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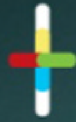
Business Today

YES BANK: FIXING THE PROBLEMS



GST: THE BIG HOLE

September 8, 2019 | ₹100
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INDIA's BEST SMEs

Small and Medium Enterprises that have shown outstanding performance despite tough times

Madhu Khurana and Sidhartha Khurana of Studds Accessories, India's largest helmet manufacturer

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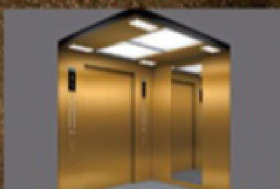
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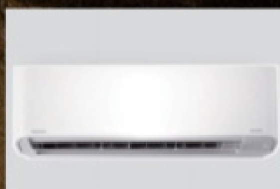
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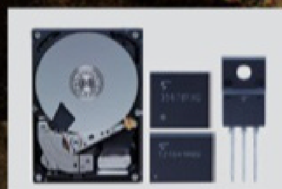
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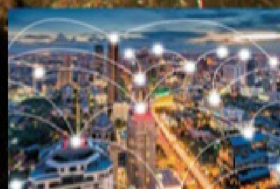
IoT SOLUTIONS

Small, Vulnerable But Beautiful

WHILE BIG companies, typically listed at the bourses and actively followed by investors, lenders and myriad analysts, tend to hog the limelight in the business press, the small and medium Enterprises (SMEs) play an immensely important role in industry. Every big company needs suppliers, vendors and distributors – many of whom are small- or medium-sized enterprises. Consider this: Almost 45 per cent of manufacturing output in the country can be credited to SMEs, as well as 40 per cent of exports. If you included the micro industries as well, at last count the number of micro, small and medium enterprises (MSMEs) added up to almost 63 million, employing over 111 million people. Together the MSME sector accounted for close to 28 per cent of India's GDP.

Traditionally, the entire MSME universe has suffered from some major handicaps – including access to capital, the ability to hire the best talent, and also having to deal with excessive regulation. They are also far more vulnerable to economic slowdowns and commodity price fluctuations as well as policy disruptions.

Over the past five years, SMEs have had to contend with a flurry of disruptions – in government policy as well as technology and in the financial/capital-raising landscape. Most of these, like demonetisation and GST, hit them hard because of the way they have been implemented. The latest problem that the SME sector faces is the credit crunch caused by the NBFC crisis.

Illiquidity, caused by demonetisation and GST, has quickly turned into insolvency for the more vulnerable SMEs.

But it has not been an universal picture of gloom and doom. Some disruptions have actually helped. For example, till a few years ago, SMEs were handicapped by the fact that they could not keep up with the technology deployment of bigger companies because of the capital investments required. Now, with cloud computing and software as a service, many SMEs are able to take advantage of new technologies.

The government, too, has taken note of the problems that small businesses are facing in capital raising and has come up with its quick collateral-free loan scheme to help them out.

I do believe that the government needs to do much more. Mudra loans are not enough to solve the credit problems of SMEs. The SMEs typically find themselves borrowing at much higher rates of interest, while putting up much higher collateral. This has to be fixed.

Other issues like ease of doing business at the ground level also need to be looked at. The cost and reliability of power supplies is another handicap where the Union and state governments as well as distribution companies can work together.

The SMEs also suffer because they are often forced to wait endlessly for payments of goods and services supplied, especially to the government. This needs to be rectified.

Despite the disruptions and problems, some SMEs have managed to perform exceptionally well in the past few years, and we take a look at them in this issue.

Also, don't miss the big stories on how Ravneet Gill is trying to fix Yes Bank, and the crisis in the auto sector.

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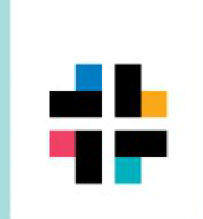

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IN REVERSE GEAR

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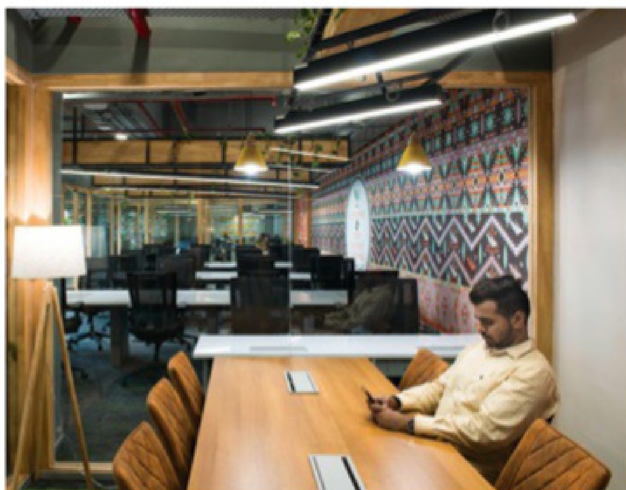

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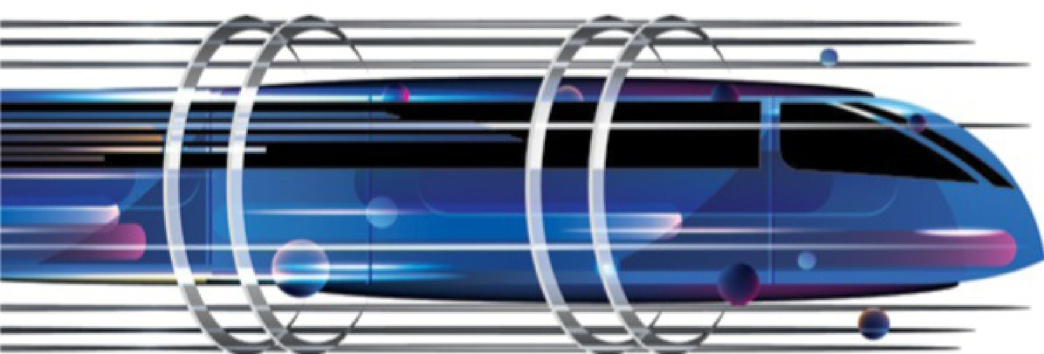

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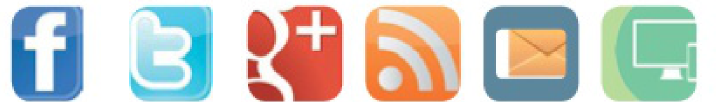

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NEWS

What Ails the CBI? It's More Than Political Intervention
Lack of clearly demarcated spheres of functi-oning and overlapping areas of influence severely compromise the integrity and efficacy of the institution, says CBI chief R.K. Shukla
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Is LIC Emerging As Lender of Last Resort for the Battered NBFC Sector?
The insurance giant is lending a helping hand when the RBI makes it clear that it will not bail out any NBFC or open a separate liquidity window for them
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Treating HFCs Like NBFCs Will Shrink Mortgage Industry
Experts feel the government's move may make the going tough for the HFCs
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COLUMN

There Are Only Three Ways to Turn Around Economy – Consumption, Consumption & Only Consumption
Both Piyush Goyal and Nirmala Sitharaman have failed to revive the consumption cycle in the current Budget. And it has cost the Indian economy two precious quarters, probably more, says businesstoday.in *Editor Rajeev Dubey*
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THE BUZZ

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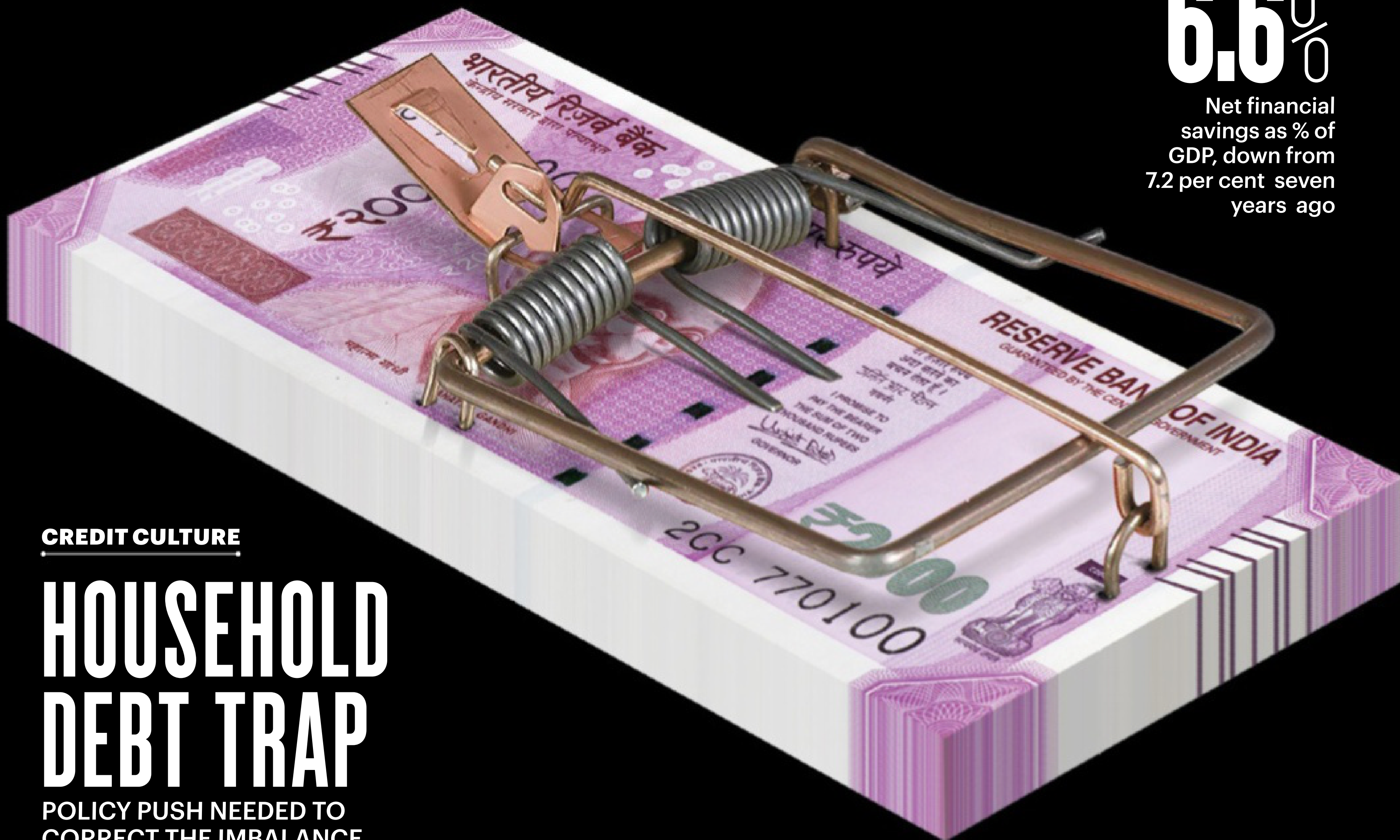
6.6%
Net financial savings as % of GDP, down from 7.2 per cent seven years ago



CREDIT CULTURE

HOUSEHOLD DEBT TRAP

POLICY PUSH NEEDED TO CORRECT THE IMBALANCE.

By ANAND ADHIKARI   Illustration by NILANJAN DAS

A YOUNG WORKFORCE and growing credit culture are shrinking households' financial savings. Be it credit cards, personal loans or buying a house or car, youngsters prefer taking debt. Banks, housing finance companies and NBFCs are happy to oblige. This leads to rising financial liabilities, which, as a share of GDP, have moved up from 3.3 per cent to 4.3 per cent over the last seven years. During the period, net financial savings fell from 7.2 per cent to 6.6 per cent. Banks deposit growth has declined to 10-12 per cent from 20 per cent-plus two decades ago. These trends are settled now as there is a big change in investment, spending and savings behaviour of people. Government, too, is spending more than what it earns and fiscal deficit is over 3 per cent of GDP. Despite the growth of insurance, mutual funds and pension, financial savings are not improving. Gross financial savings have remained at 10 per cent in the last decade.

This behavioural shift leaves fewer resources for the corporate sector. The recent announcement to target foreign savings by way of a sovereign bond shows the government wants to leave domestic resources for the private sector. While sovereign bond issue comes with currency risk, crowding out savings and pressure on domestic interest rates have their collateral damages. Higher government borrowing in the domestic market came in the way of transmission of interest rates. The only way out is to have sustained higher growth, more jobs and a tamed fiscal deficit. A new policy push or a framework is needed to correct the imbalance. BT

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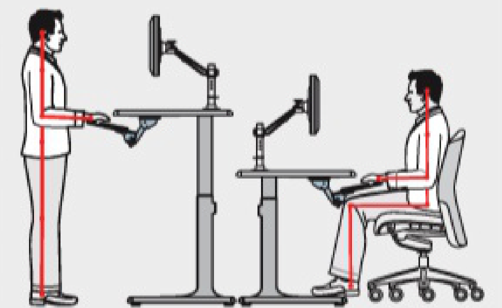

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HIRING

RAINING IT JOBS

INDIAN IT SERVICES companies sounded their positive best in hiring numbers at the end of the first quarter of FY2019/20. Top companies, put together, recorded over 50 per cent increase in hiring compared to the same period last year. TCS added 12,356 employees, their highest for the quarter in five years, and said it had made 30,000 job offers for the year. Wipro, too, added 6,000 people and Infosys added a little less than 1,000 but was strengthening its onshore hiring with over 10,000 people in the US and 2,000 more, to be hired globally. Although most companies have emphasised extensive training to make new hires project deployable at the earliest, the hiring is also indicative of the depth of pipeline the companies are targeting. The hiring numbers consist of both campus and lateral hires. That comes in as a breather for the economy even as other sectors are struggling and facing job losses. - Rukmini Rao

ILLUSTRATION BY RAJ VERMA

FMCG WOES

DESPERATE MOVES

THE SIGNS of an imminent economic slowdown are evident not just because there is a dip in auto sales. The FMCG sector is also showing signs of desperation. According to a study by Elara Securities, FMCG companies, over the past year, are dumping their stock with distributors and retailers to report a higher volume growth. The report estimates that the growth fuelled by this dumping was in the region of **8 per cent** last year. This has led to heavy undercutting in the market across brands. The average closing stock at the distributor level has gone up from 10 days to 25 days, while retailer credit has increased by 15 days to 25. - Ajita Shashidhar

DOLLAR-RUPEE TRADE

Shoring up Onshore

THE RESERVE BANK task force's suggestions to curb growing volumes of dollar-rupee trades in offshore market have come at an apt time, as the rupee has been under pressure due to the US-China trade war. Often in the past, the offshore market – also called the non-deliverable forward (NDF) market – has influenced onshore spot price during uncertain times when overseas investors tend to speculate and make arbitrage gains on the price differential. The report cites two instances – the taper tantrum in 2013 and the 2018 emerging market turmoil – when the NDF market had driven down the onshore rupee value, hurting the RBI's efforts to curb volatility and support real price discovery. Currency gyrations could be fatal for India, more so if the government goes ahead with issuing sovereign bonds overseas. The RBI committee's suggestions include extending domestic market timings beyond eight hours (NDF works 24/7), allowing banks to offer prices to global clients round the clock, making KYC norms common across financial market segments and aligning taxes with international centres. While most suggestions make sense, the crux lies in rationalising taxation and increasing liquidity on a par with the offshore market. - Aprajita Sharma

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MONSOON VARIATION

Climate Change Issues Matter

IT'S BEEN A CASE of changing fortunes as far as the monsoon is concerned this year. In end-June, rainfall was 33 per cent deficient according to the India Meteorological Department (IMD). By July 24, the deficit was down to 19 per cent. On August 7, cumulative rainfall the country received rose to 492.7 millimetre (mm), just 5 per cent lower than 516.4 mm that is considered as normal. Four days later, IMD data indicated that actual rainfall rose to 553.9 million, one per cent higher than the normal average rainfall of 550.8 mm expected till that day. While the rainfall might look normal or near normal overall, such huge variations in the intensity of rainfall can be devastating economically and socially as is being witnessed by the loss of lives, livelihood and infrastructure including houses and roads in several parts of the country. Hence, mere rainfall or crop sowing statistics cannot be meaningful in itself. India's monsoon preparedness should consider these climate change induced fluctuations in rainfall patterns in future.-Joe C. Mathew

PMS

GROWTH SPURT

The Portfolio Management Services (PMS) industry has witnessed tremendous growth over the past few years as assets under management have grown manifold. However, PMS lags in terms of standardised reporting and transparency in terms of fees and charges. To address this, Sebi formed a working group to review PMS regulations. It proposed some key changes, which include increasing minimum capital requirement for portfolio manager from ₹2 crore to ₹5 crore. It also proposed to increase minimum investment to ₹50 lakh from ₹25 lakh. To address non-standardised reporting of returns by different portfolio managers, it is proposed that time weighted rate of return be used and all performance be reported net of fees, all expenses and taxes. Also, performance is to be reported to clients every quarter against six months earlier. Just like mutual funds, it is also proposed that distributors be paid on a trail basis and no upfront fees to be charged from the client. The report has been opened for public comment.

– Renu Yadav

VISA REJECTION

Tighter Norms Hit IT Firms

WHILE INDIAN IT service companies have been bracing for a tighter visa regimen worldwide, statistics compiled by non-profit policy research organisation, National Foundation for American Policy (NFPA), shows visa rejection of firms touching an all time high. Top visa seekers from India like Infosys, TCS and Wipro, whose visa rejection rates were below 10 per cent in 2014/15 now are staring at 57 per cent, 37 per cent and 62 per cent rejection rate in FY19 (Oct-Dec), respectively. Even the request for evidence (RFE) and detailing has gone up considerably. For Indian IT firms, which are witnessing talent loss with fewer onsite opportunities, the increase in compliance costs and elaborate RFEs are also slowing down the processing and posing fresh problems for these companies.-Rukmini Rao

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SOLAR POWER

SAFEGUARD DUTY FAILS TO PROTECT

IT HAS BEEN a year since a safeguard duty was imposed on imported solar panels, but the move has not helped. The purpose of the duty was to promote domestic manufacturing and reduce imports. The safeguard duty was of 25 per cent in the first year, then 20 per cent for six months and 15 per cent for another six months for solar panels sourced from China and Malaysia. But 88 per cent panels are still imported from Thailand and Vietnam.

One of the issues is that a timeframe of two years is inadequate to set up manufacturing capacity. Second, since January, regulators have allowed safeguard duties to be considered as 'change in law' and allowed to pass on the cost to consumers. Further, solar tariffs have increased, but domestic manufacturers are still seen as 'expensive'. Also, lenders to existing players such as Moser Baer and Indo Solar have moved the National Company Law Tribunal (NCLT), thus cutting down domestic manufacturing capacity. The government should look back and see who they are protecting with this duty. -Anilesh S. Mahajan

REAL ESTATE

TOWARDS THE FINISH LINE

THE REAL ESTATE sector has, for some time, been demanding measures to ease liquidity. In a meeting with Finance Minister Nirmala Sitharaman, industry representatives suggested the creation of a real estate stressed assets fund. This fund could take over stalled projects for completion. Currently, construction of nearly 1,75,000 homes in 220 projects has been stalled due to lack of funds or clearances.

However, the creation of a stressed assets fund is not the solution to the sector's woes, where unsold inventory will take 42 months to clear up. Real estate players require operating cash flows, which can come in only when sales take off. Currently, sales are tepid, and property prices have been either stagnant or have gone down in the top cities. While the government is giving incentives for affordable housing, it is time for developers to cut prices further and give incentives like staggered payment options to boost demand and spur sales.

-Rashmi Pratap

START-UPS

Angel (Tax), No More

THE GHOST of angel tax will cease to bother start-ups, at least for now, with the tax department extending the exemptions, announced earlier, to those firms where tax additions have been made or those which are under limited scrutiny.

The Central Board of Direct Taxes recently said if a start-up recognised by the Department of Promotion of Industry and Internal Trade (DPIIT) is under limited scrutiny on angel tax, the contention of the start-up will be 'summarily' accepted by the assessing officer. Earlier, the tax department accorded exemption even to those start-ups against which additions were made before February 19, 2019, the day the DPIIT came out with the concessions for start-ups.

The February 19 circular exempted start-ups registered with it from the purview of angel tax, a tax on the sale of shares of a start-up above fair value. While the notification exempted registered start-ups, it did not extend the exemption to those which were already facing scrutiny.

-Dipak Mondal

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GRAPHITI

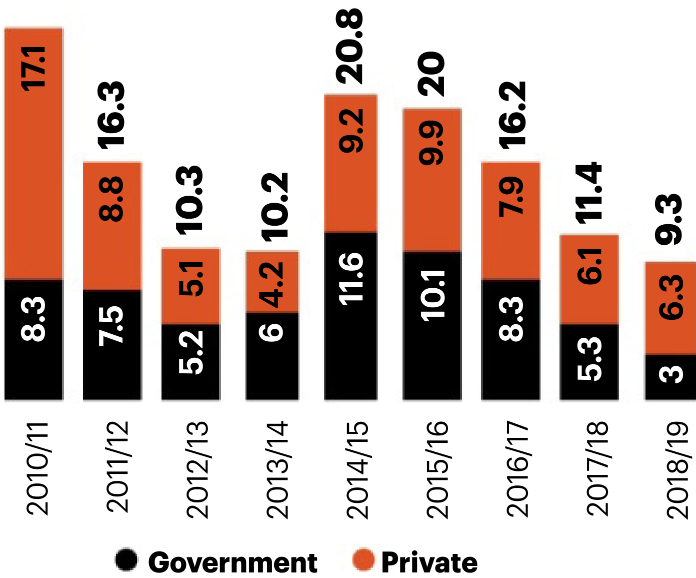
THE INVESTMENT CRISIS

INDIA'S ECONOMIC GROWTH HAS BEEN FALLING DUE TO A SHARP SLOWDOWN IN INVESTMENTS. THE FALL IN NEW PROJECT ANNOUNCEMENTS TO THEIR LOWEST IN A DECADE IS A CAUSE FOR CONCERN.

