powerful and if you can have fun with it, nothing like it, she says. Once, she linked simplicity and consistency of mutual fund investments with the story of popular glucose biscuits Parle G in her column in the mutual fund factsheet in January 2018. Within a week, she received a poster from Parle, framing her as the Parle G kid. "Factsheets are boring. There is a joke in the industry that nobody reads them. I was new in Edelweiss and I had resolved to make it interesting with humorous and engaging content. Parle G's quick response to my write-up was a testimony that my resolve worked."

Gupta reads at least 50 books in a year and wants to write a non-fiction book herself. "A lot of writing happens in tough moments. You can't scream and shout in my profession. Some people go to the gym to release frustration, for me it's writing. I'm obsessed with words." – APRAJITA SHARMA

IMAGE COURTESY: INT'L KRAV MAGA FEDERATION

Turning On Fight Mode

As a woman, travelling solo, especially late at night, can be dangerous. So, what should a woman globetrotter do? **Tanul Mishra**, CEO, Afthonia Lab, an incubator for fintech start-ups, found the answer in Krav Maga, an unarmed self-defence technique, originally developed for the Israeli defence forces. In Krav Maga, one uses body weight to attack vulnerable points of the opponent. "Essentially, it's quick and dirty," says Mishra.

For Mishra, who learns in Mumbai from Sensei Sadashiv Mogaveera, the attraction was the faster learning curve. "You can learn basic moves in a month if practised well," she says. She has even used her skills in real-life situations. "Once, I was in an auto-rickshaw going home, when it stopped at a red signal at a desolated patch. Two bikers came, and one tried to enter the auto. I used the 'palm heel strike' to punch him under the jaw. It worked. They drove off," she says. But avoiding conflict is a basic tenet of the technique. "It helps me in my profession also; I manage to stay calm in stressful situations and difficult negotiations," she says, adding that she is a Krav Maga evangelist: "always telling others to get trained in it."

– APRAJITA SHARMA

SKETCHING OUT NUMBERS

PHOTOGRAPH BY RACHIT GOSWAMI

Ajit Menon, CEO of PGIM Asset Management, was recently at an office party when he caught a glimpse of his friend's daughter busy sketching. He casually mentioned to his colleagues that he, too, enjoys sketching. With a hardcore sales team around and a few drinks behind, a challenge quickly came up for him to show his skills. Menon quickly drew a portrait of popular DC Comic villain, the Joker. "He now has it framed somewhere and before that evening was through I had churned out one or two more," says Menon with a grin.

All things creative interested Menon as a child, but illustrations fascinated him. "Later, just to challenge myself, I started sketching portraits from magazine covers and family photographs," recollects Menon.

Soon he was hooked, and the passion stayed with him as he switched jobs in the financial services sector from brands like DSP Blackrock and Tata AMC to PGIM India.

How does he find time to sketch? "I find it difficult to snooze on holiday afternoons. So, once in a while on a weekend, when the family goes for a nap, I pick up my pencils and go for it."

Menon says that being a finance professional is largely a left-brain job and having a creative bent fires up the right brain too. Ultimately, it helps in striking a balance. "In a world where consumers and a young workforce increasingly want expressive and emotional benefits rather than just utilitarian, an individual with creative strengths connects better and can give you an edge," he says. Menon also loves singing and has recording equipment at home. "But sketching portraits is still my first love." –ANAND ADHIKARI

PHOTOGRAPH BY RACHIT GOSWAMI

Vohra Finds a Run Formula

It was in 2007 when 46-year-old **Ranu Vohra** was pushed towards the treadmill by his wife as he had gained a lot of weight. "I started running a few kilometres initially and then some friends inspired me to consider running a half marathon" says Vohra, Co-founder, MD and CEO of Avendus Capital. This mechanical engineer and a management graduate ran the first full marathon – the Mumbai Marathon – in 2011. "I completed it in 5-plus hours and I remember buying sweat proof earphones a day before the run as I needed some music to keep me going during the run," he recalls.

Vohra practices regularly as running is about endurance. "I try and run 3-4 days a week with long runs on Sundays and do weight training and functional training on two days," says Vohra, who carries his running gear with him wherever he travels. He is also part of the Striders running group and has a trainer at the gym. "Lately, I have become a data junkie and work through TrainingPeaks (endurance training solutions provider). I practice everything and am fortunate to have some great running friends who always run faster and then wait at breakfast for me!" he says. His next target is the Boston Marathon, which he says will be the last of his Big Six run adventure (Tokyo Marathon, Virgin Money London Marathon, The Boston Marathon, Berlin Marathon, Chicago Marathon and the New York City Marathon).

Vohra says running has taught him the value of scientific training for whatever he wants to achieve, data-oriented preparation for his goals, endurance to manage businesses patiently and a lot of positivity. "Sometimes, I conduct my work meetings over runs!" he says with a grin.