Graphic by **Tanmoy Chakraborty**
Research by **Shivani Sharma**

New Investment Proposals Touch a 10-year Low

(₹ lakh crore)



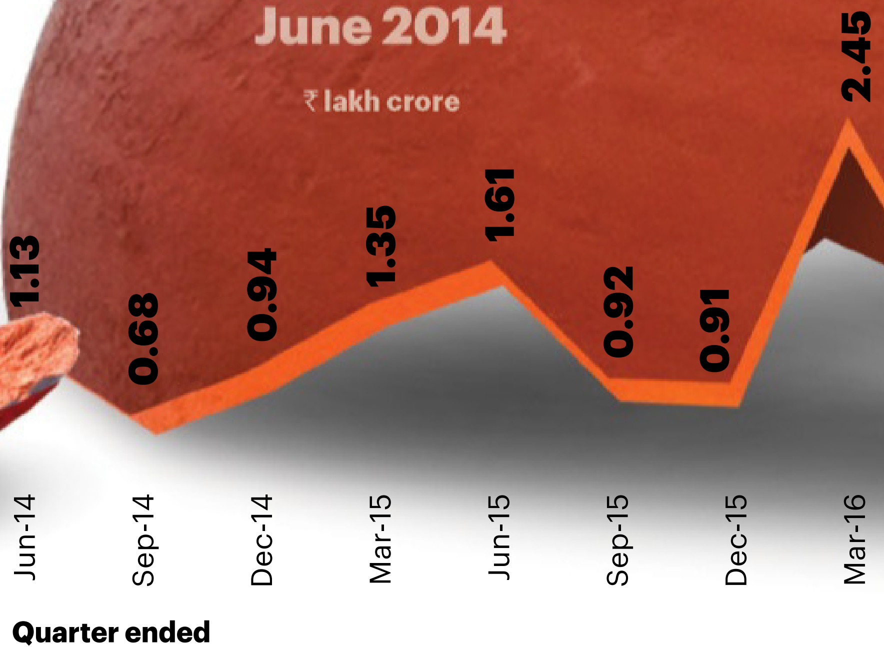
30%

Fall in investments by venture capital funds in 2017/18 from previous year's ₹25,512 crore

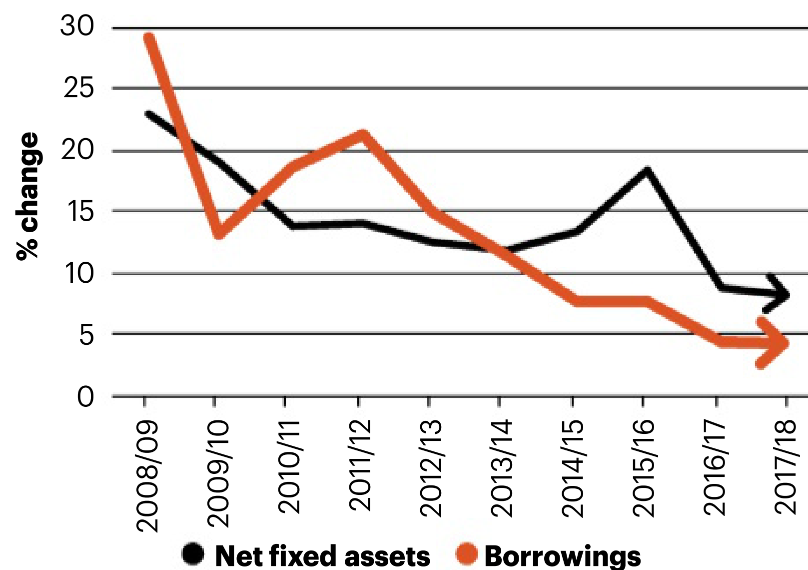
29.8%

Share of investments in India's nominal GDP in the March 2019 quarter compared with 32.2 per cent in the previous quarter. The average since 2007/08 has been 34.8%

Project Completions Lowest Since June 2014



High borrowings around 2008/09 put stress on corporate balance sheets and are impacting the ability to invest



₹3.5

LAKH CRORE

The central government's budgeted capital expenditure in 2019/20. This is only 7 per cent more than last year. In contrast, the revenue expenditure is 13.4 per cent more than last year

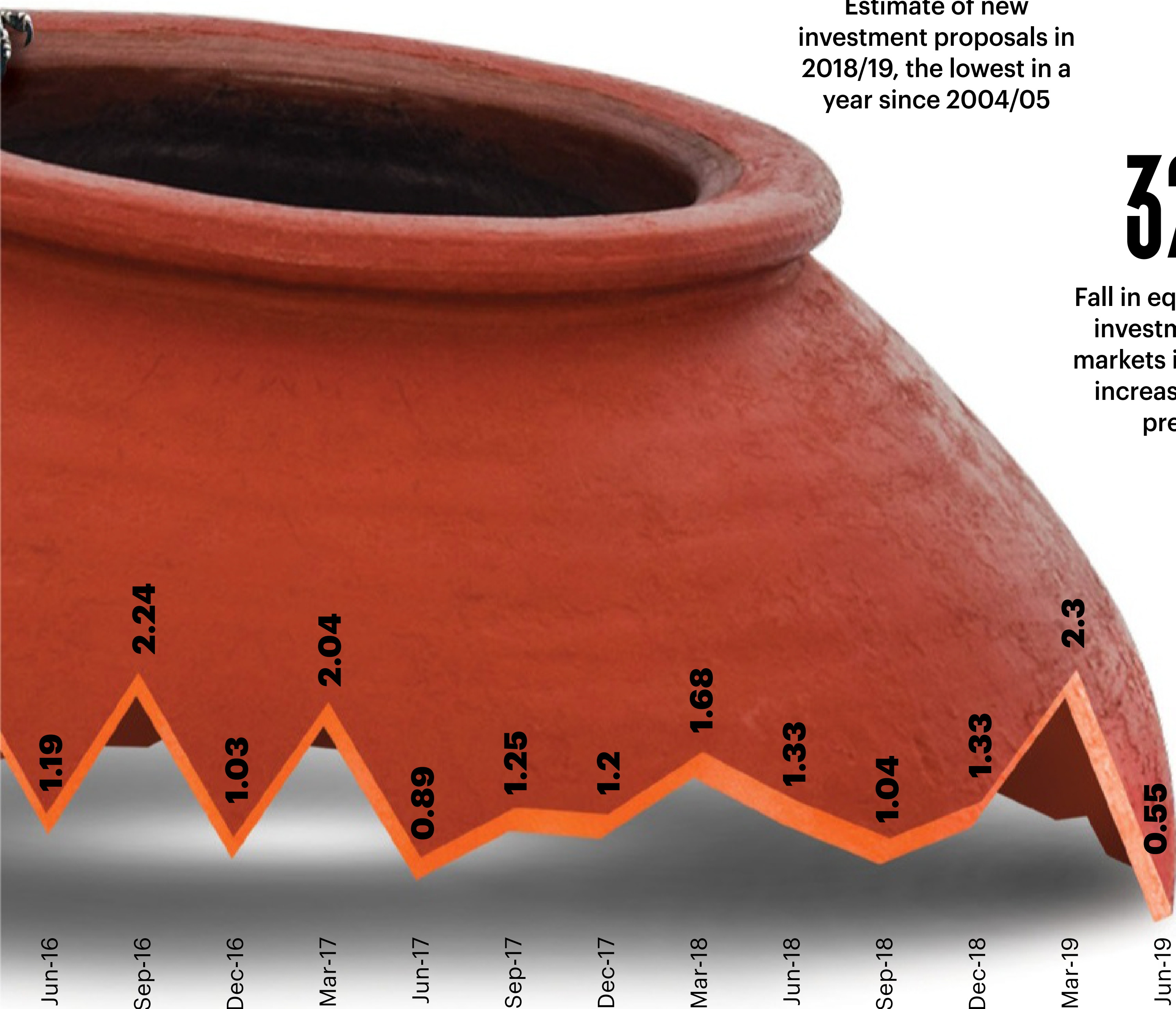
₹9.5

LAKH CRORE

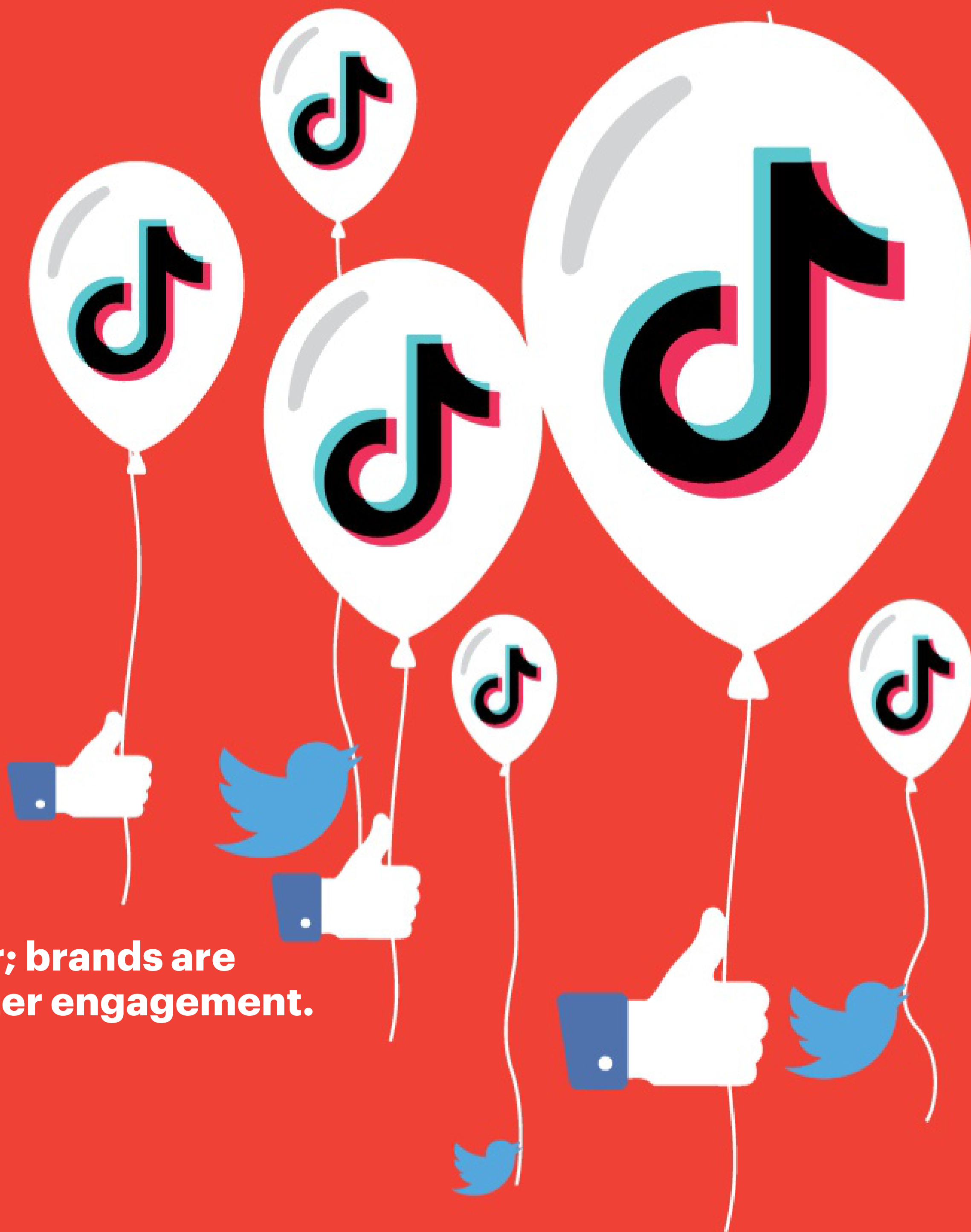
Estimate of new investment proposals in 2018/19, the lowest in a year since 2004/05

32.7%

Fall in equity mutual fund investments in capital markets in 2018/19. It had increased 140% in the previous year



Source: CMIE Economic Outlook



SOCIAL UNIVERSE

WHAT MAKES THEM TICK

Move over Facebook, Twitter; brands are piggybacking TikTok for better engagement.

By Sonal Khetarpal
Illustration by Raj Verma

CELEBRITIES AND movie stars have always led brand endorsements on print and television. But in a surprising turn of events, @jannat_zubair29, a social media influencer of TikTok fame, has been chosen to be featured in a TV commercial for the confectionery brand Chupa Chups. This followed the soaring success of the brand's influencer marketing campaign #chupachupstastechallenge on the platform for launching its sour green apple flavour. Asked what led to such a decision, Rohit Kapoor, Director of Marketing (India) at Italy-based Perfetti Van Melle, says, "We wanted to get the brand message out within a short time. And TikTok offered us that opportunity through its organic reach and engaging content." Chupa Chups worked with five influencers and got 12 million views within the first couple of days.

This is not an isolated case. TikTok has shaken up the social media ecosystem in the past six-eight months. In February this year, the app witnessed a billion-plus downloads. As per the database firm Statista, it has 200 million users, out of which 120 million are monthly active users from India.

"For the past year, brands have been asking for campaigns on TikTok and Instagram. No one is interested in Facebook anymore," says Ardasa Satsangi, Founder of the influencer marketing agency Naked Media.

"There is excitement around TikTok because it has genuinely democratised social media," says Piyul Mukherjee, Co-founder of the Mumbai-based qualitative research agency Quipper Research. "Facebook and Twitter only address the educated and well-versed. As there is no language barrier on TikTok, its users are excited about the content, about expressing themselves and sharing it with all. It is leading to high engagement and organic reach."

This is way more penetrative compared to Facebook or Twitter. The Big Two have modified their algorithms, and people only see the posts they care about. But that is not the case with TikTok or Helo or Vigo.

That is how TikTok and its ilk have thrown open more avenues which were not earlier accessible to brands. TikTok's USP is its rural reach across India and brands are getting on the bandwagon to explore those untapped markets. Prem Suganth, Associate Director at online fashion brand Voonik, says, "No other platform offers the demographics that TikTok does. Ninety-eight per cent of our online traffic belongs to the 17-23 age group. Only TikTok has that younger customer base and that, too, from semi-urban and rural India." Voonik claims to be the first company to leverage TikTok for a branded ad campaign in India. **BT**

@sonalkhetarpal7

Too Close for Comfort?

Twitter is doing it again – testing a new feature to enhance inclusiveness. Now users will get all notifications when people reply to a particular conversation. 'Subscribe' to the feature, and you will be in. The rationale is to make it easy for users to follow conversation threads and engage with the comments. Twitter is testing it on both iOS and Android. In contrast, Instagram said last month that it was testing whether hiding likes and views could help reduce anxiety among users. The idea was to make the photo-sharing platform more personal and less competitive.

LINKEDIN MAPS GLOBAL LABOUR FLOW

PROFESSIONAL NETWORKING SITE LINKEDIN, IN PARTNERSHIP WITH INDIANA UNIVERSITY BLOOMINGTON, PUBLISHED THE FIRST-EVER MAP OF GLOBAL LABOUR FLOW. THE PLATFORM GATHERED THE DATA FROM 500 MILLION USERS FOR 25 YEARS, AND RESEARCHERS USED IT TO CREATE A METHOD FOR IDENTIFYING GEO-INDUSTRIAL CLUSTERS. TO BEGIN WITH, THEY IDENTIFIED CONCENTRATED LABOUR FLOWS AMONG FOUR MILLION-PLUS COMPANIES BY ANALYSING AROUND 130 MILLION JOB CHANGES. THEY ALSO FOUND STRONG LINKAGES BETWEEN THE AVAILABILITY OF EDUCATED WORKERS AND PERFORMANCE AND PRODUCTIVITY GROWTH. THE RESEARCH WAS PUBLISHED IN THE AUGUST ISSUE OF *NATURE COMMUNICATIONS* JOURNAL.

SNAP GOES ON CAPITAL HUNT

Snap, parent of the photo-sharing app Snapchat, is looking to raise $1 billion through debt securities. The amount raised will be used to meet working capital requirements and acquire "complementary businesses, products, services or technologies", the company says. It can be further used for stock repurchase, but no such plans have been announced yet. Snap is not yet profitable, but its balance sheet is improving. Its net loss reduced to $255 million in Q2 2019 compared to $353 million in the same quarter of the previous year.

260 million

The number of Internet users in 2018 who could be 'monetised' out of 530 million active users, according to a report by Bengaluru-based RedSeer Consulting, a research and consultancy firm. This figure is likely to grow to 320 million by 2023 and the new netizens will come from Tier-II and Tier-III cities of India. The report also predicts that up to 30 per cent of advertising spend is expected to come from vernacular ads.

$ **10** Million

PEOPLE OF CHINA SPENT OVER AND ABOVE THIS AMOUNT ON THE SHORT VIDEO-SHARING PLATFORM TIKTOK IN JUNE THIS YEAR, ACCORDING TO DATA FROM SENSOR TOWER. THIS HAS LED TO A 271 PER CENT JUMP IN TIKTOK'S GROSS REVENUE SINCE JANUARY 2019 ALTHOUGH IT HAS THE BIGGEST USER BASE IN INDIA. BT

BUSINESS MEET

WHAT: International Conference on Business and Economics

WHEN: October 12-13, London

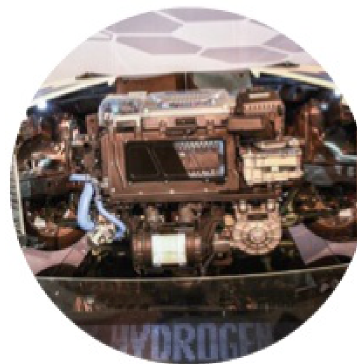
WHAT TO LOOK FOR: The conference will host independent experts and academics and representatives of corporations to foster a dialogue on banking, economics, insurance and international and global business management.

SILVER AGE SERVICES

WHAT: Senior Care Conclave

WHEN: October 1, Delhi

WHAT TO LOOK FOR: The second edition of the conclave will focus on elder care investment and technological innovations to provide better senior care services. Retirement operators, hospitals, investors and other key stakeholders will attend the event.

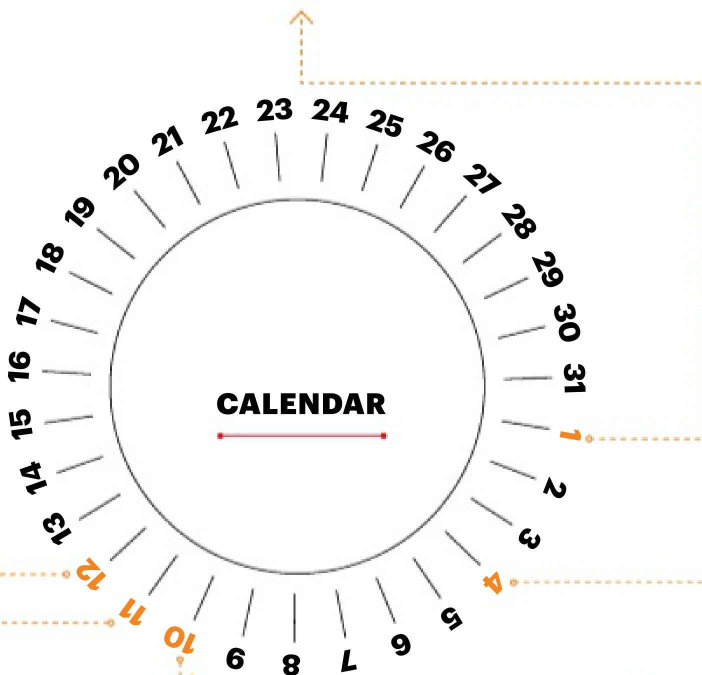


AUTO OF THE FUTURE

WHAT: Conference on Automotive Design & Engineering

WHEN: October 4, Chennai

WHAT TO LOOK FOR: Over 250 senior delegates from related industries will gather and discuss the developing design and engineering trends in the auto sector. The full-day event will have four sessions and one panel discussion.



TRADE FAIR

WHAT: India International Cooperatives Trade Fair

WHEN: October 11-13, Delhi

WHAT TO LOOK FOR: Steered by the National Cooperative Development Corporation, the three-day event will aim at promoting cooperative-to-cooperative trade within India and abroad to boost rural and farm prosperity and achieve goals set under the Agri-Exports Policy 2018.

SOCIAL BUSINESS

WHAT: International Conference on CSR & Sustainable Development

WHEN: October 10-11, Delhi

WHAT TO LOOK FOR: The event will give a platform to corporates, government agencies, NGOs, civil society and academics to share their ideas and research in the field of CSR and sustainable businesses.

TALENT HUNT

WHAT: SHRM India Annual Conference & Exposition

WHEN: October 10-11, Delhi

WHAT TO LOOK FOR: Organised by the Society for Human Resource Management, the conference will welcome HR leaders from across the globe to explore new trends in people management in order to attract best talent. It will be an opportunity to connect with over 1,500 delegates.

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START-UP

ZAPPFRESH

WHOLESOME TO THE CORE

THE GURGAON-BASED COMPANY PROCURES, PROCESSES AND DELIVERS FARM-FRESH AND CHEMICAL-FREE MEAT, POULTRY AND FISH.

By Sanghamitra Mandal
Photograph by Shekhar Ghosh

ZappFresh Co-founders **Deepanshu Manchanda and Shruti Gochhwal**

The Founders

Deepanshu Manchanda (CEO) and Shruti Gochhwal (COO). During his MBA days, Manchanda worked as a salesperson for an FMCG brand and later joined the e-wallet start-up MobiKwik where Gochhwal was a colleague. Both were keen to explore the FMCG space and finally decided to set up ZappFresh (registered as DSM Fresh Foods), an online meat shop selling hygienic fare.

The Concept

Most people buy their meat and fish from local butchers or supermarkets without realising the quality risk, explains Manchanda. "Freshness is just one part of it. Think of the feedlot diseases and the antibiotics used to prevent those, the growth hormones and the chemical preservatives. As 90 per cent of this market is unorganised, these hazards are constantly on the rise. We also did a market survey and found that people are looking for good quality meat and doorstep delivery. Quality and convenience were missing in this space, and it allowed us to set up a tech-driven farm-to-fork solution."

The Backers

ZappFresh initially raised $1 million from start-up investors Ashvin Chadha, Jitender Gupta and Sandeep Roperia. It secured another $3 million in 2018 from SIDBI Ventures and Dabur India Vice Chairman Amit Burman.

The Business

The company pursues an integrated approach to ensure quality and speed. It directly procures from high-quality farms instead of *mandis*, wholesalers and local meat shops. A stringent quality control system on the ground makes sure that the livestock is entirely free of antibiotics, growth hormones and other chemicals. Random lab tests are also run for this purpose. ZappFresh has tied up with a cold chain for farm-to-company deliveries and operates a fully equipped meat processing unit so that it can do away with unhygienic and overcrowded abattoirs. It has smaller, temperature-controlled units at key distribution points for maintaining product freshness throughout the supply chain, and its staff members do last-mile deliveries. The *halal*-certified start-up has a two-hour delivery schedule, accepts same-day returns and offers a wide range of raw meats, seafood, marinades, cold cuts and ready-to-eat hors d'oeuvres. It is also tapping Big Data, blockchain and automation to enable demand forecasting, provide sourcing transparency and scale up order processing.

The Road Ahead

In spite of procurement and logistics challenges (you must have a local base in this kind of business, says Manchanda), ZappFresh is keen to disrupt local fish-and-meat markets. Therefore, it will enter three more cities in CY2019 and also increase offerings under the ready-to-cook and ready-to-eat sections, mostly favoured by the Gen Y. **BT**

KEY NUMBERS

FOUNDED IN
2015/16

TEAM MEMBERS
200

OPERATES IN
Delhi-NCR, Chandigarh, Mohali and Panchkula

DAILY ORDERS
5,000
across locations

GROSS REVENUE
₹18.68 crore
in FY2017/18 as per MCA data

CUSTOMER BASE
5 lakh
registered users

ALERT !!! CRASH IN INDIAN STOCK MARKET 2019... NIFTY WILL FALL AND REACH MINIMUM 7000 LEVEL

Alert !!! a huge crash yet to strike our Indian Stock market soon in the year of 2019. This is the 2nd biggest crash since 2008.

NIFTY will fall and reach 7000 level which is nearly 40% correction from life high. When we consider 2008 crash, it is one of the largest falls in investor wealth in India. During this time the Indian stock market Index NIFTY and SENSEX faced the biggest crash in the trading history since then the stock market has been on the path to recovery and moving in the uptrend for the past 11 years while creating a new benchmark in Life High. However as per technical analysis there is a strong indication that in 2019 Indian Stock Market will fall drastically. we can expect the fall very soon, during the fall pullbacks will takes place as usual. Therefore the traders and investors need to be cautious in the market and be prepared to deal with the upcoming fall said by the Research Analyst Mr. Lakshmi Narayanan.

LEAD ESSAY

BEATING THE ODDS

SMEs CONTINUE TO NAVIGATE CHOPPY WATERS WITH THE HELP OF TECHNOLOGY AND GOVERNMENT INITIATIVES.

BY JOE C. MATHEW

The over 63 million small and medium enterprises (SMEs) in India are going through a period of churn. At one side, new technologies that include artificial intelligence, cloud computing, machine learning and internet of things have made it easier for SMEs to operate and achieve targets. But at the other end, they are witness to disruptions caused by changes in business models and new government policies. These disruptions are helping the smartest SMEs perform better, while others are finding the disruption painful.

But one thing is for sure. SMEs just cannot be ignored in India, for multiple reasons. SMEs contribute about 45 per cent to India's manufacturing output and account for over 40 per cent of exports. They also account for over 28 per cent of India's GDP and employ about 111 million people, being the second biggest employer after agriculture. This makes them hard to ignore; a fact that reflects in the various attempts by the government to give small businesses a boost.

IN FOCUS

The Narendra Modi government is attempting to streamline multiple labour laws into a set of four labour codes, which is expected to reduce disputes. The Union Budget 2019/20 has, mean-

WHY SMALL BUSINESSES MATTER

63
MILLION
NUMBER OF MSMEs IN INDIA

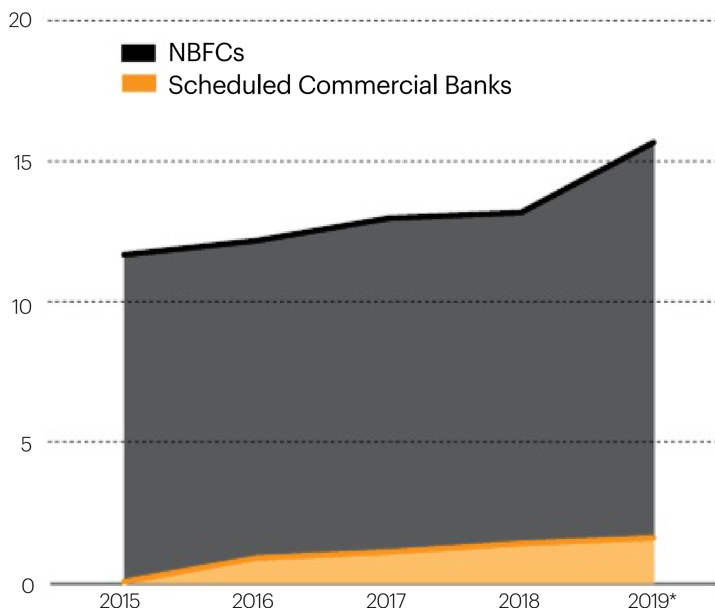
31.8%
SHARE OF MSME GROSS VALUE ADDED IN TOTAL GVA (2017/18)

₹6,553
CRORE
BUDGETARY ALLOCATION IN 2018/19, UP FROM ₹6,482 CRORE IN 2017/18

PHOTOGRAPH BY JAISON G

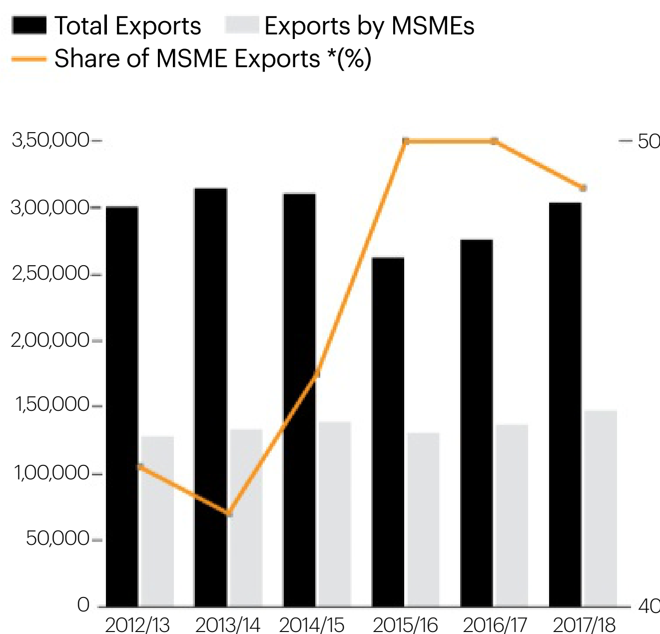
HELPING HAND

CREDIT FLOW (₹ LAKH CRORE) TO MSMEs HAS GONE UP IN THE LAST FEW YEARS...



Source: RBI
*Data for March 2019 is provisional

...BUT THEIR SHARE IN TOTAL EXPORTS FELL IN 2017/18



Exports in $ million; *Decimal points rounded off
Source: RBI & Press Information Bureau/Directorate General of Commercial Intelligence and Statistics

while, allocated ₹350 crore for 2 per cent interest subvention (on fresh loans) to all GST-registered SMEs under an interest subvention scheme. A payment platform for SMEs is also in the works to enable filing of bills to eliminate delays in government payments.

The MUDRA loan is another attempt to provide easy loans to small entrepreneurs. New models of financing like loan approvals within 59 minutes are being tried out. Even demonetisation was projected as an attempt to nudge SMEs out of the cash economy and make them digitally savvy. However, that led to many SMEs having to shut shop. What is common in these measures is that they all aim to increase the funding available to MSMEs.

The Economic Survey identifies slower credit flow to SMEs and MSMEs as one of the reasons for subdued manufacturing activity leading to industrial growth rate in terms of Index of Industrial Production (IIP) during 2018/19 declining to 3.6 per cent compared to 4.4 per cent in 2017/18.

In an interaction at the National Council Session of the CII in Delhi on August 9, Finance Minister Nirmala Sitharaman acknowledged delayed payments by government departments and agencies as one of the problems that require immediate attention. “Delayed payments to MSMEs are estimated at about ₹48,000 crore. As the first step, the government will be releasing amounts which are not under litigation,” she had pointed out.

CAUGHT IN A TRAP

We look at the success stories of five SMEs that have been nimble footed in not only navigating obstacles but also making use of opportunities. At the same time it is also important to understand what can trigger growth in the sector.

On August 6, the Modi government enacted a new Consumer Protection Bill, 2019, to replace the Consumer Protection Act, 1986. One feature of the new law is a clause that allows prosecution of manufacturers, service providers or product sellers for damage or injury caused by defective products or deficiency in services. About a month back, the National Green Tribunal (NGT) set a three-month deadline to close all highly polluting industries in chosen industrial clusters of the country. While both the initiatives are laudable, the possibility of faulty implementation is worrying tens of thousands of SMEs and MSMEs.

“Seventy five per cent of food products are sold through household, micro and small units in India. These MSMEs are short of capital, knowhow, time and skilled labour, and hence are unable to check the quality of the raw material they use. The food department has not prescribed any permissible impurity level for several prod-

PHOTOGRAPH BY MIDHUN VIJAYAN

ucts they make, such as instant powder, papads, etc," says Vipin Kumar Jain, Madhya Pradesh Small Scale Industries Organisation (MPSSIO). "Any impurity in the final product, which could be due to adulteration at any level – farmer, wholesaler or retailer of raw material – can now result in prosecution of such manufacturers," Jain adds.

With the Central Pollution Control Board (CPCB) set to implement the NGT directive, a similar worry plagues industrial clusters. "Over 25,000 MSMEs are facing closure by September-end due to the NGT order," says Sushil Kumar Aggarwal, Co-chairman (Northern Region) of the CII's MSME Council.

While no one disputes the intention behind the government initiatives, they argue that the full impact must be considered. "Cases should be filed against producers only on the basis of actual complaints from consumers. No official should be allowed to take random samples and file cases against entrepreneurs on the basis of test results that are arbitrarily interpreted," says Jain of MPSSIO. Aggarwal suggests that instead of shutting down units that pollute water, the government should set up common effluent treatment plants in such clusters and "eliminate the pollution problem without impacting businesses".

The initiatives of the consumer affairs ministry and the NGT are mere illustrations of the adverse impact that even well meaning developments can have on smaller enterprises. This was evident in the implementation of the Goods and Services Tax (GST) during the first term of the Modi government. Contrary to expectations of beneficial outcome, small businesses were the most affected by the hurried implementation of GST, which followed demonetisation.

The ongoing corrective action by the Reserve Bank of India (RBI) to reduce the non-performing asset (NPA) levels of financial institutions has resulted in a vital resource for SMEs and MSMEs – capital – being squeezed.

Anil Bhardwaj, Secretary General of Federation of Indian Micro Small & Medium Enterprises (FISME), says the immediate problem that many businesses are facing is availability of credit. "Banks have unilaterally hiked the claim period of a bank guarantee (BG) to 12 months. As this requires collateral, plus margin money plus fee for the period of the BG, extending the claim period by a year is extremely burdensome. The Bank Loan Rating (BLR) instructions by the RBI to banks requiring a third-party credit rating on loans (fund and

THE PROBLEM AREAS

POOR ACCESS TO FUNDS AS BANKS ARE IN TROUBLE

THEY HAVE TO BORROW AT HIGH RATES FROM INFORMAL SOURCES

RISE IN COMPLIANCE COSTS AFTER IMPLEMENTATION OF GST

POST GST, BIGGER COMPANIES HAVE NO INCENTIVE TO BUY RAW PRODUCTS LOCALLY

MOST ARE STILL TO RECOVER FROM THE HIT DUE TO DEMONETISATION

DELAYED PAYMENTS DUE TO DIFFICULTIES RELATED TO ENFORCING CONTRACTS IN INDIA

non-fund based) above ₹5 crore is an absolutely futile exercise which benefits neither the borrower nor the lender. It needs to be done away with and replaced by banks' own credit rating models," he says.

Since India's ratification of the BASEL-II norms, prudential measures have increased in a manner that is hurting SMEs. "Not only the BLR (bank loan rating), but the Special Mention Accounts are extremely impractical. It is strangulating the functioning of SMEs," says Bhardwaj.

The government and the RBI are aware of the problems that small businesses are facing. In December 2018, the RBI constituted an expert committee under the leadership of U.K. Sinha, former Chairman of the Securities and Exchanges Board of India (Sebi), to propose long-term solutions for the economic and financial sustainability of the SME and MSME sector. The committee studied the impact of the recent economic reforms on the sector and identified the structural problems that are affecting its growth. It examined the factors that affect the timely and adequate availability of finance to the sector, global best practices, existing SME and MSME focussed policies and their impact. Last month, the committee came out with many suggestions on measures to leverage technology to accelerate the growth of the sector and provide long-term solutions.

Even as the government looks into these suggestions, it could be more thorough and sensitive in studying the impact that its reforms will have on small businesses. The Consumer Protection Bill, 2019, and adhering to the NGT rulings are mere reminders.

SOLUTIONS SUGGESTED BY U.K. SINHA PANEL

A ₹5,000 CRORE STRESSED ASSET FUND FOR MSMEs

A GOVERNMENT FUND OF FUNDS OF **₹10,000 CRORE** TO SUPPORT VC AND PE FIRMS THAT INVEST IN MSMEs

TO CHECK PAYMENT DEFAULTS, MAKE INVOICE FILING MANDATORY SO THAT THE NAMES OF DEFAULTING BUYERS CAN BE MADE PUBLIC

EXPANDING THE ROLE OF SIDBI TO IMPROVE ACCESS TO FUNDS

DEVELOPMENT OF ADDITIONAL SOURCES OF DEBT AND EQUITY

EXTENSION OF 59-MINUTE LOAN FACILITY TO MSMEs THAT CANNOT PROVIDE GSTIN, TAX RETURNS AND BANK STATEMENTS

DOUBLING OF THE COLLATERAL-FREE LOAN LIMIT

POLICY CHANGE

The fintechs' presence may be on the rise but banks are still the primary source of MSME funding. But banks need to improve their credit assessment measures and take a focussed approach to building expertise. "Banks lend across sectors, although they lack domain knowledge of the sectors, products and geographies essential for evaluation and risk analysis of MSME projects. This needs to be worked upon," says Anil Bhardwaj, Secretary General of the Federation of Indian Micro Small & Medium Enterprises (FISME).

Another area that needs work is the rules, rather the lack thereof, under the Insolvency and Bankruptcy Code (IBC) for proprietorships and partnership firms. MSMEs fare better than defaulting promoters of large companies as they can bid for their companies or assets under the IBC. But they have not been able to take full advantage of the IBC as many rules have not been finalised. "Finalisation of these rules can boost lender confidence because lenders will have more certainty and predictability regarding recovery of defaulted loans," states the June 2019 report by the RBI committee headed by former Sebi Chairman U.K. Sinha.

The committee also recommended changing the definition of MSME – from one based on initial investment in plant and machinery as per the MSMED Act, 2006, to turnover-based classification.

Non-fund based credit guarantee is another area that needs attention. When MSMEs receive a contract, they have to provide a bank guarantee to clients. For this, they have to provide collateral worth 110-115 per cent of the loan value to banks. For firms already grappling with working capital challenges, this is an additional burden. "Globally, insurance companies take care of this requirement. The government should look into replacing the collateral-backed bank guarantee with insurance premium," suggests Bhardwaj of FISME.

Budget 2019 talked of creating a payment platform for MSMEs regarding delayed payments from the government. The platform would enable bill filing and payments to eliminate delays. But this is yet to be implemented. BT

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MUDRA LOANS

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THE GOVERNMENT-PROMOTED MICRO LOAN SCHEME 'MUDRA' IS A GREAT HELP TO FIRST-TIME BORROWERS AND EXISTING ENTREPRENEURS, BUT THE RISK OF ASSET QUALITY DETERIORATION IS RISING.

BY ANAND ADHIKARI
ILLUSTRATION BY AJAY THAKURI

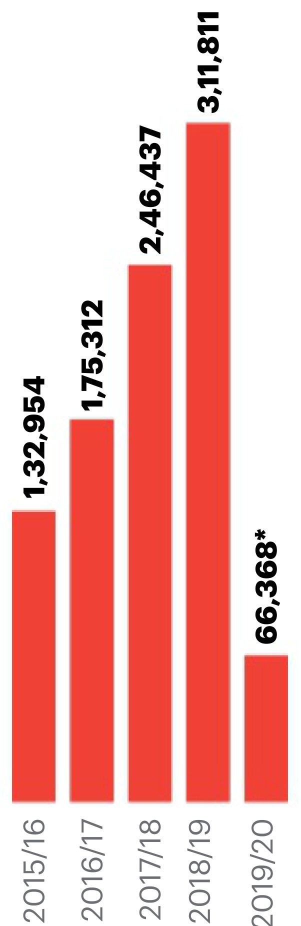
Chhattisgarh-based Sri Sibarami, who runs a tea stall, took a ₹50,000 loan under the Mudra scheme from Allahabad Bank five years ago. Sibarami used the money to upgrade his stall and start selling some snacks. The bank says Sibarami is a success story under the scheme, though he hasn't created any additional jobs. Similarly, Mumbai-based Kiran Rathod, working in an electric fitting shop, approached Union Bank of India for a three-wheeler loan. He is now driving autorickshaw as well as working at the shop. The bank says Rathod is an example of the success of the Mudra scheme.

Almost half the Mudra loans have gone to

first-time borrowers such as Sibarami and Rathod where the risk is high. Such loans, of less than ₹50,000, are classified under the Shishu category. Public sector banks, or PSBs, admit they got carried away by the initial frenzy because of push from the government. "We are more cautious now," admits a public sector banker.

Loans under the other two categories — Kishore (₹50,000 to ₹5 lakh) and Tarun (₹5 lakh to ₹10 lakh) — have gone mostly to existing small businesses. There are no documented stories to prove that Mudra loans have created huge wealth, disrupted businesses, created employment in hundreds or scaled up businesses multiple times. On the flip side, the danger is that the ₹8 lakh crore outstanding Mudra loan amount in books of banks, NBFCs and MFIs is set to grow bigger and bigger, adding massively to the risk in the banking system. Former RBI Governor Raghuram Rajan is on record saying the next crisis in India's banking sector could come from loans to the unorganised micro and small businesses (Mudra) and credit extended through Kisan Credit Cards.

Some bankers suggest there is only a change in the classification of micro loans. Banks are cleverly putting loans they were anyways giving under priority sector advances in the Mudra basket. RBI sectoral data also proves that the Mudra loans are mostly being given under the priority sector lending category. Banks have to disburse 40 per cent net credit in priority areas, which include agriculture & agriculture related advances and micro loans. As per the RBI data, the outstanding loan amount under micro and small segments in the general advances category has remained at ₹3.75-3.80 lakh crore in the last five years whereas small and micro loans under priority sector advances have jumped from ₹8 lakh crore to ₹10 lakh crore. "The focus is more on micro or non-farm loans within priority for Mudra loans," admits Shailendra G. Nadkarni, Executive Director at IDBI Bank.



RISE OF MUDRA LOANS

*2019/20 figures till Aug 1, 2019; In ₹Crore; Source: Mudra /Government

The Way Forward

Buoyed by the success of Mudra, an RBI-appointed panel has proposed to double the collateral-free loan limit from ₹10 lakh to ₹20 lakh. The bankers, especially PSBs, say this will mean that the entire burden falls on them.

There is already the problem of inadequate refinancing support from the government. Also, geographical targets are restricting options for bankers. The head of an SME exchange recently told *BT* that banks are ignoring SMEs and focusing more on micro loans where it is difficult to generate jobs. "Nobody wants to sign big cheques for SMEs. There is not much recovery in the overall investment demand," says a banker.

The biggest risk in a large micro loan portfolio is default. The NPAs have already started coming in with maximum hit under the Shishu category of first-time borrowers. Out of the total Mudra loan outstanding of over ₹8 lakh crore, the NPAs are close to 2 per cent or ₹16,000-17,000 crore. Imagine the risk to banks if the government doubles the limit to ₹20 lakh. The reasons cited by banks for the high NPAs are poor entrepreneurship skills, higher dependence on family, banks' poor credit appraisal systems and frauds and willful defaults.

Expert say the real extent of the NPAs will be known once they complete the first five-year cycle. Mudra loans' tenure is three-five years with interest rates of 10 per cent-plus. Rajnish Kumar, Chairman, State Bank of India, recently told *BT* that the level of delinquencies is not very high. "But what we have to do is to improve the model," he said.

But should full-scale banks be funding Mudra loans where they don't have much expertise or technology to reduce operational costs? After all, there are specialised banks such as Bandhan Bank, Small Finance Banks and MFIs that have a successful model of lending to micro entrepreneurs. The government and the regulators should encourage these new models. The nodal agency, Mudra, should use technology to study the reasons for the NPAs and sectors or businesses to avoid. The RBI committee on micro loans has also talked about skills such as underwriting and risk management for micro loans.

Clearly, there are many loose ends that need to be tied up before any expansion of Mudra loans. BT

@anandadhikari

SMALL STEPS TO A BIG GAIN

THE GOVERNMENT AND OTHER LENDERS, INCLUDING FINTECH FIRMS, NEED TO BE MORE AGGRESSIVE IN MSME LENDING.