– ANAND ADHIKARI

BT EVENT: PANEL DISCUSSION

Leveraging Insurance Distribution Technology

The aim is to make it easier for the customer while making the entire process smoother

PHOTOGRAPHS BY RACHIT GOSWAMI

Business Today organised a roundtable on Technology and the Future of Insurance Distribution in collaboration with Cloud-based software company Salesforce. It discussed the latest global technological trends in insurance distribution and took a close look at how insurers in India are placed to leverage IT to enhance distribution capabilities. The panelists included Sachin Goel, Executive Vice President and Chief Technology Officer, Tata AIA Life; Seema Gaur, Executive Director, IFFCO Tokio General Insurance; Mehmood Mansoori, President Shared Services & Online Business, HDFC ERGO General Insurance; Ayan Sarkar, Global Head of Insurance for Salesforce; and Kiran Kumar Kesavarapu, Senior Director – Industry Strategy, Financial Services, Salesforce. Also present were Anand Adhikari, Executive Editor, BT, and Naveen Kumar, Deputy Editor, Money Today. The discussion was moderated by Rajeev Dubey, Editor, BT. Edited excerpts:

Business Today: What factors may be holding up growth of digital insurance penetration?
Mehmood Mansoori: There are two dimensions to the problem. One is distribution. The insurance industry is plagued with awareness issues. In India insurance

Panellists (clockwise): Seema Gaur, Mehmood Mansoori, Sachin Goel and Ayan Sarkar

is an investment tool, so they are not keen to buy term policies. They want to buy something which gives returns. It happens in general insurance, too. We need to probably do something on the lines of 'Mutual Funds, Sahi Hai'.

BT: So, the onus is on industry...
Mansoori: Industry needs to do a lot to make people aware that buying insurance is about protection and not returns. That's where the industry body is making efforts. The regulator has identified very underpenetrated districts and assigned two districts to each insurance company. More than 100 districts are going to get covered this way.
Sachin Goel: Efforts are on to focus on protection business. Insurers are making it easier through third-party data sources, which means lesser form-filling and documentation needs.

BT: In life, penetration is 3.5-4 per cent. But general insurance penetration is still below one per cent. Why is that?
Seema Gaur: In life insurance, people feel who will take care of my family if I am not there. We have been given health insurance by our corporates and none of us go for it till we are 45. If you want to penetrate smaller towns, you need bite-size products. The government is now coming up with insurance of ₹2 lakh for Ayushman Bharat.
Ayan Sarkar: There is a broad mismatch between market needs and products offered. We are starting to see examples in some developing countries where home insurance is embedded into a mortgage kind of product. I agree that sometimes penetration starts with small businesses first and comes into personalised adoption too.
Kiran Kumar Kesavarapu: Moments of truth in insurance are skewed towards moments where there is comparison. From our stand point, it's important to build awareness about a product, which precedes buying, and moments of truth that create the ability to minimise risk. Two factors that need a push are engagement, and what Salesforce calls customer transformation. The analogy that Ayan gave about medicine in a sugar candy describes what we call embedding life or general insurance into journeys that policyholders take.

“A sign of a market maturing is when it shifts from focusing only on price to quality of service and claims”

AYAN SARKAR
Global Head-Insurance, Salesforce

BT: We are witnessing consolidation in the industry. Are weak players moving out?
Mansoori: Being one of the companies that has done two acquisitions, I would shy away from answering that. It is individual business's choice. If some companies struggle, they must be having reasons and need to see how to make business scalable.

BT: What about global players?
Mansoori: It's the same. Some choose to go back. It requires reasonable scale to become sustainable; it requires heavy capital investment, patience, great practices and control on data sciences to do proper risk selection.
Goel: Both at the time of policy purchase and servicing, it's important to use technology to make it easier for the customer. The moment of truth is when law strikes; it's very important that insurers focus on that piece as well. Over the past few years, there is a focused effort to improve claim settlement rates.
Sarkar: Insurance is a very difficult business. You need to have capital and technical expertise. But there is quite a bit of innovation going on; many players have entered the market with their own ideas of how to disrupt. We are seeing significant customer-centric innovation. A sign of a market maturing is when it shifts from focusing only on price to quality of service and claims.
Kesavarapu: The day you take your eyes off the customer, the annuity stream stops. That's the learning that Cloud seems to have brought to the market. The insurance market is not very different from a Cloud subscription model.

BT: Despite good products and processes, are distribution channels delivering at optimum rate? How is technology playing a role in distribution efficiency?
Gaur: IFFCO is more for farmers. We concentrate on tier 3/4 towns. So, you should be taking insurance to the customers' door step. In metros, millennials like

being self-service. They do not want any agent contacting them. They browse the portal, whereas in small towns we have human-assisted service.
Goel: Digital technology focuses on two pillars. First is how do you make it easier for the customer and the second is how do you make process smoother. The other aspect is transparency. The customer can understand what he or she is buying.