BY APRAJITA SHARMA

Auto parts maker Emdet Group, founded in 1959 by late Dev Mitter, had a 28-year-long relationship with Oriental Bank of Commerce. But his grandson, and Executive Director of the company, Nishchay Mitter, switched to a private bank. "Despite a consistent track record of timely payments and maintaining healthy balance sheet, OBC kept charging 12 per cent interest rate even on incremental loans, not to mention the long turnaround time and 110 per cent collateral on the credit amount. So, I went to Axis Bank, which offered me 8.9 per cent interest rate," he says. However, for working capital needs, Mitter reached out to LivFin, a supply chain and invoice financier. "Interest rates are no doubt higher, but they disburse the loan in 72 hours." Mitter never considered government loan initiatives given his experience with OBC.

Dimple Sachdev, owner of leather products company Drishti Lifestyle, explores all schemes that the government launches. She, in fact, attended the launch of the 59-minute loan in November 2018. The portal is an online marketplace where micro, small and medium enterprises (MSMEs) can get in-principle approval for loans up to ₹5 crore (Budget 2019 extended this from ₹1 crore) in less than 60 minutes. Sachdev has a current account with Central Bank of India (CBI), but when she applied for a loan from the portal, her request got rejected because she already had a running loan with CBI. "I don't know anybody in my industry or otherwise who has taken advantage of the 59-minute loan portal," she says.

Many applications that got in-principle approvals online were rejected by banks as the lenders wanted collateral even though the scheme is linked with the Credit Guarantee Fund Trust Scheme for Micro & Small Enterprises (CGTMSE) under which MSMEs are eligible for collateral-free loans up to ₹1 crore.

The government is aware of this. Pankaj Jain, Additional Secretary, Department of Financial Services, Ministry of Finance, says, "MSMEs must maintain relationship with only one bank. You can't have your business account in one and seek loan from another." On collateral demand, he says, "RBI guidelines mandate that banks shall not insist on collateral for loans below ₹10 lakh. Taking collateral for loans beyond ₹10 lakh is the bank's commercial call."

As switching banks is tedious, and often existing banks do not issue no-objection certificates, businesses are not able to raise funds at competitive rates. Although the government has offered interest subvention of 2 per cent for GST-registered MSMEs, among the about 63 million MSMEs in India, only eight million have registered them-

FUNDING GAP

NO. OF MSMEs
63
MILLION

MSMEs UNDER FORMAL CREDIT
<12.6
MILLION

TOTAL MSME CREDIT
₹25
LAKH CRORE

CREDIT GAP IN MSME SECTOR
₹20-25
LAKH CRORE

I DON'T KNOW ANYBODY IN MY INDUSTRY OR OTHERWISE WHO HAS TAKEN ADVANTAGE OF THE 59-MINUTE LOAN PORTAL

DIMPLE SACHDEV

Owner, Drishti Lifestyle

PHOTOGRAPHS BY SHEKHAR GHOSH

selves for GST.

MSMEs in India have two options for borrowing: either go to a bank or the government or to a fintech firm. So, while Jain may say that the 59-minute loan portal is giving tough competition to fintech players by reducing the turnaround from 30 days to six-seven days, lack of proper documentation is pushing MSMEs towards fintech firms, which anyway are a better alternative to options such as moneylenders and chit funds.

SHIFT TO FINTECH

"When I started out, I used my own savings, and borrowed from friends and family. Now I have taken a loan from InCred (a fintech firm) for my working capital needs. I never considered government schemes as I thought the process would be difficult," says Mohit Sagar, Director, Zentrum Technologies, a security service provider founded in 2009. Bhupendra Kumar, Founder, Aeiforia Construction, an office and residence management company, was "shown the door" by banks when he wanted to start his business in 2011. He had to tap his own funding sources to start off. Recently, he visited the Singapore fintech festival and has made up his mind to approach the fintech players.

Sachdev of Drishti Lifestyles and Kumar of Aeiforia have also joined platforms such as GlobalLinker that facilitate funding for small businesses and provide a network

to grow their businesses, win contracts and digitise operations.

CREDIT CHECK

One of the tools that fintech players have used to their advantage is newer ways of credit assessment such as data analytics, which helps them disburse collateral-free loans. Most of them track non-traditional data points such as customer reviews, product margins, trade payments, utility payments, social media presence, geographical location and vendor relationships. Some cater to unbanked businesses, creating credit history in the process.

Gurgaon-based Indifi, for example, focusses on select sectors such as travel agencies, retailers, kirana stores, restaurants, small hotels and truck operators, so that nuanced credit check measures can be used. "Each industry has its own risks. If we specialise in a few industries, we can measure those risks better," says Alok Mittal, Co-founder and CEO of Indifi.

Aye Finance has adopted a cluster-based approach for underwriting. Most of its clients have turnover of ₹10-20 lakh and are exempt from paying corporate tax and GST filings. "In a cluster of, say, shoe sellers, we check records of sales and how much they pay to their workers. Since we are aware of the average sales and margins in the shoe business, we can calculate the net margins. This is how we validate business through visible financial and operational metrics," says Sanjay Sharma, Co-founder of Aye Finance.

Most fintech firms disburse loans faster than banks as they have newer credit assessment methods. But they have failed to garner volumes. Industry estimates suggest that the fintech players' total loan outstanding to the MSME segment is just ₹39,000 crore as against ₹18.64 lakh crore in case of banks and ₹6.5 lakh crore in case of non-banking finance companies (NBFCs).

JOINING HANDS

Banks and fintech firms may be competitors but there is enough scope for joint effort too when it comes to tapping MSMEs. Himanish Chaudhuri, Partner, Deloitte India, says banks and fintech players should not compete with each other but work together; and one way to do that is through 'co-origination' of loans: two or more lenders lending to the same borrower. Jain of the Department of Financial Services also sees merit in co-origination of loans with banks.

The RBI had announced the guidelines for the co-origination model in September 2018, but it is yet to take off in a big way. Private sector banks have started warming up to it, but not public sector banks. Harjeet Toor, Head-Retail, Inclusion and Rural Business, RBL Bank, says they co-lend with fintech NBFCs in a ratio of 80:20 or 70:30 and bear full risk in non-NBFC fintech tie-ups. "Our co-lending model is yet to reach scale, though."

Rachit Chawla, the CEO of Delhi-based fintech firm Finway, says the co-origination model can help them scale up. "We lend about ₹2.5 crore each month. If we co-lend in the ratio of 20:80, our loan book can increase four-five times," he adds.

POLICY CHANGE

The fintechs' presence may be on the rise but banks are still the primary source of MSME funding. But banks need to improve their credit assessment measures and take a focussed approach to building expertise. "Banks lend across sectors, although they lack domain knowledge of the sectors, products and geographies essential for evaluation and risk analysis of MSME projects. This needs to be worked upon," says Anil Bhardwaj, Secretary General of the Federation of Indian Micro Small & Medium Enterprises (FISME).

Another area that needs work is the rules, rather the lack thereof, under the Insolvency and Bankruptcy Code (IBC) for proprietorships and partnership firms. MSMEs fare better than defaulting promoters of large companies as they can bid for their companies or assets under the IBC. But they have not been able to take full advantage of the IBC as many rules have not been finalised. "Finalisation of these rules can boost lender confidence because lenders will have more certainty and predictability regarding recovery of defaulted loans," states the June 2019 report

BANKS VS FINTECHS

WHILE BOTH BANKS AND FINTECH FIRMS LEND TO MSMEs, THE SECTORS THEY FOCUS ON ARE DIFFERENT

Parameters	Banks	Fintechs
Loan size outstanding	**₹18.68 lakh crore** (₹10.08 lakh crore-public sector banks; ₹8.6 lakh crore-private sector banks)	**₹39,000 crore** (overall NBFC exposure is ₹6.5 lakh crore)
Loan ticket size	**₹5 lakh–10 crore**	**₹1 lakh–1 crore**
Interest rate	**9-15**%	**12-24**%
Loan focus	Term loan, overdrafts, non-fund based credit guarantees	Working capital and need-based loans
Sector focus	Priority sector; largely in manufacturing	Services sector-retail, travel agencies, clusters
NPAs	**16**% for PSBs; **5**% for private sector banks	**8.80**%

Source: Industry

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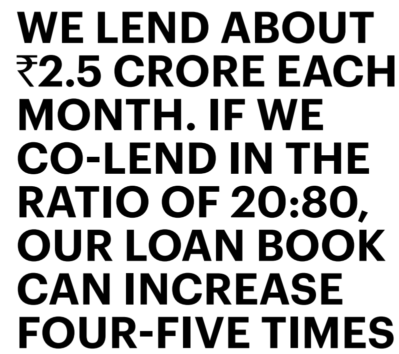

WE LEND ABOUT ₹2.5 CRORE EACH MONTH. IF WE CO-LEND IN THE RATIO OF 20:80, OUR LOAN BOOK CAN INCREASE FOUR-FIVE TIMES

RACHIT CHAWLA

CEO, Finway

by the RBI committee headed by former Sebi Chairman U.K. Sinha.

The committee also recommended changing the definition of MSME – from one based on initial investment in plant and machinery as per the MSMED Act, 2006, to turnover-based classification.

Non-fund based credit guarantee is another area that needs attention. When MSMEs receive a contract, they have to provide bank guarantee to clients. For this, they have to provide collateral worth 110-115 per cent of the loan value to banks. For firms already grappling with working capital challenges, this is an additional burden. "Globally, insurance companies take care of this requirement. The government should look into replacing the collateral-backed bank guarantee with insurance premium," suggests Bhardwaj of FISME.

The Union Budget 2019 talked about creating a payment platform for MSMEs to solve the problem of delayed government payments. The platform would enable online bill filing and payments to eliminate delays. But this is yet to be implemented.

LIQUIDITY CRUNCH

Fintech lenders have their own share of problems. The biggest is lack of funding that prevents them from scaling up. Most have only been raising global capital due to liquidity crunch in India after banks tightened their credit standards in the wake of a series of defaults by some NBFCs. "We don't need capital for operational expenditure but to grow our loan books. If the government supports us with funding, it'll be a win-win. We'll get funds and government money will be safe because our credit check measures are strong. Ultimately, credit-deprived MSMEs will get the benefit," says Chawla of Finway.

Earlier this month, Indifi raised ₹145 crore in a Series C funding round led by UK government-owned development finance institution CDC Group. After raising $5 million from Zurich-based responsAbility Investments AG earlier this year, Aye Finance raised another $10 million from it in August.

Taking into cognizance the ongoing liquidity crisis, in its August monetary policy, the central bank permitted banks to on-lend through NBFCs for micro and small enterprises up to ₹20 lakh. The move will ease money flow to the segment.

Bhardwaj suggests establishing an IDBI 2.0 (in its co-operative bank avatar) and state finance institutions to fund greenfield projects. "The Ministry of Finance and the RBI should start consultations with stakeholders, including multi-lateral agencies, to re-invent institutions like cluster-based co-operative banks and state finance corporations."

The MSME segment is facing a credit gap of ₹20-25 lakh crore. The liquidity crunch after the NBFC crisis and a slowdown in the economy have made things tougher. So, while fintech players can see the opportunity in MSME lending, they can participate only in a limited way. Therefore, it is the government and the banks that will have to take calculated risks, bridge the trust deficit with MSMEs and bring in fintechs to support the country's small businesses. **BT**

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STUDDS ACCESSORIES

SELLING SAFETY

FARIDABAD-BASED STUDDS IS LEVERAGING ITS GLOBALLY KNOWN BRAND AND MAKING STRIDES IN THE PREMIUM SEGMENT.

By APRAJITA SHARMA

Small steps taken in a home garage laid the foundation for what is today India's biggest manufacturer of helmets. Studds Accessories owns two helmet plants with a capacity of 6.1 million helmets and 4.9 lakh units of two-wheeler luggage a year. It is looking to add two more plants to meet the expected rise in demand. The Faridabad-based company, with a turnover of ₹333 crore, is even planning to go for an initial public offer.

Studds has come a long way from the time brothers Madhu Bhushan Khurana and Ravi Bhushan Khurana sold their first helmet in 1972 under the brand name Rajdoot. In 1970, Madhu Khurana had gone to Lucknow to represent Escorts Motorcycles in a rally. A Rajdoot dealer there pitched the idea for the helmet business saying he can easily sell 50 helmets a month. "We already had a manufacturing unit, Gadgets India, for engineering items. We discussed the idea with Escorts, which helped us with technology, and we started manufacturing helmets under the brand name Rajdoot for Escorts," says Madhu Khurana. After Escorts shut operations due to a labour strike around 1973/74, they started selling helmets independently. The brand Studds got registered in 1975. Studds Accessories was incorporated in 1983.

The brothers parted ways in 1990, when the next generation joined the business. "I picked the brand and he picked the manufacturing facility," says Madhu Khurana. "It was a restart of my career. I as chairman along with my son Sidhartha Bhushan Khurana as managing director started with a small manufacturing unit with a capacity of 40-50 helmets a day, and the brand stood strong. We grew slowly but consistently."

The company consolidated its smaller units in Faridabad in 2009. By 2012, another plant was built. The company launched a premium brand, SMK, in 2016. It is the only manufacturer of premium two-wheeler helmets in India. It also makes two-wheeler lifestyle accessories such as luggage, gloves, helmet security guards, rain suits and eye wear.

SAILING THROUGH THE TIDE

Although the management seems apprehensive about fetching a good valuation in the IPO, it says the ongoing slowdown in the auto sector has not affected its business. "At the moment, we are not feeling any impact, as replacement cycle has become shorter and the market has grown substantially. Plus, the demand for helmets has increased due to strict enforcement of road safety laws in some states and rise in awareness about safety. There is demand for pillion riders as well," says Sidhartha Khurana. He says the slowdown may hit sales via original equipment manufacturers (OEMs). But OEMs contribute only 11 per cent to the company's revenues. Studds' OEM partners include Hero Motorcycles, Honda, Suzuki Motorcycle India, Royal Enfield, TVS Motor Company and UM Motorcycles.

The demonetisation of high-value currency notes in 2016, however, was a big jolt to Studds. The growth in income fell from 42.48 per cent (to ₹257 crore) in 2015/16 to just 6.35 per cent (₹274 crore) in 2016/17. "We had to shut our factories for two-three months," says Sidhartha. It recorded sales growth of 21.44 per cent in 2017/18. EBITDA margin grew to 16.84 per cent from 13.58 per cent in 2016/17. The company's net profit rose to ₹32.88 crore in 2017/18 from ₹23.62 crore in the previous year. The company's debt-to-equity ratio is 0.23. A value below one is considered safe.

The management believes in Kaizen, a Japanese business philosophy of continuous improvement. Posters depicting this, along with other motivational quotes, are placed across its factories. All manufacturing units are squeaky clean and well organised. Most of the manufacturing process is automated.

Recently, the company enhanced safety measures to comply with the Bureau of Indian Standards' new regulations. It claims to be the only company in India whose laboratory is certified by the European Safety Agency. "Compliance is the culture of the company. It's a way of life," says Sidhartha. The company has also complied with integrated reporting standards that SEBI had mandated in 2017 for top 500 listed companies.

INTELLIGENT HELMETS

As per a Frost & Sullivan 2018 report, the helmet

18+

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STUDDS ACCESSORIES

TOTAL INCOME
333 Cr

PAT
32.9 Cr

TOTAL INCOME GROWTH
23.4%

PAT GROWTH
57.1%

NETWORTH GROWTH
44.1%

NET PROFIT MARGIN
8.6%

ROCE
56.3%

All numbers are three-year averages with 2017/18 as the latest financial year; Standalone numbers
Source: Ace Equity

MADHU KHURANA (RIGHT)
SIDHARTHA KHURANA

Studds Accessories

PHOTOGRAPH BY BANDEEP SINGH

market in India is estimated at ₹1,395 crore. The domestic demand for two-wheeler helmets stood at nearly 20 million units in FY18. In terms of volumes, Studds has the largest share (25.66 per cent), followed by Vega (11.05 per cent) and Steelbird (10.87 per cent). The unorganised segment accounted for 30 per cent two-wheeler helmets sold in 2017/18. This is likely to fall as manufacturing, sale and use of non-ISI helmets will become a criminal offence from October. Studds holds a 27.79 per cent market share in the premium segment, followed by global players such as LS2 (20.16 per cent), MT (15.41 per cent) and THH (11.26 per cent).

"The market is moving towards intelligent helmets," says Sidhartha. In the premium segment, it already has a bluetooth-enabled 'intelligent helmet'. There are plans to launch more such helmets with camera, video recorder connected to cloud, LED lights, intercom and a small screen to launch Google Maps.

The company is looking at opening exclusive outlets in various cities. It aims to double its manufacturing capacity to 136 lakh helmets and motorcycle accessories (121 lakh motorcycle helmets and accessories and 15 lakh bicycle helmets) in the coming years.

The highlight of his 50-year journey, says Madhu Khurana, was keeping the brand name and letting go the manufacturing unit during the split with his brother that paid off well. "It was a brave decision at that time as concept of brand value was not popular, but it made all the difference." BT

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BEST SME/ SERVICES

₹251-500 CRORE

SASKEN TECHNOLOGIES

GOING BEYOND PRODUCT ENGINEERING

SASKEN IS TAKING A STEP FORWARD BY VENTURING INTO NEW-AGE TECHNOLOGIES LIKE BLOCKCHAIN AND MACHINE LEARNING.

BY RUKMINI RAO

RAJIV C. MODY

Co-founder, CMD and CEO, Sasken Technologies

PHOTOGRAPH BY SUDHIR DAMERLA

In January 2009, Canadian equipment manufacturer Nortel filed for bankruptcy protection in both Canada and the US. At the time, Nortel held a little less than 10 per cent stake in the Indian product engineering company Sasken Technologies, and was also one of its top five customers, contributing about 10 per cent of the revenue.

This was just the first of the many blows that Sasken had to weather in the coming years. The next one came when chipmaker Texas Instruments strategically shifted its business focus and moved away from the smartphone and tablet business as its open multimedia application platform had lost ground to rivals such as Qualcomm and Nvidia. The third blow came when handset maker Nokia's (once Sasken's top customer) business started going down. Starting 2009, within a short span of time, Sasken lost three of its biggest accounts. That is when the company decided to try its hand at traditional IT services.

For this, Sasken got on board Anjan Lahiri as CEO in August 2013. A co-founder of Mindtree, Lahiri is also known as a 'transformation specialist'. In a company statement, Rajiv C. Mody, Chairman and Managing Director, had said: "Sasken's leadership in communication and embedded systems, combined with Anjan's experience in IT services across several verticals, is synergistic." But Lahiri's stay was short lived and he left after just over a year. The exit was attributed

to alleged differences with Mody over the direction that Sasken would take. By then, the leadership at the Bengaluru-based company felt that IT services was an over-crowded space where competition was stiff. It decided to shift the focus back to its core capabilities in wireless technology. "We did a whole exercise with McKinsey and that's when we went back to our core strengths (wireless and embedded solutions) and added a new dimension on digital offerings. That was the direction we took in 2014/15," says Mody, who is also the CEO.

BACK TO THE FUTURE

Today, the company calls itself a specialist in product engineering and digital transformation, providing R&D services in semiconductor, automotive, industrial, smart device and wearable, SatCom and transportation industries. Its new capabilities such as Cloud, analytics, business intelligence, predictive analysis, machine learning and blockchain form the core of digital offerings. To explain what the company is doing, Mody gives the example of working with a cold chain company. Sasken has integrated blockchain in the processes of the temperature controlled supply chain, which has a farm-to-fork strategy. The food item tracked is at every point to ensure that high quality is maintained.

It's a 30-year-old 'young company', says Mody, one of Sasken Technology's co-founders. In 1989, Sasken was set up by Mody, Krishna Jhaveri, Suresh Dholakia, Badruddin Agarwala and Muneyoshi Samejima (the other co-founders are no longer with the company) like many Silicon Valley start-ups in a garage in Fremont, California. The operations were moved to Bengaluru in 1991.

Mody recalls the early days of the company when India was still largely unknown in the IT sector. "We started out as a design tool company. Back then, India was not known for the capabilities that we have now. We decided to focus more on engineering services," he says. The company's essential DNA continues to be its focus on hi-tech work such as product engineering and digital transformation. As the Indian IT sector gained momentum in the 1990s, Sasken decided to focus on wireless communications as a key area. "Choosing to specialise in wireless communication allowed us to create significant depths, which is currently a differentiator and today more relevant than ever as more and more devices are getting connected," says Mody.

The company estimates that even today, globally, eight to 10 billion mobile devices carry Sasken intellectual property. The company also built multimedia capability around multimedia messaging (MMS) and video capabilities for equipment manufacturers.

At present, almost half of Sasken's revenue comes from the top five clients and almost 66 per cent from the top 10 clients. That many of the company's decisions over the years have been right is reflected in its financials. Its annual consolidated revenue for 2018/19 was ₹504 crore, while profit after tax (PAT) was ₹90 crore.

According to Mody, the hi-tech equipment sector does not usually see $100 million-plus deals. "While hunting for new clients is not very difficult, client mining is currently a big focus," he explains. In October 2018, the company joined the Enterprise Ethereum Alliance (EEA), the world's largest open source blockchain initiative, which has the Ethereum cryptocurrency. It hopes to leverage the EEA network of over 500 companies to develop Ethereum-based enterprise grade solutions for transportation, industry and manufacturing segments.

The challenges include scaling up existing capabilities, bigger corporations starting India R&D centres and customer exits such as the recent announcement of Intel exiting the 5G smartphone modem business, says Modi. But he is not fazed. "We are mentally tough in terms of not letting such events affect us and coming out even stronger." BT

@rukminirao

SASKEN TECHNOLOGIES

TOTAL INCOME
470 Cr

PAT
83 Cr

TOTAL INCOME GROWTH
8.4%

PAT GROWTH
-8.2%

NETWORTH GROWTH
11.4%

NET PROFIT MARGIN
30.5%

ROCE
31.3%

All numbers are three-year averages with 2017/18 as the latest financial year; Standalone numbers
Source: Ace Equity

LANCER CONTAINER LINES

GROWING VOLUMES

THE CARGO CONSOLIDATOR HAS BEEN GROWING AT A FAST CLIP ON THE BACK OF ITS INNOVATIVE BUSINESS MODEL.

BY P.B. JAYAKUMAR

Abdul Khalik Chataiwala, Chairman and Managing Director of Lancer Container Lines, decided to start a container logistics business in 2011, after more than a decade in international trade. "I had very close connections in logistics business and hands on experience. These were key deciding factors while making the shift," says Chataiwala, who has a diploma in Export-Import Management from India International Trade Centre and an MBA in Shipping from the Adam Smith University, Saipan, USA.

Lancer Container owns and provides containers to companies for international movement of cargo and offers allied services such as shipping and freight forwarding, providing yards for storage of empty containers, inland transport service, etc. Its core operation, however, is of what is called a non-vessel operating common carrier (NVOCC), a cargo consolidator that does not own a vessel but acts as a legal carrier by accepting responsibilities of a carrier that issues its own bills of landing or airway bills.

Within eight years, the company established 12 offices across India, other than its headquarters at Belapur in Navi Mumbai. At present, Lancer has more than 8,500 containers. The large number gives the company an edge in negotiations. Moreover, there are less than 20 NVOCCs in the country with more than 5,000 own containers, says Chataiwala.

The company has a container yard at Panvel, spread over 20,000 square metres. Its average capacity utilisation is over 60 per cent and it manages over 62,000 container movements a year. Its growth in business is reflected in rise in the number of containers. At the end of 2016/17, it had 5,490 containers, which increased to 7,022 next year and 8,289 by the end of 2018/19.

The increase in business has reflected in the company's financials as well. In 2015/16, its revenue was ₹43 crore and net profit was ₹55 lakh. The revenue increased by over 80 per cent in just one year — to almost ₹78 crore — and profit after tax (PAT) more than doubled to ₹1.68 crore. The streak continued in 2017/18 (₹110 crore revenue and PAT of ₹6.84 crore). By 2018/19, the revenue had increased to ₹197 crore and PAT to ₹8.22 crore. In the last four years, the company's revenue has increased at a smart clip of 66 per cent compounded annual growth rate (CAGR). The same figure for PAT has been an impressive 146 per cent.

In 2018, the company bought a 15,000-square feet space in Belapur, Navi Mumbai, as its corporate office. It is close to the Nhava Sheva port (Jawaharlal Nehru Port; the largest port in India), and houses over 100 employees.

BEST FOOT FORWARD

Can the company keep up this pace? Container volume in India is expected to double by 2020, thanks to new ports, dedicated freight corridors and increase in containerisation – from the current 55 per cent to 65 per cent, say industry analysts. "We plan to almost double the container numbers to 15,000 over two years, targeting growth of over 25 per cent CAGR over the next two years," says Chataiwala.

Lancer has a large customer base, mainly B2B companies, through an extended network with international logistics agencies and agreements for NVOCC container handling operations in Gulf, Upper Gulf, Far East and Indian subcontinents.

"Our success can be attributed to prompt delivery and service, pricing, availability of containers and networking," says Harish Parameswaran, Director of Finance at the company. The company is also diversifying into newer areas of related businesses. For example, it has recently started offering refrigerated containers and has bought over 100 of these. It has also introduced innovations like flexi-bag cargo carriers, which are cheaper for the customer to carry liquid cargo. Some of the other new areas of business it has entered into are loose container load services and air freight services. BT

@pb_pbjayan

PHOTOGRAPH BY RACHIT GOSWAMI

LANCER CONTAINER

TOTAL INCOME
110.7Cr

PAT
6.8Cr

TOTAL INCOME GROWTH
55.1%

PAT GROWTH
177.5%

NETWORTH GROWTH
66.4%

NET PROFIT MARGIN
3.2%

ROCE
18.2%

All numbers are three-year averages with 2017/18 as the latest financial year; Standalone numbers Source: Ace Equity

ABDUL KHALIK CHATAIWALA

Chairman and Managing Director, Lancer Container Lines

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SHANTI OVERSEAS

ALL ABOUT TIMING

SHANTI OVERSEAS IS EXPECTED TO GAIN FROM THE US-CHINA TRADE WAR AS DEMAND FOR ORGANIC SOYABEAN MEAL RISES SHARPLY.

BY JOE C. MATHEW

Mukesh Kacholia was trading in chickpeas in 2004. But a government policy changed the fortunes of his company Shanti Overseas (India) in 2014, when Kacholia decided to switch to processed organic soyabean product exports.

"It was all about timing. We had shifted from chickpeas to organic soyabean trading and exports in 2013 as margins in chickpeas were becoming very thin. A year later, the foreign trade policy announced a 5 per cent incentive for value-added soyabean exports," says Kacholia, Chairman and Managing Director of the company. "We planned the project in 2015 and in 2016 started a processing plant in a leased facility. We imported all equipment from the US for manufacturing organic soyabean meal, our main product. Today, 75-80 per cent of our turnover comes from that," says Ayush Kacholia, a director in the company.

The company, which is listed on the NSE's Emerge platform, is also a leading exporter of lecithin and soya crude oil with a turnover of ₹173.47 crore (2018/19). It aims to be a ₹1,000 crore company by 2025. Kacholia's sons, Ayush and Rohan, are directors in the company, while Ayush Kacholia's wife, Karuna, a chartered accountant, is the chief financial officer.

According to the Agricultural and Processed Food Products Export Development Authority (Apeda) data, organic soyabean exports from India in 2015 were 2,00,000 metric tonnes, as against organic soyabean meal export of just 20,000 tonnes. Four years later, things have reversed. Apeda expects organic soyabean exports from India to be just 40,000 tonnes as opposed to 2,50,000 metric tonnes organic soya meal exports by the end of October 2019.

Being in Indore provides a locational advantage to the company as 70 per cent of India's organic soyabean is produced within a 150-km radius of the city. Also, India is among the few countries where genetically modified soyabean is not cultivated; it remains a natural habitat for cultivating organic crops.

Ayush Kalochia says increased exports from India have seen the organic soyabean business expand by 25-30 per cent year-on-year. "It will continue to grow because consumer preference is also shifting in the same proportion. In 2015/16, about 1.5 per cent of USA's population used to consume organic soyabean products. In 2019 it is expected to touch 2.25 per cent," he adds.

Anticipating higher demand, in 2017, the company set up a new soyameal manufacturing facility with a capacity to crush 200 tonnes a day, at Dhannad, Indore. Within a year, the new plant's soya oil refinery started operations. At present, Shanti Overseas exports soya lecithin to Europe and sells soya meal to big players of the US, South Korea, the Netherlands and France. Among their major clients are Bushman Organic Farms, Cargill and Cofco International.

SHANTI OVERSEAS (INDIA)

TOTAL INCOME

134.6 Cr

From Left: **AYUSH, MUKESH AND KARUNA KACHOLIA**

PHOTOGRAPH BY RACHIT GOSWAMI

PAT	TOTAL INCOME GROWTH	PAT GROWTH	NET PROFIT MARGIN	NETWORTH GROWTH	ROCE
4.9 Cr	23.6%	98.9%	3.0%	102.4%	22.0%

All numbers are three-year averages with 2017/18 as the latest financial year; Standalone numbers; Source: Ace Equity

The company's revenues reflect the growth: 22 per cent increase to ₹134 crore in 2017/18 from ₹110 crore in 2016/17. Net profit was ₹4.89 crore against ₹3.78 crore in the previous year. "In 2018/19, we added the organic soya lecithin (part of oil) section. There was no output, so PAT has come down. Otherwise, our PAT and EBITDA margin was good. The new plant is operational now, so we will see good growth this year," says Karuna Kacholia.

Shanti Overseas may get a boost from the ongoing US-China trade war. "China used to supply about 1 million metric tonnes of organic soya to the US. There has been a 15-20 per cent drop in this as the US has increased import duty by 25 per cent and China has taken away 10 per cent export incentive, resulting in a price difference of 35 per cent. So the market has shifted towards India and Ukraine," says Ayush Kacholia. The demand thus created in the US could well be Shanti Overseas' next big moment. **BT**

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BEST SME/ OVERALL WINNER & SERVICES

₹10-100 CRORE

INFOBEANS

BUILDING SCALE

THE INDORE-BASED TECH FIRM MAY BE SMALL BUT HAS MANY FORTUNE 500 COMPANIES AS CLIENTS. NEXT ON AGENDA: GOING GLOBAL

BY JOE C. MATHEW

Soon after the global dotcom bust in 2000, three childhood friends – Siddharth Sethi, Mitesh Bohra and Avinash Sethi, in their mid-twenties then – decided to set up a software company in their hometown, Indore, Madhya Pradesh. Unlike Bengaluru, Hyderabad or Pune, Indore was not an IT hub, and the three were then working in the US.

InfoBeans Systems (renamed InfoBeans Technologies in 2017) was incorporated with seed capital of $3,000 (about ₹1.2 lakh) from each co-founder in 2000. "After that we have never invested our own money or others' money, until we raised ₹37 crore through a public listing on the NSE two years ago. We have been ploughing back to build our company, one block at a time," says Avinash Sethi, CFO of InfoBeans.

It took 10 years for the company to stabilise. "All three of us were actually coding, as late as 2011. We were growing the business in a very organic manner," Avinash Sethi says. In 2002, InfoBeans got its first Fortune 100 client and in 2006, its employee base hit 100. It rose to 500 by 2015, and by 2017, it had offices in Dubai and Germany. Today, InfoBeans employs 650 people on its Indore campus, and another 200 in Pune.

In 2018/19, InfoBeans' turnover (consolidated) was ₹120.38 crore, a 24 per cent increase over 2017/18. It reported an EBITDA of ₹25.08 crore and net profit of ₹17.23 crore during the period. It added 17 new clients, two in the Standards Development Organisations (SDO) space, a niche area in the US; five in ServiceNow, a fast growing enterprise software; and 10 in enterprise services. Siddharth Sethi, CEO, is responsible for software delivery for all geographies and business development in Europe and West-Asia while Mitesh Bohra, President, looks after R&D and business development in the US. Avinash Sethi handles finance, inorganic growth opportunities and human resources.

InfoBeans also focuses on Enterprise Software Engineering services in implementation, product

INFOBEANS TECH

TOTAL INCOME
82.2Cr

PAT
16.9Cr

TOTAL INCOME GROWTH
35.3%

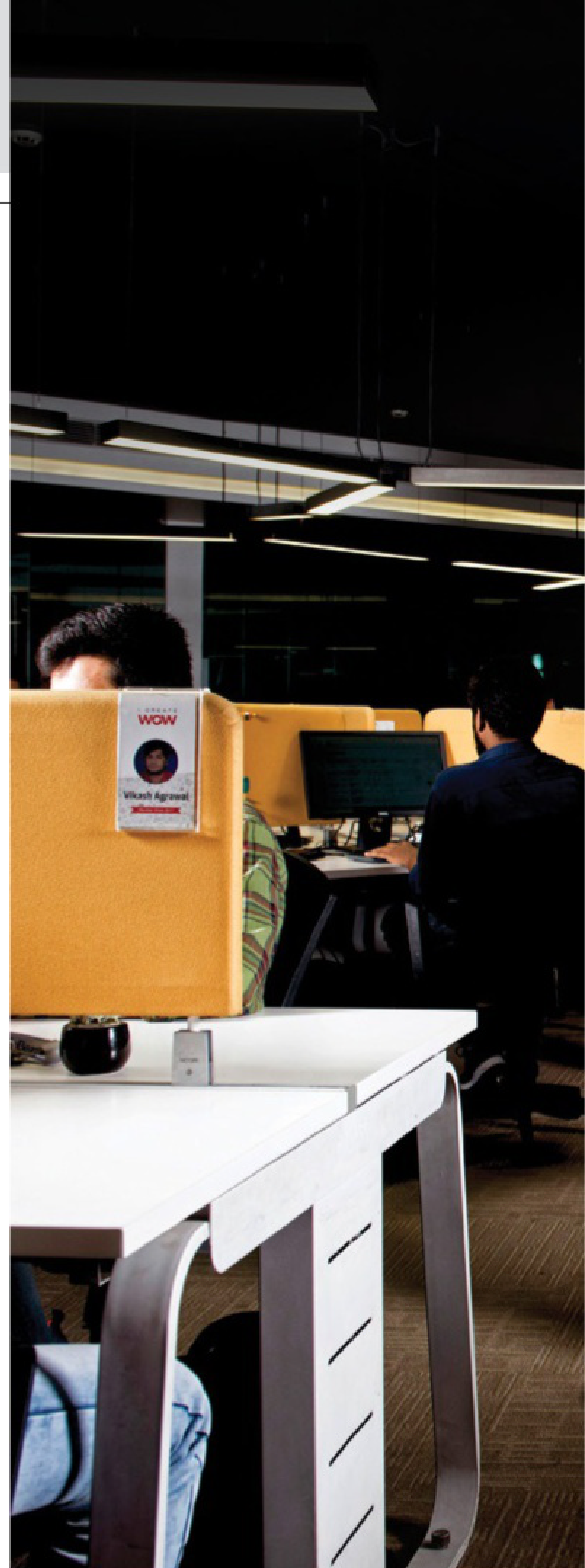
PAT GROWTH
58.5%

NETWORTH GROWTH
58.6%

NET PROFIT MARGIN
20.6%

ROCE
30.5%

All numbers are three-year averages with 2017/18 as the latest financial year; Standalone numbers
Source: Ace Equity



SIDDHARTH SETHI AND AVINASH SETHI (sitting)

Co-founders, InfoBeans

PHOTOGRAPH BY RACHIT GOSWAMI

development, digital transformation and automation. "We come across Infosys, TCS, HCL and others as competitors regularly. We have seven Fortune 500 companies as clients. We are an 850-person organisation, and Fortune 500 firms still work with us," says Siddharth Sethi. "Our strategy is to work with select customers where there is tremendous growth potential. We go for larger enterprise accounts. It takes some time to fructify, but once you get in there, it is a blue ocean."

According to Siddharth Sethi, the only disadvantage of being small is scale. "If a company comes and says I want to do a 1,000 person project, we can't do it. We can stretch ourselves only to a limit. Other than that we have no disadvantage," he says.

Avinash Sethi points out that the company has registered a compound annual growth rate (CAGR) of 29 per cent over the last four years. "We have grown from ₹43 crore to ₹120 crore (in 2018/19) in four years. Our net profit margin is better than peers, and much better than the industry average".

Almost 92 per cent of the company's 2018/19 revenues came from the US, 5.34 per cent from Germany and the rest from West Asian clients. IQVIA, a US-based compliance software developer for pharmaceutical industry; legal media and publishing firm ALM; HR outsourcing firm CoAdvantage; and Dubai-based UAE Exchange are among its major clients.

"Over 80 per cent of our business comes from the top 10 customers, all are our long-term clients with an average seven-eight years of growing business relationship. We got three Fortune 500 companies – one each from the US, Germany and Dubai – as new customers last year," says Mitesh Bohra.

GROWTH MODE

The promoters, who hold 75 per cent in the listed entity, say they raised funds from the market to push growth. "Our overarching goal is growth that can sustain. We want to double our sales every two years, for many years to come," says Avinash Sethi.

The company's plans include geographical expansion into Germany and West Asia; building more technology capabilities like automation; pump in more energy into existing markets; and expand wallet share with existing customers. InfoBeans also wants to close an acquisition. "It should give us more customers, new set of capabilities and open up new avenues. We are looking at a 40-50 person team, with expertise in user experience, automation, or in a new competency that we aspire to go in. Once we acquire such an entity, we can synergise our existing offshore servicing capabilities and try to grow from there. We are looking for the right kind of target," says Avinash Sethi.

M&A deals, however, are not in the scheme of things as of now. "We are not interested in exiting. We want to go on with business for the rest of our useful lives. We want to leave a legacy behind us," they say.

InfoBeans might have been a pioneering IT firm in Indore, but today the city hosts several IT majors, including Infosys and TCS. The promoters hope that these will prove to be a magnet for good talent, and turn Indore into a bigger IT hub soon. BT

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HOW WE DID IT

This is the eighth edition of the Business Today Best SME Survey. The corporate sector has been hard hit due to the current slowdown in the economy; thus we decided to tweak the methodology to dig out the real gems within this space.

The survey was carried out on both listed and unlisted companies with total revenues between ₹10 crore and ₹500 crore in 2017/18. For rest of the periods, total income greater than or equal to ₹1 crore was considered. In addition to this, companies whose latest, audited financial year results were not available, were elim inated. We used the Ace Equity database to pull out standalone numbers of companies for the study period 2015/16, 2016/17 and 2017/18.

Companies that did not make profits in any one of the three fiscals were not considered. Further, companies with negative net worth in any one of the three years were eliminated. Companies whose accounting periods were within the 9-15 months range were considered. To fish out the genuine SMEs, subsidiaries, PSUs and MNCs were eliminated from the list; and the already stressed banks and financial services companies were kept out of our evaluation process.

Altogether 2,807 companies fulfilled the above selection criterion.

NO. OF COMPANIES SELECTED
2,807

REVENUE GROUPS
3

We then measured these companies' three-year average growth in total income, profit and net worth, both in absolute terms and percentage terms, coupled with three-year average profit after tax (PAT) margin, and three-year average return on capital employed (ROCE). Each company was scored on the basis of these parameters. The companies were then scored on how far they outperformed or underperformed the median scores for their segments – agriculture & allied, manufacturing, services and trading. Finally, all the scores were added to get a final score. The scores were combined with equal weightages.

The companies were then divided into three revenue groups – ₹10-100 crore; ₹101-250 crore and ₹251-500 crore – and further into four segments. The four segments are: overall, agriculture and allied, manufacturing and services.

To select a winner in each category, the nominees were evaluated on a set of parameters: positive net cash flow for at least last two years, positive profit before interest and tax (PBIT) for the last four years and whether a significant part of their total income is derived from net sales. BT

HOMEGROWN SUCCESSFUL INDIAN BRANDS ARE TODAY WELL EQUIPPED TO COMPETE WITH THE GLOBAL MAJOR BRANDS IN EVERY SECTOR. BRANDS LIKE **EBCO AND GOLDMEDAL ELECTRICALS** ARE HOUSEHOLD NAMES NOW, KNOWN FOR THEIR DURABILITY AND TECHNICALLY SUPERIOR PRODUCTS OVER SOME OF THE BRANDS AVAILABLE IN THE MARKET. GIVEN THEIR TECHNICAL EXPERTISE AND HIGH QUALITY PRODUCTS THESE INDIAN BRANDS HAVE CARVED A NICHE FOR THEMSELVES AND CREATED A STRONG BRAND EQUITY FOR THEIR PRODUCTS IN THE CONSUMERS MIND.

POWER AT YOUR FINGERTIPS!
WITH COMPACT DESK-FITTING ELECTRIC BOXES!

ERGONOMIC HARDWARE FOR OFFICES

Already a market leader in the Office Furniture Fittings & Accessories category, we continue to offer great products to facilitate better working habits, enhance productivity and clutter free workspaces. The top priority in choosing the products under this category should be physical comfort and ease of use.

Worksmart by ebco, introduces smart and sleek range of Electric Boxes which are highly convenient and easy to use. These electric boxes are available in different models with a combination of sockets for power, USB charging, wireless charging and data, either individually or built-in. These could either be ceiling mounted below the desk, edge of the desk or on top of the desk / table. Ideal for furniture in offices, conference / meeting rooms, institutions and homes.

Electric Box Slide Out
(With Wireless Charger)

Electric Box
Ceiling Mount

Electric Box
Edge Mount

Electric Box
Flip Up

MR. BISHAN JAIN (LEFT) AND MR. KISHAN JAIN (RIGHT)

THE GOLD RUSH

THE JOURNEY OF **GOLDMEDAL ELECTRICALS** FROM A FAMILY BUSINESS TO AN EMERGENT CORPORATE POWERHOUSE IN THE FMEG INDUSTRY.

Founded in 1979 in the town of Vijayawada in South India, Goldmedal Electricals achieved a turnover of Rs 1,400 crore last year and is growing at a CAGR of more than 40 per cent year on year. How did a business with such an unassuming start become one of the most promising FMEG companies in the country? What were the reasons that propelled a company that measured their success on the variables of innovation, quality, and customer satisfaction, to such heights? The amazing success story of Goldmedal calls for a closer look at their journey so far.

In the 1980s, the legacy of the founder, Shri Otmalji Goraji, was taken forward by his sons, Shri Jugraj Jain, (Chairman of Goldmedal Electricals) and his brothers. In 1995, the company kick-started their journey into manufacturing by setting up a small unit in Mumbai that produced a range of electrical products. The early 2000s saw **Mr Kishan Jain and Mr Bishan Jain**, second generation leaders, take over the reins, under the guidance of the experienced Shri Praveen Jain, their uncle. Together, they brought a sea change that transformed the company. They took the necessary risks and invested heavily in technology and design to manufacture products that were considered path-breaking in the wiring devices industry.

Buoyed by the success of their products and sensing the huge growth potential, the brothers continued their foray in technology-based product extensions. An in-house R&D unit was set up to design and develop new product portfolios. The company leapfrogged over established competitors by creating a digital framework that helped them grow their distribution network at an exponential rate.

Currently, Goldmedal's product portfolio includes almost every electrical item used in a modern household. In the next phase of Goldmedal's journey, the brothers envision Goldmedal to not only become one of the premier brands in the segment but also as the most innovative. With Goldmedal's promising beginning and the massive growth trajectory it had in the last decade, it seems that greater things are yet to come.

THE SHORTLIST

We looked at all companies (listed & unlisted) with revenues between ₹10 crore and ₹500 crore in 2017/18 in the Ace Equity database that have been filing their results regularly. This was a universe of 2,807 companies. We then shortlisted the top companies in each revenue band which had grown total income, profit and net worth and had healthy return on capital employed and net profit margins for the past three years. The list of companies that met this criteria is given below. The final winners profiled in the magazine were chosen after due diligence by our correspondents and research team.