BT: What are the pain points?
Mansoori: A pain point for us would be how to make customers aware of these products. At HDFC ERGO, for four years, we have had an initiative called 'Insurance Awareness Award' quiz. We reach out to students in Classes 8 and 9. We have covered 250,000 students. We put a high prize and the winners get close to ₹1.5 lakh.

BT: We have seen reduction in time taken in onboarding customer using technology.
Mansoori: Be it travel, motor, health or home products, you can buy in less than five minutes online. It's unfortunate that some regulation stops us from using Aadhaar. We could have brought it down further. General insurance does not need KYC.
Sarkar: A significant amount of investment has gone towards digitising processes. The only option is to adopt digital at this scale and it comes hand in hand with significant digitisation of the process to the extent that there might be some discomfort. Overall, India is world class in terms of taking the current processes and streamlining them.
Goel: Unlike general insurance, where you could move some checks from an unriding stage to a later ride upstream stage, much of the simplification has come from moving checks to the claim stage because it's use of past

"Two factors that need a push are engagement, and what Salesforce calls customer transformation"

KIRAN KUMAR KESAVARAPU
Sr Director – Industry Strategy, Financial Services, Salesforce

data and technology where we've been able to churn.

BT: What is the experience of the international arena?
Sarkar: The question is a bit different for us than for operators. Each operator is going to have their own unique strategy of what channel makes sense. As a vendor broadly serving the market, we don't have to make that strategy. We try to do two or three things. One is make sure that if your strategy needs to shift, you can do that with agility. The second is to be able to make each of those channels smarter.

BT: What is the level of data mining in terms of cross-selling and spot materialisation?
Mansoori: There is a lot more in data analytics that needs to be done. The problem we face is more in general insurance because we do not do KYC. We do not have enough information about the customer. My aim with agents is to see if we can join hands If I do a cross-sell to you, it's additional earning to you as well. And that trust deficit between agent and the insurance company is in those couple of percentage points of additional commission they would like to move to the customer. That is not changing as fast as it should.
Gaur: When you talk of OEM partners or agents, they do not divulge details of customers to the insurer. So, even to send a renewal notice, you only have the address. You don't have their email ID or mobile number.
Sarkar: We see this struggle even in advanced markets. But this problem will not get solved individually operator by operator. In some cases, it's the role of the regulator to step in and make structural changes. Some of that seems to be in motion. I wonder if there is an opportunity for operators to collaborate more.
Goel: There are different initiatives in life insurance. Not so much customer data but in terms of claims, and at under-writing stage, being able to share data across insurers. There are blockchain initiatives going to be on.

BT: Has sandboxing worked?
Goel: We see serious innovation coming into the industry. As a result, bite-size sachet products are coming. It's more about finding the right business models and the right product configurations.
Sarkar: I would separate this into two pieces. We have seen some specific product innovations in other markets. Micro-duration products like car-sharing is an example. We have seen Chinese insurers do insurance that lasted one day. There are good case examples that Indian insurers can see and decide if they apply to this market or not.

Best Advice I Ever Got

"NEVER TAKE 'NO' FOR AN ANSWER. PERSEVERANCE PAYS"

KIRAN MAZUMDAR-SHAW, CHAIRMAN & MD, BIOCON

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

A. A turning point in my entrepreneurial journey was when I needed to finance the scaling up of our home-grown solid state fermentation technology for enzymes. I needed ₹1 crore, and in 1987, it was a lot of money. The usual financiers like Karnataka State Financial Corporation and Karnataka Industrial Areas Development Board were reluctant as they felt this was high-risk capital considering that the technology had not been vetted or validated by any external agency. I reasoned with them that this was all about intellectual property and proprietary technology.

Q. Who did you approach for advice and why?

A. Having failed at securing the funding, I turned for advice to (Narayanan) Vaghul, the then chariman of ICICI Bank.

Q. What was the advice?

A. He found my project perfect for venture funding through his new Technology Development & Investment Corporation of India. In the process, the lesson I learnt was never to take 'no' for an answer. Perseverance pays and reaching out to the right mentor gives you the ability to solve problems.

Q. How effective was it in resolving the problem?

A. Instead of debt financing through long-term loans, I received equity funding of ₹1.8 crore because they felt I needed more than ₹1 crore to fully implement my technology. ICICI Bank took a 10 per cent stake in Biocon in 1988 and cashed out by selling the stake a year later to Unilever at four times the value and made me realise what value unlocking was all about! BT

– E. KUMAR SHARMA

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