₹251-500 Cr AGRICULTURE & ALLIED

COMPANY NAME	TOTAL INCOME				PROFIT AFTER TAX			
	2015/16	2016/17	2017/18	3 Yr AVERAGE GROWTH (%)	2015/16	2016/17	2017/18	3 YR AVERAGE GROWTH (%)
Akash Agro Industries Ltd.	402.9	404.8	477.5	14.7	3.0	2.4	2.3	9.6

₹251-500 Cr MANUFACTURING

COMPANY NAME	TI 2015/16	TI 2016/17	TI 2017/18	TI 3 Yr Avg Growth (%)	PAT 2015/16	PAT 2016/17	PAT 2017/18	PAT 3 Yr Avg Growth (%)
Orbit Bearings (India) Pvt. Ltd.	180.2	222.3	374.2	41.5	29.2	37.6	60.3	39.9
Studds Accessories Ltd.	257.9	274.3	333.1	23.4	24.4	23.6	32.9	57.1
CMI Ltd.	241.7	312.5	390.9	43.5	17.0	22.4	22.9	67.9
Penam Laboratories Ltd.	194.8	237.2	287.7	16.4	18.9	35.0	48.8	46.6

₹251-500 Cr SERVICES

COMPANY NAME	TI 2015/16	TI 2016/17	TI 2017/18	TI 3 Yr Avg Growth (%)	PAT 2015/16	PAT 2016/17	PAT 2017/18	PAT 3 Yr Avg Growth (%)
Accuracy Shipping Ltd.	170.8	200.5	333.4	29.8	1.1	1.4	10.4	301.4
Sasken Technologies Ltd.	433.3	428.4	470.0	8.4	208.9	77.8	83.0	-8.2
The Mandhana Retail Ventures Ltd.	219.4	261.4	260.7	15.3	21.4	14.0	9.0	-21.3
Nucleus Software Exports Ltd.	329.1	331.6	379.1	7.3	44.7	51.8	65.6	5.4

Three-year averages of y-o-y (%) change; standalone data; Figures in ₹crore unless otherwise stated; Source: Ace Equity

₹101-250 Cr AGRICULTURE & ALLIED

COMPANY NAME	TI 2015/16	TI 2016/17	TI 2017/18	TI 3 Yr Avg Growth (%)	PAT 2015/16	PAT 2016/17	PAT 2017/18	PAT 3 Yr Avg Growth (%)
Shanti Overseas (India) Ltd.	91.0	115.5	134.6	23.6	1.9	3.8	4.9	98.9
Nath Bio-Genes (India) Ltd.	162.8	170.4	192.6	1.7	14.2	16.3	29.4	17.1
Ambar Protein Industries Ltd.	168.7	196.1	206.9	9.6	0.9	2.4	2.2	40.6
Zeal Aqua Ltd.	121.5	175.0	179.5	5.8	1.9	1.8	4.2	30.3

57.1%
Three-year average PAT growth reported by **Studds Accessories** is the highest in its category

₹101-250 Cr MANUFACTURING

COMPANY NAME	TOTAL INCOME				PROFIT AFTER TAX			
	2015/16	2016/17	2017/18	3 Yr AVERAGE GROWTH (%)	2015/16	2016/17	2017/18	3 YR AVERAGE GROWTH (%)
Perfect House Pvt Ltd.	71.5	156.6	236.8	71.0	3.0	9.7	18.5	115.0
Kanchi Karpooram Ltd.	56.6	59.3	115.3	35.3	0.8	3.0	15.2	297.7
Valiant Organics Ltd.	53.5	74.9	122.1	29.1	10.2	11.6	16.3	31.6
ICE Make Refrigeration Ltd.	71.8	87.9	101.7	26.6	2.6	5.0	6.6	101.7

₹101-250 Cr SERVICES

COMPANY NAME	2015/16	2016/17	2017/18	3 Yr AVERAGE GROWTH (%)	2015/16	2016/17	2017/18	3 YR AVERAGE GROWTH (%)
Qualitykiosk Technologies Pvt Ltd.	105.7	130.1	141.7	29.7	6.4	8.0	12.9	67.9
One Point One Solutions Ltd.	84.2	90.5	115.8	22.3	3.3	4.9	8.1	51.6
Gebbs Healthcare Solutions Ltd.	122.7	165.5	216.9	25.1	14.1	26.8	32.9	22.7
Lancer Containers Lines Ltd.	43.2	79.3	110.7	55.1	0.6	1.7	6.8	177.5

Three-year averages of y-o-y (%) change; standalone data; Figures in ₹crore unless otherwise stated; Source: Ace Equity

177%
Three-year average PAT growth reported by **Lancer Container Lines**

₹10-100 Cr AGRICULTURE & ALLIED

COMPANY NAME	2015/16	2016/17	2017/18	3 Yr AVERAGE GROWTH (%)	2015/16	2016/17	2017/18	3 YR AVERAGE GROWTH (%)
Kanakadurga Agro Oil Products Ltd.	61.1	68.2	56.7	-2.8	1.1	1.8	1.6	26.9

₹10-100 Cr MANUFACTURING

COMPANY NAME	2015/16	2016/17	2017/18	3 Yr AVERAGE GROWTH (%)	2015/16	2016/17	2017/18	3 YR AVERAGE GROWTH (%)
Anshul Specialty Molecules Ltd.	63.6	76.9	83.7	12.0	7.2	6.9	17.2	54.5
Castron Technologies Ltd.	42.1	28.9	88.8	50.3	0.01	1.6	5.9	5,240.6
Saboo Coatings Ltd.	65.1	77.6	85.0	13.4	5.3	8.4	4.2	64.5
Gala Global Products Ltd.	21.7	61.6	83.6	91.9	0.1	0.6	2.6	235.3

₹10-100 Cr SERVICES

COMPANY NAME	2015/16	2016/17	2017/18	3 Yr AVERAGE GROWTH (%)	2015/16	2016/17	2017/18	3 YR AVERAGE GROWTH (%)
Infobeans Technologies Ltd.	62.1	68.6	82.2	35.3	13.4	12.6	16.9	58.5
Tara Chand Logistic Solutions Ltd.	46.2	52.8	82.9	29.7	1.2	2.8	4.6	90.4
Aditya Consumer Marketing Ltd.	61.2	67.2	75.3	8.4	1.8	1.3	3.0	83.1
Career Point Ltd.	78.8	83.6	81.2	4.7	14.5	18.0	13.0	15.2

Three-year averages of y-o-y (%) change; standalone data; Figures in ₹crore unless otherwise stated; Source: Ace Equity

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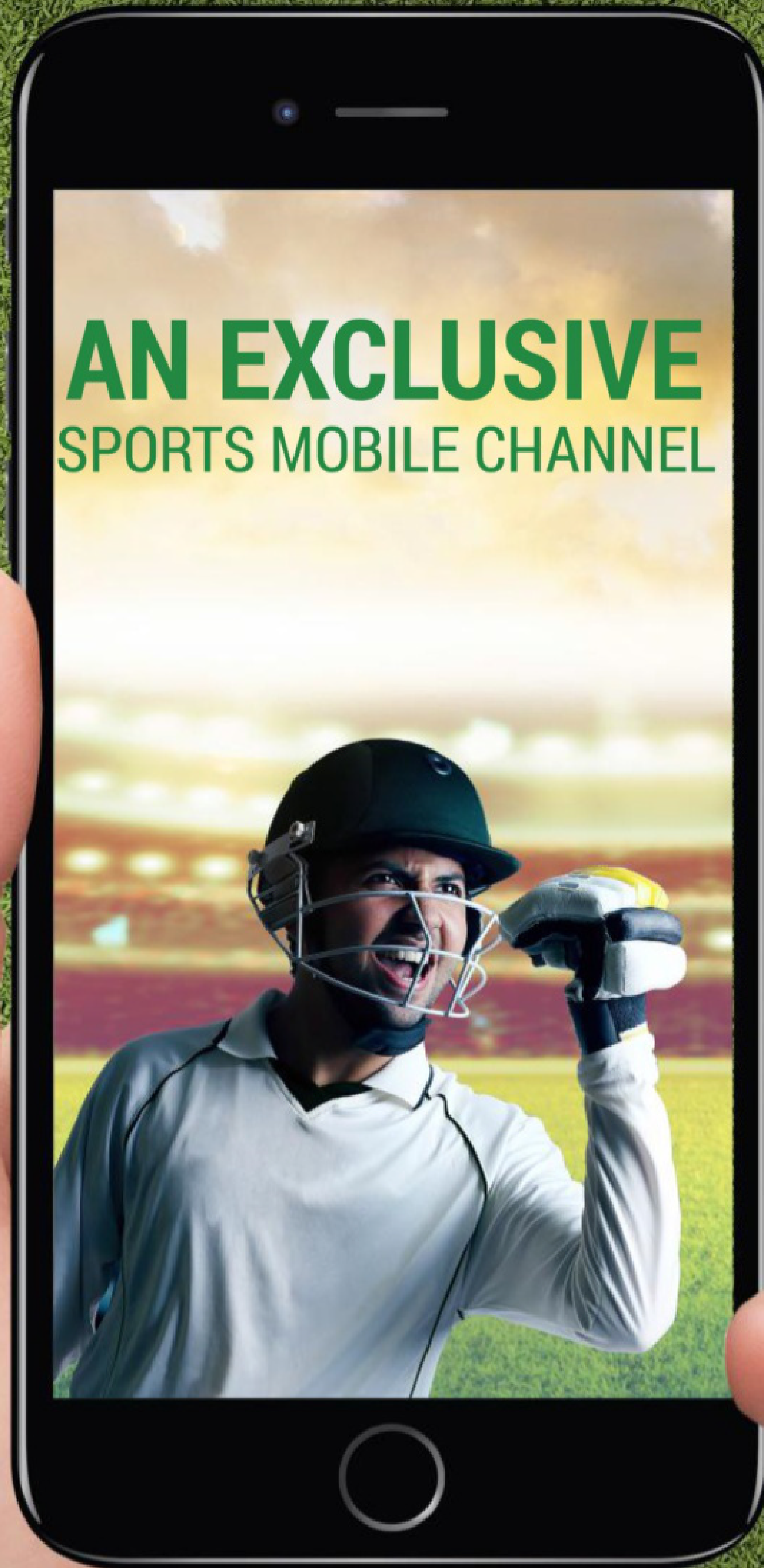

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THE BIG GST HOLE

Why GST collections have been short of target. And why they may not pick up any time soon

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POLICY

Far from Reality

Abrogation of Articles 370 and 35A might excite investors, but for real investments to come in, Jammu and Kashmir regions will need major infrastructure build-up

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Reliance Industries has kicked off the process of reducing debt it took to fund telecom and petrochemical businesses

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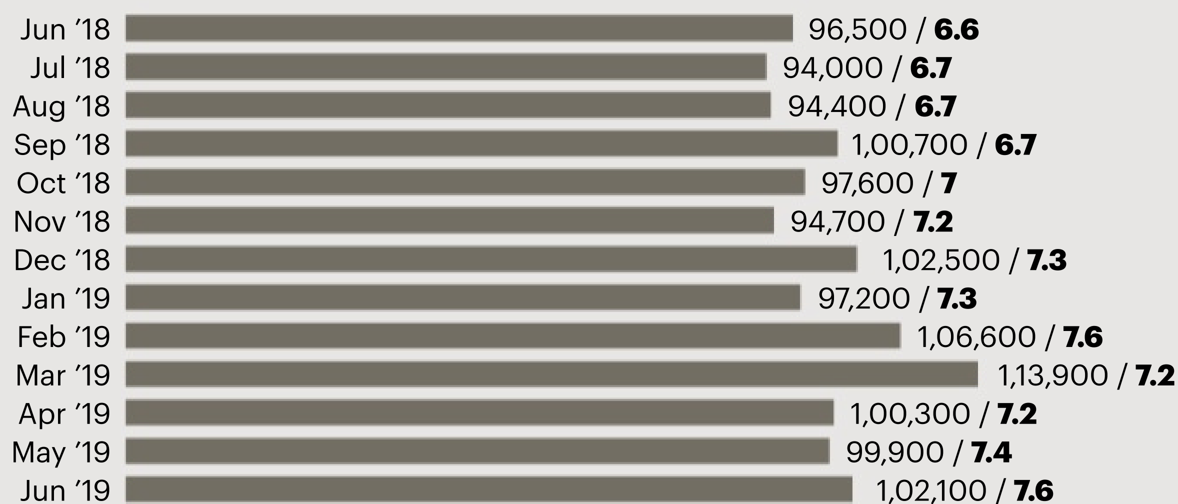
CORPORATE

THE NEW BUBBLE

There are over 300 co-working operators in India. Can they survive?

FULL OF GAPS

Compliance has increased, but GST collection has not shown a commensurate rise due to leakages, non-payment and fraudulent reporting



*State and Central; Source: Kotak Economic Research

THE BIG GST HOLE

WHY GST COLLECTIONS HAVE BEEN SHORT OF TARGET. AND WHY THEY MAY NOT PICK UP ANY TIME SOON.

BY DIPAK MONDAL
ILLUSTRATION BY AJAY THAKURI

THE COMPTROLLER and Auditor General (CAG) of India has made a grim observation in its latest report on indirect taxes: "The growth of indirect taxes slowed to 5.80 per cent in 2017/18 compared to a growth of 21.33 per cent in 2016/17." Without mincing words, it laid the blame on the goods and services tax (GST). "Post implementation of GST, the Centre's revenue from goods and services (excluding Central excise on petroleum and tobacco) registered a decline of 10 per cent in 2017/18, compared to the revenue from the subsumed taxes in 2016/17."

The reports talk about 2017/18. Two monsoons later, things should have improved and systems stabilised, but that has not happened. So much so that in 2018/19, the Union government had to revise its GST collection target by ₹1 lakh crore – from ₹7.43 lakh crore to ₹6.43 lakh crore. That the target for 2019/20 is ₹6.63 lakh crore, just ₹20,000 crore more than the last year's revised target, is the most significant admission by the government that it expects very little from the new tax system in its current form. It, after all, set a target of 8 per cent growth in indirect tax collections, but just 3 per cent in GST collections.

GST collections have not picked up as expected due to a combination of factors. One is faulty design of the system. Another is economic slowdown. Then, there are massive leakages and non-compliance, something the CAG report also suggests. All these will have to be fixed on priority if GST is to realise its full potential.

THE LEAKAGES – WHY AND HOW

The Systemic Lacunae

The CAG says system validated input tax credit (ITC) through invoice matching is not in place even after two years of the GST rollout. That is why a non-intrusive e-tax system remains elusive, it says. "The complexity

COMMON METHODS OF EVADING GST

Using fake invoices

Availing GST input credit on ineligible items

Claiming input tax credit on fake exports

Floating shell companies and then shutting them

of the return mechanism and technical glitches resulted in rollback of invoice matching, rendering the system prone to ITC frauds. Thus, on the whole, the envisaged GST tax compliance system is non-functional," says the CAG report.

However, there is more to it than meets the eye. There were "errors" in estimation of likely GST revenue due to several reasons, beginning with fixing of rates. It was difficult to calculate the overall tax incidence due to Central excise and VAT and consolidating the two to arrive at a revenue neutral GST rate. "The earlier regime had Central sales tax (CST) for inter-state supplies. The price of a product thus included CST and VAT components other than excise duty. However, while input tax credit was available on VAT and excise duty, it was not available on CST," says N.V. Raman, Partner, BDO, adding that there were also many state-specific exemptions and non-exemptions that did not reflect in the GST rates. He says many states, during the three years prior to the GST implementation, increased their VAT rates as the Centre's revenue payback was supposed to be based on mean rates of five previous years beginning 2016/17. "So, when the rates were brought down (after GST), there was lack of clarity on GST revenues as against the collections under the earlier regime," he says. Then there was lack of clarity on transitioned credit on erstwhile excise and VAT available with businesses. Because of lack of documents, many businesses could not claim the full credit available to them.

All these factors, along with continuous rate rationalisation, never allowed the government to have clarity on the revenue it would collect. Besides, before the implementation of the e-way bill from June 1, 2018, the government had no idea whether businesses were reporting all their transactions or not.

According to a Kotak Economic Research analysis, even though the government revised down its budgeted GST collections, the current run rate of ₹91,500 crore monthly collections (after refunds) is well short of the budgeted run rate of ₹1.06 lakh crore. The required run rate for the rest of FY20 is now around ₹1.14 lakh crore. At the current run rate, the government could see a shortfall of ₹1.8 lakh crore – ₹67,200 crore in Central GST and ₹1.2 lakh crore in State GST collections.

SLOW GOING

Monthly Central GST collections need to increase by about ₹8,400 crore a month to meet the Budget target

Target CGST for 2019/20
5,26,000

CGST till June
1,52,900

Monthly CGST run rate till June
38,200

Monthly required run rate for rest of FY20
46,600

In ₹ crore

Economic slowdown

Queering the pitch further is the ongoing slowdown. The Reserve Bank of India (RBI) has revised its 2019/20 GDP growth estimate from 7 per cent to 6.9 per cent (the growth rate was 6.8 per cent last year). Some think tanks and institutions have made more dire forecasts. For example, New Delhi-based National Council of Applied Economic Research expects GDP growth to slow to 6.2 per cent in 2019/20 from 6.8 per cent a year ago. The slowdown is visible in many sectors, including automobiles, FMCG, real estate and consumer durables. This will impact GST collections in a big way. A slowdown impacts organised players, which are registered GST payers, first. "When we have a slowdown of the kind we are encountering now, GST collections are hit more because the largest collection happens at the primary manufacturing point," says M.S. Mani, Partner, Deloitte. He says 90 per cent GST is paid at the first stage of the sale. "If an automobile company reduces manufacturing, the first impact will be on the GST it pays. Given that they pay a 28 per cent tax plus 14 per cent cess on a base value of something that costs, say, ₹10 lakh, ₹4.2 lakh goes away for

every car that is not dispatched. The dealer merely pays tax on value addition. So, if a dealer earns ₹50,000 on a ₹10 lakh car, the GST he will collect will be very small," he says.

Real-time Impact on Sales

Technology, which improves productivity, is acting as a double-edged sword in case of GST. In the last five years or so, every decent-sized company has connected the entire value chain right up to the retailer through SAP and ERP systems. This helps them get real-time information of sales. "Today, an automobile company knows in real time what the dealer sitting in Noida is selling. The moment a dealer punches in an order for a customer, the automobile company's database gets updated. The moment this happens, the vendors' databases also get updated. Even a slight dip in tertiary sales translates into reduction in manufacturing sales immediately," says Mani.

The government, on its part, is carrying out a sector- and state-wise analysis of GST collections. Speaking with media after a consultation meeting with industry, Revenue Secretary A.B. Pandey said GST collections had seen 9 per cent growth in first four months of the financial year. He said the government was analysing sector-wise collections to understand which sectors had been hit by the slowdown.

Tax Leakages and Evasion

As pointed out by the CAG, roll-back of invoice matching has made the system prone to ITC frauds and made the compliance system non-functional. The finance ministry has estimated GST evasion of around ₹45,000 crore in 2018/19; a big chunk is due to fake invoices. Finance Minister Nirmala Sitharaman informed the Lok Sabha on July 1 that GST officers had detected 535 cases of fake invoices involving fraudulent ITC claims of ₹2,565 crore in the current financial year. In 2018/19, 1,620 cases, involving fake ITC claims of ₹11,251 crore, were detected.

Fake invoicing seems to be the most common GST fraud. It involves selling fake invoices for a commission of 1-2 per cent to businesses looking to claim ITC. For example, by selling fake invoices (of a good or service which attracts 18 per cent GST) of, say, ₹500 crore, one can make ₹5-10 crore. The buyer of these invoices can claim ITC of 18 per cent, or ₹90 crore.

SLIPPING THROUGH

Year	Fraudulent ITC claimed (₹cr)	Cases reported	No. of arrests
2019/20 (till June 30)	**2,565**	535	40
2018/19	**11,251**	1,620	154
2017/18	**12.67**	5	2

ITC: Input tax credit

Source: Lok Sabha answers

Nidhi Goyal, Managing Partner, Avinav Consulting, a CA firm, says the practice of generating fake invoices is rampant, and it is not always easy to detect such frauds. A member of a traders' association says tax officers asked them to devise methods so that both the traders and tax officials can "benefit".

Some of the ways being used to evade taxes are more sophisticated. "Often those who buy goods in cash do not insist on *pakka* bills. These bills are then sold to entities in the business of exporting goods. Instead of exporting genuine goods, they export miniature or fake versions, thus claiming both input credit and duty drawback," says a lawyer.

Another method involves using layers of subsidiaries to evade GST. "A business has six group companies. Each sells to the other company. The company with the highest sales closes down and vanishes. It files a winding up petition, which costs just ₹12,000. If the tax department comes knocking at its doors, the promoter asks the department to file its claims with the liquidator. It is a good legal safeguard for ₹12,000," says a CA. He says this is happening with the connivance of the tax authorities.

Some businesses are using the loopholes in the law. Nidhi Goyal of Avinav Consulting says businesses are taking credits on certain goods and services on which credit is not available. For example, some take credit on gifts under the guise of sales promotion. The law does not allow ITC on items bought for gifting. There are 12 items for which input tax credit is not available. Also, family-owned businesses book personal expenses such as holidays, LCD/LED, AC as business expenses and then claim ITC on these.

Tax evasion is rampant in the absence of invoice matching. The government has been extending the dates for annual return filing and GST audit, making detection of large evasions difficult. Even with all the checks and balances in place – the new return filing system is likely to be in place by January next year – it is unlikely that the evasion will be completely stopped. But the government would be hoping to minimise the leakage in the system. It would also be hoping that the economy picks up after the festival season so that GST collections see a slight improvement and achieve this year's Budget target. BT

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ABROGATION & BEYOND

50% RECEIPTS TO J&K CAME AS GRANT FROM THE CENTRE; 20% FROM THE CENTRE'S DEVOLUTION OF FUNDS

GRANTS WILL HAVE TO BE STOPPED; OTHER STATES LIKE BIHAR AND ANDHRA PRADESH ARE ALREADY DENIED SIMILAR BENEFITS

PUBLIC EXPENDITURE WILL COME UNDER CAG'S SCRUTINY

FAR FROM REALITY

Abrogation of Articles 370 and 35A might excite investors, but for real investments to come in, Jammu and Kashmir regions will need major infrastructure buildup.

By **ANILESH S. MAHAJAN**
Illustration By **RAJ VERMA**

IN NOVEMBER 2018, the Jammu & Kashmir state administrative council (SAC) approved an alteration to the J&K Gas Pipeline Act, 2014. The council could do that since J&K was under President's rule then. This allowed pipeline construction companies the right to use land for five years, instead of two years earlier. This alteration happened seven years after GSPL India won the rights to build the Mehsana-Bahtinda-Jammu-Srinagar gas pipeline. The construction till Bathinda is expected to be commissioned by March 2020.

Changing the Act was necessary, because provisions of the Article 370 of the Indian Constitution prohibited the

WHY COMPANIES WERE NOT INVESTING IN J&K

Prohibitive laws, weak infrastructure and poor law and order situation kept investments away

LAWS

J&K Land Grants Act, 1960: Empowers state government to exempt outsiders from buying land or take it on lease for commercial needs. The state government could notify the need, and cleared projects on a case by case basis

J&K Industrial Policy, 2016: An outsider could get land on lease for 40 years. But government preapproval was still needed

Article 35A of J&K Constitution: Prevented outsiders from buying land to build houses

Article 370 of Constitution: Prohibited outsiders from getting admission in schools/colleges, scholarships, travel passes and other state government facilities

VITAL STATS

Electricity: The state's AT&C losses are 49.8%. The national average is 18.22%. Electricity per unit purchase and sale gap is ₹2.13, when the national average is ₹0.26

Roads: NHAI is working on five projects of 189 km; 14 more projects are expected to come up in the next six months

Finances: The state's fiscal deficit is 6.3 per cent of GDP. At the national level, this is around 3.4 per cent

implementation of the Petroleum and Minerals Pipeline Act, 1962 and required a separate law in J&K. In 2014, the Omar Abdullah-led state government enacted this law after three years of discussions. The tweaks SAC allowed were stuck for three years, and there still hasn't been any decision on land acquisition requirements for setting up gas storage terminals.

These are the kind of issues that could get resolved after the abrogation of Article 370. The provisions under the Article allowed the state government to frame its own laws, and along with Article 35A, prohibited change of land ownership to non-residents.

However, will the change bring in big investments? Experts say the Union government will have to initially invest more growth capital before the private corporate sector ventures come in. In the post-Article 370 era, the state expects public sector capital investments, so that corporate money can follow the route.

Former J&K Finance Minister, Haseeb Drabu, however, argues that Government of India and its companies face no Article 35A barriers, and yet companies complain about getting good talent in the state. "The provisions of Article 35A prohibited their children from taking admissions in schools and colleges, and getting other benefits that the state government was offering to its own residents. The impact was huge. Hospitals did not have doctors from outside the state. This discouraged private sector investment in the state. Private investment in hospitals and education institutions is now the low hanging fruit. This will happen once the policy of the new dispensation becomes clear," says the CEO of a major hospital chain, on condition of anonymity.

WHERE IS THE MONEY?

President Ram Nath Kovind set October 31 as the day to bifurcate J&K state into two union territories. After that, the two UT's expenditure will be the Union finance ministry's responsibility. Starting then the Union expenditure would have to be reworked

"ALL OF US AT (THE) CONFEDERATION OF INDIAN INDUSTRY WOULD LIKE TO SEE INVESTMENTS ACROSS DIFFERENT SECTORS IN THE STATE OF J&K AND WILL SUPPORT ALL THE INITIATIVES OF THE GOVERNMENT FOR INVESTMENT IN THE STATE"

UDAY KOTAK, MD and CEO, Kotak Mahindra Bank; and President-Designate, CII

WHY COMPANIES MAY INVEST IN J&K

Electricity: Now that every home is connected with electricity, investments are required not only in generation but also in realisation of payments

Services: Private investments in hospitals and education institutions are likely to be attractive. More investments expected in sectors such as horticulture, telecom and digital architecture, textile, retail and budget hotels

Many PSUs such as NHAI, NTPC, Coal India, PGCIL, PFC, SECI, NTPC, NBCC, GAIL, GSPC are expected to increase their spending

Private sector investments will ride on the back of PSU investments

Jammu region is more attractive (compared with even similar cities in neighbouring Punjab and Himachal Pradesh) as it is better connected via air, rail and road with other parts of the country

Easier purchase and leasing of land will increase investor interest

WHY COMPANIES WILL STILL FIND IT TOUGH TO INVEST IN THE REGION

State exchequer does not have funds to make major investments in the short term

The United Nations has termed the entire state as disputed, which will continue to impact FDI inflows

Intra-state road and rail connectivity is poor

The state generates only about 3,300 MW electricity, and has high transmission losses

Systemic corruption may discourage large-scale investment

Law and order situation in Kashmir valley continues to be a deterrent

Few large banks present in the state; most of their focus is on retail business

"WITH THE ARTICLE370 REVOKED, I EXPECT INVESTMENTS TO RETURN AND THE SAYING (TO) COME BACK... 'IF THERE IS HEAVEN ON EARTH, IT IS HERE, IT IS HERE, IT IS HERE'"

HARSH GOENKA, Chairman, RPG Enterprises

for the remaining five months of this financial year. In the previous fiscal, half of the state receipts of ₹71,180 crore came from grants-in-aid from the Centre. An additional 20 per cent of receipts were J&K's share in the Centre's tax collection. These equations will change. "Ladakh will get its own share of revenue and expenditure. The Union budget will have to be reworked keeping in mind these requirements," explains D.K. Srivastava, Chief Policy Advisor, EY.

The Union government will have to discontinue a large portion of the grant it was giving the state due to its special status. "J&K will also lose its share in the divisible pool. Its status would be more like Delhi," says Rathin Roy, Director, NIPFP. Bihar and Andhra Pradesh are seeking similar favours. The erstwhile Finance Commission had increased the state's share to 0.85 per cent from 0.5 per cent in the pool.

Nearly 70 per cent of the money is spent on paying salaries and pension or servicing debt. With fiscal deficit exceeding 6.3 per cent of GDP, the challenges are deeper. There are some quick fixes available though. "One option is to increase spending in centrally sponsored schemes," a senior official in the finance ministry told *BT*. In the previous fiscal, against the estimated spending of ₹10,423 crore, only ₹8,200 crore was spent. "Since CAG (Comptroller and Auditor General of India) will now audit spending, efficiency of expenditure will be much higher and lead to better results," explains the official. As former Finance Minister Arun Jaitley noted in his blog, the problem is compounded – J&K hasn't been able to step up its own public spending to counteract minimal foreign investment and lacklustre domestic private investment.

The cash strapped Union government may have to look for another round of off-balance-sheet borrowings to fund projects in the state. Sources told *BT* the government is lining up projects on books of public sector units such as NHAI, Power Finance Corp., GAIL and Coal India among others along with extra spending from the railways and the Airports Authority of India. This includes completing the railway track till Srinagar and connecting Leh as well. Solar Energy Corporation of India is preparing the bid document for setting up the world's largest solar farm of 20 GW (scattered allocations spread over the next three years) in Ladakh along with Power Grid Corporation's evacuation facility.

PRIVATE SECTOR'S NEW PARADISE

The previous efforts of the J&K government failed to attract investors. Of the 32,000 manufacturing units in the state, less than 600 are owned by outsiders.

Conglomerates led by Mukesh Ambani, Harsh Goenka and Uday Kotak and industry bodies such as FICCI, CII and Assocham have cheered the abrogation move. The Union government also plans to have an investors' meet in the new UTs just before Diwali.

Foreign direct investment (FDI), however, may still not be forthcoming. Finance ministry officials say that they don't expect FDI to come in, especially since the United Nations has termed the entire state as disputed.

Sectors that could open up immediately are retail, electricity generation, telecom and digital infrastructure, budget hotels and healthcare. At a time when private investment is hard to find even in the rest of the country, expecting big money to come into J&K is a challenge. For instance, according to the CMIE, in the last fiscal, there were investment proposals worth just ₹9.5 lakh crore for all of India, the lowest in the past 19 years. Moreover, in most indicators, be it electricity consumption, per capita income or and population under poverty, the performance of the state is not encouraging.

AT INDUSTRY'S GRAVEYARD

While it may take time for big money to reach J&K, there is some degree of hope from the industrial estates in Udhampur, Kathua and Jammu. The initial investors are expected to come from Punjab, Haryana and Himachal Pradesh. The Jammu region is better connected by raid, road and air, and may prove to be attractive for many investors.

In 2016, the Mehbooba Mufti government had come out with the J&K Industrial Policy, under which the government offered land on lease anywhere in the state – even outside the industrial estates – for 40 years. This excited many investors, including manufacturers of glass, semiconductors, chemicals and pharmaceuticals. The other hill states, however, did much more to allow investments from outside. Himachal Pradesh, for example, liberalised land rules and had restrictions only on purchase of agricultural and forest land for outsiders. Similarly, Uttarakhand allowed non-residents to buy 250 square meters of land for residential purpose. J&K kept the noose tight, and even with the new land lease policy, investors required prior approval of the state government. In addition, the bureaucracy was not supportive. "Dealing with the state government was always a nightmare. The mindset of the bureaucracy cannot be changed with policy; it was still anti-outsiders," says Rajan Gupta, a Punjab-based businessman who studied the policy but finally decided not to invest. Now that the law of the Union government will be implemented, Gupta and other investors might come back. And with that, J&K's high unemployment may reduce.

After decades of uncertainty, as business comes to the region, peace will get a chance. **BT**

@anileshmahajan

DIAMONDS, FROM REAL EMOTIONS TO REAL TRANSFORMATION OF LIVES

The value of diamonds has been calculated not just by their price down the ages, but also the deep emotional connection they hold for those who own them.

Traditionally part of the most significant life events like engagements and weddings, the global industry size of the diamond jewellery market is US $82 Billion, while the polished diamond industry value is US $25 billion making this one of the largest industrial sectors in the world. India is the global hub for cutting and polishing, with 85% of the world's diamonds being cut and polished here and the industry contributes to 7% of India's GDP. There is a lot more to this industry than the visual beauty and sparkle of diamonds and the industry is going through a huge shift in their efforts towards becoming a sustainable sector.

Consumers are becoming more environmentally-conscious and demand that businesses build eco-consciousness into their operations. The harm caused by irresponsible practices and environmental destruction is a matter of concern, and they like to remain informed about the bi-products of carbon footprint and hazardous waste created by most businesses whose products they buy. Consumers, across industries, are demanding sustainable options. Keeping this in mind, diamond industry decided to pioneer a sustainable business model and worked with Trucost ESG Analysis, part of S&P Global, to release an independent report titled **The Socioeconomic and Environmental Impact of Large-Scale Diamond Mining,** which talks about the reality of

modern diamond mining and how the industry has put sustainability at its core.

According to the report, the leading diamond mining companies collectively emitted 160 kg of CO2e per polished carat produced. This is equivalent to the amount generated by driving 390 miles in an average passenger vehicle. The estimated overall environmental impact is comparable to that of any other everyday product, such as mobile phones or flower bouquets and is 69% less than the carbon emissions by Lab-grown diamond companies for a diamond of an equivalent size. Keeping in mind their responsibility towards the environment, the diamond industry has been working actively on programs aimed at reducing their energy use and carbon footprint.

Did you know that when you buy a diamond, you are helping communities and people across the world? With socio-economic and environmental benefits worth US $16 Billion created by the diamond mining industry every year, every diamond consumer is helping provide employment, education and healthcare for millions of people. Diamond mining has a much smaller environmental impact than you can imagine. Most of the mining is done through a combination of pressure and recycled water and the land used for mining is naturally reclaimed by the earth once the mine reaches the end of its life. In fact, over 83% of the water used in processing natural diamonds is recycled and the industry protects wildlife and wilderness across an area exceeding three times the land they use for mining.

The industry also values its employees considerably, as it houses over 77,000 employees and the average employee of the diamond mining industry earns more than 66% of the national average salary of their countries. Also, US $3.9 Billion worth of benefits have been created locally through employment, benefitting communities directly and indirectly. In all, the diamond mining industry has contributed to US $292 million worth of benefits towards social programs, including education and healthcare. Thus, it is fair to say that the diamond mining industry believes in giving back to the community.

It is essential that industries take up the responsibility to provide transparency and showcase the reality through extensive research and hard facts. Consumers, who consider diamonds to be an essential part of the most special moments of their lives, need to know that the product they are investing in has a clean and sustainable origin. The TruCost report comes at a critical time for the diamond industry, and will help in reinforcing consumer trust and demand for natural diamonds. Consumers can make their purchase decision armed with the knowledge that their diamond has created immeasurable benefits for the economy and environment as a whole, because Diamonds really do good for the world.

Ravneet Gill
MD & CEO, Yes Bank

THE FIRE FIGHTER

How new CEO Ravneet Gill is managing troubles at the new-generation Yes Bank, where there is no end to asset quality surprises and capital levels are inadequate for future growth.

BY ANAND ADHIKARI
PHOTOGRAPH BY RACHIT GOSWAMI

STRESS TEST
BB and below rated corporate portfolio poses risk; risk has increased even for the safer BBB portfolio due to stress in the financial sector and likely economic slowdown. Here is the portfolio break-up

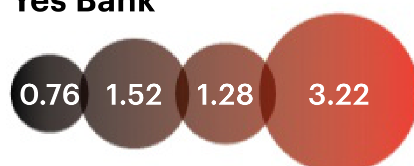
27,701
Sub Investment Grade (BB & Below)

50,805
BBB Rated

2,16,309
A or Better Rated

In ₹ crore; Figures for June 2019; Source: Bank & Market

Gross NPAs (%) of Yes Bank



Mar '16 Mar '18
Mar '17 Mar '19

Standalone figures
Source: BSE and company

"IS RANA KAPOOR STILL PART OF THE BANK?," an analyst asked Ravneet Singh Gill, the MD & CEO, who succeeded Kapoor at the troubled Yes Bank five months ago. The query, during a call with investors last month, was triggered by reports that the founder-professional, who had to exit the bank due to asset quality deterioration, might come back as a director. Though the report was denied by Kapoor himself, the 56-year-old Gill said: "He (Kapoor) has no involvement, executive or non-executive, direct or indirect." The bank has, in fact, clawed back Kapoor's bonuses for 2014/15 and 2015/16.

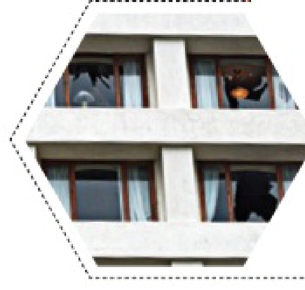
Kapoor may be out but his business calls continue to worry the bank. In the last one year, exposure to big troubled companies such as IL&FS, DHFL, Indiabulls, Jet Airways, Anil Ambani's Reliance Group, Essel Group and Cox & Kings has been creating huge asset quality and capital pressures for the mid-sized bank. Its gross non-performing assets (NPAs) rose from 0.76 per cent in March 2016 to 3.22 per cent in March 2019, while return on assets fell from 1.70 per cent to 0.5 per cent. Profits slipped to ₹1,720 crore in 2018/19 from ₹4,224 crore in the previous year. To top it all, the risky portfolio con-

RANA KAPOOR'S JOURNEY

June 2005
Yes Bank taps the capital market, receives a huge response

June 2013
Feud erupts between Rana Kapoor and Ashok Kapur's family over board seat and control of the bank

May 2004
Rana Kapoor and his brother-in-law Ashok Kapur get licence to set up a bank. Rana Kapoor becomes MD & CEO and Ashok Kapur Chairman



Nov 2008
Ashok Kapur dies in 26/11 terror attack in South Mumbai's Hotel Trident

June 2015
High Court rules that both promoters have a right to appoint directors on board jointly

April 2014
High Court asks co-promoters to resolve their differences

March 2014
The bank reports profits of ₹1,618 crore, deposits of ₹74,192 crore, advances of ₹55,633 crore and net NPAs of 0.05 per cent

March 2016
RBI finds NPA under-reporting of ₹4,176 crore for 2015/16

March 2017
RBI finds NPA under-reporting of ₹6,355 crore for 2016/17

Sept 2018
RBI cuts short Rana Kapoor's tenure till January 2019

January 2019
Ravneet Gill from Deutsche Bank takes over from Rana as MD & CEO

April 2019
Yes Bank appoints Shagun Kapur, daughter of Ashok Kapur, as director

March 2019
RBI appoints former Deputy Governor R. Gandhi as director on the board

CAPITAL CHALLENGE

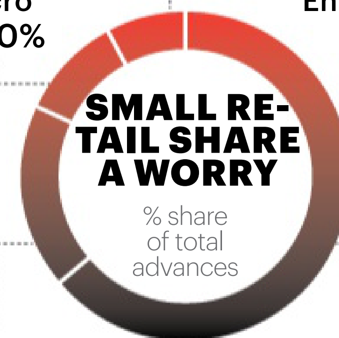
8.6%
Core Equity Capital

8%
Regulatory Requirement by 2019/20

₹1,930 crore
Raised a part of the total capital requirement

₹10,000 crore plus
Estimated capital requirement for capturing growth

Capital Raising Strategy
The bank plans to raise money in tranches as the stock has fallen big time over the last few months



Figures as on June 2019; Source: Bank & Markets

PHOTOGRAPH BY NISHIKANT GAMRE

AXIS BANK:
A BRAND NEW PLAN

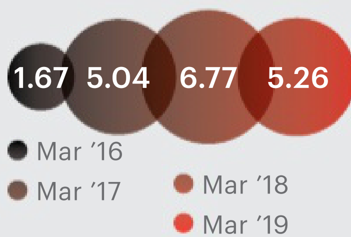
SEVEN MONTHS AGO, WHEN Amitabh Chaudhry landed at the headquarters of the troubled Axis Bank in Mumbai, the insurance professional came with a simple strategy called 'GPS'. In half a dozen slides, he explained the three broad pillars of his new approach: growth, profitability and sustainability. These are the three parameters that had got derailed as the sixth-largest private bank slipped into the league of the worst-performing private sector banks in terms of asset quality under former CEO Shikha Sharma. The poor performance cost her the job.

Chaudhry has set a target of regaining the bank's past glory as the most consistent bank in terms of performance. His target is to achieve a return on equity (RoE) of 18 per cent by 2022 (7 per cent now). The investing community closely tracks RoE as it is a measure of the returns that a shareholder earns on his investment.

In January, Chaudhry, who started his career at Bank of America in the late '80s, held extensive meetings with business heads at Axis Bank to work out future plans. He was faced with a situation of declining profitability and deteriorating asset quality. "Our strategy for the next three years will centre around three important pillars – growth, profitability and sustainability," he told the management team.

The plan is to improve deposit growth, especially low-cost retail deposits; expand payments and digital initiatives; and scale up subsidiaries. The bank will also change its portfolio mix to ensure a higher share of secure retail assets, which are at present around 49 per cent; this should ideally move to 55 per cent. The bank doesn't want to be left behind in new areas of business such as consumer durables financing. Chaudhry is focussing on high-yielding assets such as personal loans and credit cards; and mid-sized companies, instead of taking exposure in large projects where execution risk is high. Under Chaudhry, cross-selling is yielding results in categories such as credit card and personal loans.

Gross NPAs (%)



Standalone figures;
Source: BSE and company

Within the organisation, Chaudhry has made a new reporting structure where apart from wholesale and retail, technology and digital heads will also report to him directly. There are also new hires like the head of retail banking, Pralay Mondal, and Ganesh Sankaran, who has been given charge of the wholesale banking and coverage group. Neeraj Gambhir has joined as head of treasury and markets. "The entire organisational change is aimed at preparing to build the bank as a bigger bank," Rajesh Dahiya, Executive Director – Corporate Centre, Axis Bank, had told *BT* in an earlier interview.

The purpose is to build a focussed approach towards delivering growth and profitability, and containing risk. Origination and underwriting are a separate function in both wholesale and retail businesses. "This division will prevent any inherent conflict of interest and help maintain a better asset quality trend across cycles," states a research report by financial services firm Motilal Oswal.

Chaudhry also wants to scale up Axis Bank's subsidiaries in the next few years. The sharper focus on products, cost efficiencies and people will help him deliver 18 per cent RoE.

But the going will not be easy. Segments such as home and car loans are very competitive and survival is determined by cost of funds. Retail segments like personal loans and credit cards are growing but are more risky. All this while Chaudhry deals with legacy issues and unprofitable corporate exposures. The organisational overhaul will also take time to stabilise.

tinues to be fairly large, creating potential for further slippages, while capital levels are barely adequate to meet the regulatory norms.

The question analysts are asking is – are there more skeletons in the bank's cupboard (mainly risky/dud loans) that Gill will have to deal with on priority so that the bank does not go down under? And, more importantly, can he keep the bank growing while steadying the ship and keeping it safe in view of the slowdown challenges?

The Legacy

Gill, who joined from Deutsche Bank in India, is struggling with several legacy issues. Right now, he is studying the bank's working and hiring people, while doing firefighting as the operating environment throws up new challenges every day.

But things were not always as bad as this. Kapoor had singlehandedly built assets of ₹3.71 lakh crore in 15 years. The last transition, after Co-founder and Chairman Ashok Kapur died in the 26/11 terror attack, was without disruption as Kapoor, a former foreign banker, managed the affairs well with focus on high-margin/high-risk corporate lending, unlike star performers such as HDFC Bank and Kotak Mahindra Bank, which focussed on the less risky retail loans. He cut lending deals with many promoters directly without going the consortium way and, in some cases,

even got a good collateral. But he had to exit in January this year amid allegations of lapses in governance and compliance. The bank reported bad loan divergences (NPAs reported by it versus those found in the RBI's inspection) not once but twice.

This bank, once a darling of investors, is now in focus for its worsening numbers. The market capitalisation has crashed from close to ₹1 lakh crore a year ago to ₹20,000 crore. Kapoor's own wealth (excluding entities) has plunged from ₹4,000 crore to less than ₹1,000 crore. Analyst community puts the stressed assets at around ₹40,000 crore plus

Gill has his task cut out. He has to stabilise the ship, dig out hidden NPAs, if any, do adequate provisioning, raise capital, expand retail and transaction banking and, last but not the least, maintain highest standards of compliance, prudence and governance. He refused to participate in the story because of the ongoing capital-raising plans.

New Pockets of Stress

Gill made a good beginning by being transparent on asset quality. He come out with a figure of ₹29,000 crore for sub-investment grade or BB and below investments. Of this, ₹10,000 crore was put on a watch list. But June quarter results surprised the market and analysts as fresh slippages came from outside the watch list. "Should we believe their watch list numbers?" asked an analyst. "The bank is going the Axis Bank and ICICI Bank way, which took more than two years to come out of the NPA mess," research outfit LKP Securities says in a recent report. Ratings agency ICRA, which has downgraded the bank's long-term paper, had put the total gross NPA and sub-investment grade portfolio at ₹41,558 crore by June 2019.

In the past, BBB used to be a good rating, but today, when the market is seeing downgrade surprises every other day, anything can happen. The economy is slowing down. There is a credit freeze as investors (MFs, HNIs and others) are risk-averse in view of stress in sectors such as auto, real estate, infrastructure and construction. At present, the bank's troubled exposure includes real estate, financial services, media & entertainment and infrastructure sectors. The real estate exposure is ₹24,000 crore. In fact, 25 per cent real estate exposure is already in the NPA and sub-investment grade book. "The inability to reduce the stressed exposure book or further increase in the same will remain a rating negative," says ICRA. Global ratings agency Moody's has also put the bank's rating under watch.

Gill's another task is improving the provisioning coverage ratio (PCR) from the current 43 per cent. ICICI and Axis Bank, the two big banks that are also facing asset quality issues, have ramped up their PCR. ICICI Bank's PCR is at 74 per cent while Axis Bank's is at 77 per cent.

Capital Challenge

Much before Gill joined, the management had plans to make Yes Bank into a large bank. This envisaged strong growth with healthy profitability ratios like return on equity and return on assets, lending to higher investment grade companies and expansion of retail and MSME segments. The five-year journey was supposed to end in March 2020. The happenings of the last two years have dwindled the numbers.

The first big hurdle before Gill is raising capital. The bank is desperately short of growth capital due to which loan growth has slowed. While the capital adequacy level is 15.7 per cent, core equity is depleting and stands at 8.6 per cent, close to the minimum regulatory requirement of 8 per cent for the year ending March 2020. "The current capital raising will enable the bank to maintain minimum capital requirements under Basel III norms. However, it would need further growth capital of ₹2,500 crore to ₹4,000 crore if advances have to grow by 15-20 per cent in 2019/20," says Anusha Raheja, analyst at LKP Securities.

The bank had drafted a capital-raising plan last year, but the situation turned unfavourable after the stock crashed from a year's high of ₹404 to ₹90 (See *Capital Challenge*). Raising capital at low valuations leads to a large equity dilu-

Sandeep Bakhshi MD & CEO, ICICI Bank

ICICI BANK: STABILISING THE SHIP

NOT FAR FROM Worli is ICICI Bank's headquarters in the Bandra Kurla Complex. Sandeep Bakhshi, 59, moved here in June last year as the chief operating officer, from the group's insurance arm. His entry was abrupt as Chanda Kochhar, who was heading the bank then, had to exit in January this year amidst compliance issues. She was later indicted for violating the bank's code of conduct.

Bakhshi, who took charge as MD and CEO in October 2018, has set a clear strategy of "risk-calibrated operating profits". Bakhshi, who had earlier worked with V.N. Vaghul and K.V. Kamath, is also decongest-

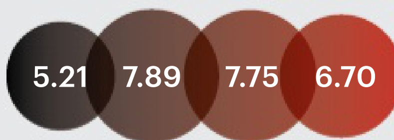
ing many of the business processes and doing away with the hierarchical system at various levels. Bakhshi is a proven manager, having built the group's general insurance subsidiary from scratch, apart from leading a digitisation drive and a successful initial public offer there.

ICICI Bank has never had it so bad. In the past decade, India's second-largest private sector bank in terms of assets has been hit by multiple challenges. After the retirement of K.V. Kamath, Chanda Kochhar had assumed charge at a time of strong global headwinds. The bank managed to recover quickly, but went on to take big corporate and project financing bets between 2010 and 2012. Asset quality issues started haunting the bank post 2014 after the RBI tightened the norms for recognising NPAs.

Under Kochhar, ICICI Bank recalibrated its strategy to expand the retail business and focus on companies with high credit ratings. In the challenging four years that ended in 2017/18, the bank showed marked improvement on key parameters. Its CASA or low-cost deposits share grew from 39 per cent to 45 per cent; share of retail assets jumped from 39 per cent to 57 per cent; and the overseas loan book shrank from 26 per cent to 12 per cent (a conscious decision).

The former CEO also kicked in a 2020 strategy around 'PCG': preserve, change and grow. Bakhshi has added to this: provision coverage ratio of 70 per cent, net NPAs of 1.5 per cent and consolidated RoE of 15 per cent by 2020. Bakhshi is broadly continuing with the PCG strategy, but "there is much sharper focus on core operating profits and risk-adjusted returns," says Sandeep Batra, Executive Director, ICICI Bank. Batra had earlier worked with Bakhshi at the insurance subsidiary.

Gross NPAs (%)



Mar '16 | Mar '17 | Mar '18 | Mar '19

Standalone figures;
Source: BSE and company

The new elements also include deeper penetration of retail assets and decongesting business processes to improve efficiencies and margins. Given the fact that retail assets have grown at 20 per cent-plus and some segments like unsecured loans are growing at a much higher rate, there is a possibility of personal loans and credit cards growing bigger. "The unsecured (loan exposure) is a very small proportion of our overall book. It currently stands at only 8 per cent," defends Anup Bagchi, Executive Director of retail at the bank.

On the liabilities side, the bank faces cut-throat competition for low-cost retail deposits. In corporate loans, which form about 24 per cent of its total loan book, the bank is clearly focussing on the higher-rated corporate and working capital loans, external commercial borrowing, etc. "We will be dealing with big-ticket loans and lower rated projects with a fair bit of caution," says Batra. In the just concluded June quarter, about 88.5 per cent disbursements were to corporates with ratings of A and above.

Insiders say one of the big changes under Bakhshi has been the organisational rejig where he has loosened the hierarchy. At the senior level (business heads), designations have been collapsed and made functional in nature.

Like Chaudhry at Axis Bank, Bakhshi faces the challenges of faster digitisation, expansion of retail into newer areas, and competition from new small finance banks for retail deposits, where a rate war is going on. Corporate surprises, too, have not receded completely. Jet Airways is a recent example.

THE ECONOMY IS SLOWING DOWN. THERE IS A CREDIT FREEZE AS INVESTORS ARE RISK-AVERSE IN VIEW OF STRESS IN SECTORS SUCH AS AUTO, REAL ESTATE, INFRASTRUCTURE AND CONSTRUCTION

tion and impacts earnings per share and return on equity.

The bank's price to book value ratio is just 0.78, closer to that of many public sector banks. Kotak Bank, which also got the licence around the same time as Yes Bank, commands the highest price to book value of 4.86 times, followed by HDFC Bank at 3.96 times. ICICI and Axis Bank are at 2.5-3 times. Gill has no option but to raise capital to keep the core equity capital above the regulatory minimum. "If a large account slips, there is a chance of capital going down below the mandated threshold," says an analyst.

The bank had planned equity dilution of 10 per cent. The board approval was for raising $1 billion. Last week, the bank finally managed to raise ₹1,930 crore equity capital from investors like Societe Generale , BNP Paribas amongst others. "We maximised the size to the extent of the 10 per cent dilution limit currently approved by our shareholders," Gill said after the issue. The bank needs more capital for future growth and provisioning for NPAs. "We are factoring in close to ₹10,000 crore equity capital," says Rakesh Ku-

OTHER BUSINESSES

Rana Kapoor FORMER MD & CEO, Yes Bank

RANA KAPOOR describes himself as a professional entrepreneur and Yes Bank founder. He has always been a mentor to his three daughters. The family has two companies – Morgan Credit and Yes Capital (India) – in which the daughters own the entire equity. These two holding companies have about 6.26 per cent stake in Yes Bank. Both have dozens of subsidiaries into varied businesses.

Morgan Credit is into several businesses with subsidiaries like DoIT Creations, Press2 dry Cleaning & Laundry, Indian School of Management & Entrepreneurship, DoIT Sports Management, *Business World* magazine, Indian School of Design & Innovation, etc. It had borrowings of over ₹1,000 crore as on March 2018. There is a loan of ₹800 crore in the form of NCDs from asset management companies (AMCs).

Varun Kapur of Yes Capital has responded by saying that the company is a core investment company. It has so far pursued two ventures – Art Housing Finance, which is into affordable housing loans; and Art Special Situations Finance, which is a stressed assets NBFC and advisory entity. "Other entities in the Yes Capital and ART Group are all in abeyance," he says.

Yes Capital is primarily into financial services and investment business. It has two dozen subsidiaries and a long-term loan of ₹700 crore. A big chunk of the loan is in the form of NCDs of ₹630 crore from AMCs. The major subsidiaries of Yes Capital are ART Capital, ART Affordable Housing Finance, ART Business & Consumer Finance, ART Special Situations Finance, ART Wealth Management and ART Real Estate Finance. The Kapoor family has the right vehicle under Yes Capital to make a comeback in the financial services in a big way. The family has also invested in Pro Kabaddi and Hockey India League .

Both Yes Capital and Morgan Credit depend on dividend from the bank as their primary source of revenue. In the future, these subsidiaries in the promising sectors will need to scale up to generate profits for expansion. The family will have to free up the pledge as Rana Kapoor's and Morgan Credit's holdings in the bank are currently given as security for a loan.

mar, banking analyst at Elara Capital. If the required capital doesn't come, the bank will have to scale down growth and sell assets in a big way. The biggest casualty of capital shortage is corporate banking, which has a share of 64 per cent in the total loan book.

Retail banking, currently less than 20 per cent of the book, is a focus area for Gill. The bank has a good network of 1,100 branches. But only some of these are profitable. Gill aims to make all branches profitable by 2025. He has spelt out his strategy of empowering the regional management and giving them better control of branches, retail assets and deposits. "If the bank takes longer to build its retail portfolio and increase CASA, it could adversely impact net interest margins," Angel Broking says in a recent report.

RETAIL BANKING IS CURRENTLY LESS THAN 20 PER CENT OF THE BOOK. GILL AIMS TO MAKE ALL BRANCHES PROFITABLE BY 2025

The bank will also have to manage regulatory scrutiny. In May, the RBI had dispatched R. Gandhi , a former RBI deputy governor, to the bank's board. Shagun Gogia, daughter of Founder Ashok Kapur, with whom Kapoor had a bitter fight over a board seat, is now a director. "These new appointments will bring some semblance of stability," says a banker. Gill himself has over three decades of experience in a foreign bank where the compliance function gets top priority. In fact, Gill's first set of appointments was in risk, governance and compliance areas. Last week, Gill has announced some top-level changes. Anurag Adlakha has been appointed as group chief financial officer. He comes with three decades of experience in banks like StanChart and HSBC. Raj Ahuja , who was the CFO, takes charge of strategy, planning and projects as group chief strategy officer. Rajeev Oberoi , who came from IDFC Bank, has joined as senior group president, governance and control. The bank now has a new board and management.

But some analysts say Gill managed a comparatively smaller balance sheet of ₹80,000 crore at the previous job, whereas Yes Bank's balance sheet is ₹3.71 lakh crore. "The mandate of a foreign bank is also very different from that of local banks," says Kumar of Elara Capital. Lastly, Gill also has to strike a balance with founder families of both Rana Kapoor and Madhu Kapur (Ashok Kapur's wife). The duo recently buried the hatchet but this could be another risk which could flare up. BT

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DELEVERAGING THE EMPIRE

Reliance Industries has kicked off the process of reducing debt it took to fund telecom and petrochemical businesses.

By NEVIN JOHN
Photograph by BANDEEP SINGH

BILLIONAIRE MUKESH AMBANI'S Reliance Industries (RIL) has been on a spending spree over the last five years. It built telecom giant Reliance Jio and expanded the petrochemicals business by constructing the world's largest refinery off-gas cracker (ROGC), its downstream units and a paraxylene (PX) plant. Besides these, RIL also invested heavily in Reliance Retail, which has grown to become the country's largest retailer by revenue and profitability — it posted a revenue of ₹1.3 lakh crore in the last financial year and a profit before interest and tax (PBIT) of ₹5,546 crore.

On August 11, RIL Chairman Mukesh Ambani told shareholders at the annual general meeting (AGM) that the company has invested ₹5.4 lakh crore in the last five years. Of this, nearly ₹3.5 lakh crore went into building Jio and its digital infrastructure with the country's largest optical fibre footprint. Another ₹1 lakh crore was invested for petrochemical expansion. Ambani says that the investment cycle for telecom is complete and is adding over 10 million new customers every month. Jio added 300 million customers in just two-and-a-half years of operations. Similarly, the petrochemical expansion completed in 2017/18 and resulted in 86 per cent jump in the segmental revenue to ₹1.72 lakh crore in two financial years and 148 per cent rise in PBIT to ₹32,173 crore.

But the massive investment has meant that the company's gross debt has risen dramatically in the last decade: it shot up by 438 per cent to ₹2.88 lakh crore at the end of March 2019. After deducting the ₹1.33 lakh crore cash in hand, net debt stood at ₹1.54 lakh crore.

The debt is now at an inflection point – gross debt is 3.3 times earnings before interest, tax, depreciation and amortisation (EBITDA). It needs to be slashed to make the company financially fit for it to resist the eventualities of market slowdowns. With this in mind, Ambani presented a debt reduction plan at the AGM, saying he wants to make RIL "a zero net debt company" by March 2021.

Step by Step

To reduce debt, Ambani took the unusual step of diluting ownership in the businesses, in favour of foreign players. It is selling stake in the oil and petrochemicals business to Saudi Aramco; in the tower infrastructure business to an affiliate of Brookfield Asset Management; and in fuel retailing business to BP Plc. The company had earlier sold 30 per cent stake in its oil and gas exploration and production (E&P) business to the British giant BP for $7.2 billion in 2011. In March, Brookfield had announced the acquisition RIL's another asset – the loss-making

CUTTING DEBT

TELECOM

RIL has formed two Infrastructure Investment Trusts – Digital Fibre Infrastructure Trust and Tower Infrastructure Trust

RIL has transferred Reliance Jio Infratel's fibre and tower businesses into these trusts, and gross debt of ₹1.07 lakh crore

An affiliate of Brookfield Asset Management has invested ₹25,215 crore in the tower trust

After the transfer of telecom infra assets, RIL's net debt as of March 2019 was ₹154,478 crore

PETROCHEM

RIL is selling 20% stake in its oil and petrochemicals business to Saudi Aramco for ₹1.1 lakh crore

RIL is also selling 49% stake in its fuel retailing business to BP for ₹7,000 crore

With these two deals, RIL's net debt is expected to come down to ₹37,000 crore

₹1.54 LAKH CRORE
RIL's Net Debt as of March 2019

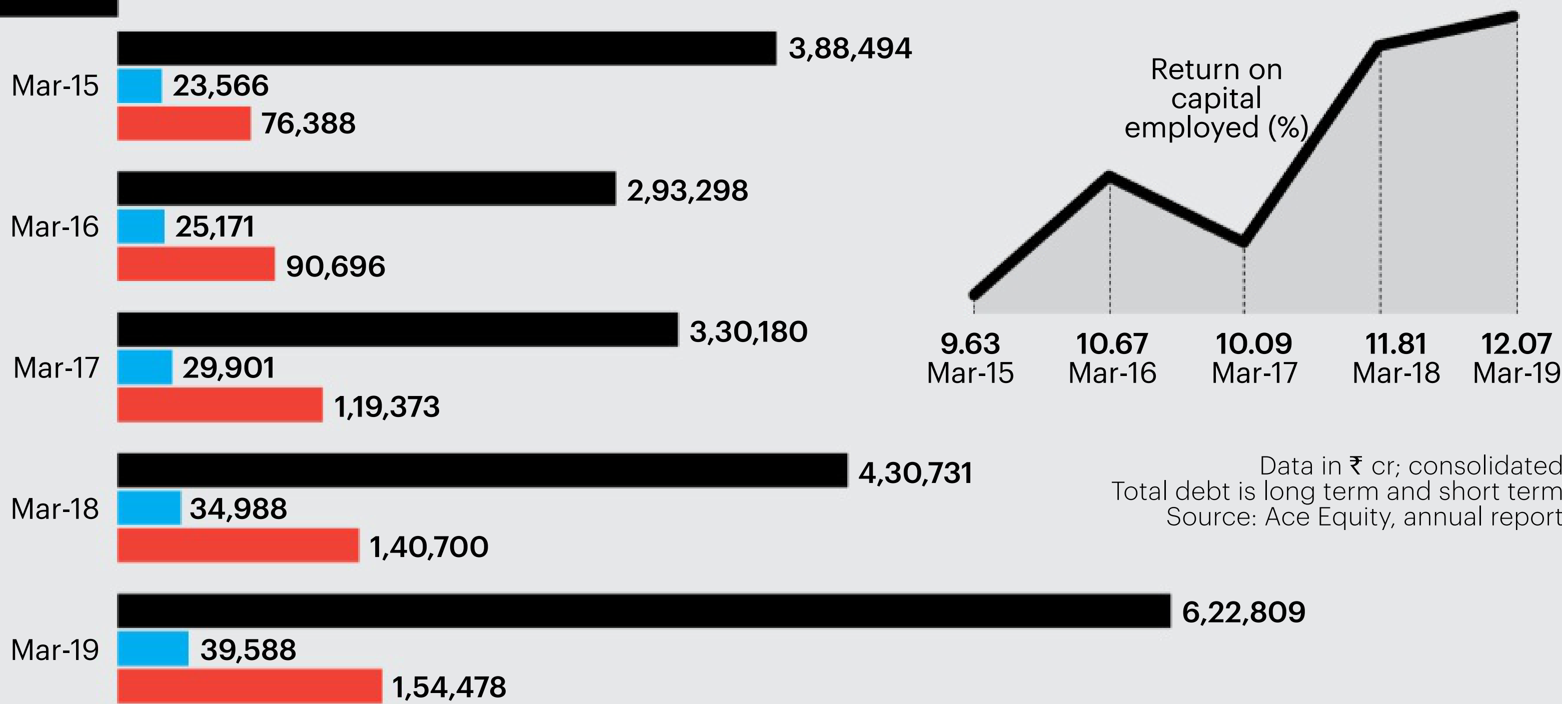
₹5.4 LAKH CRORE
Investments made in last five years

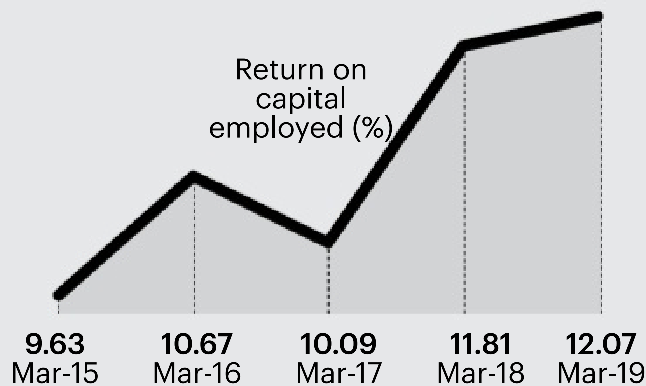
₹3.5 LAKH CRORE
Investment in Jio

₹1 LAKH CRORE
Investment in petrochem expansion

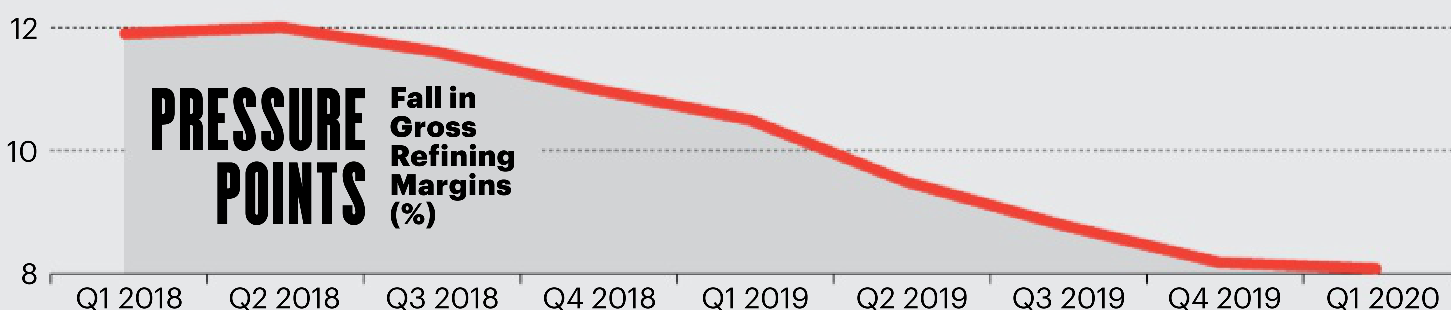
OVERALL PICTURE

RIL's revenues and PAT have both increased, but net debt has more than doubled in five years





Data in ₹ cr; consolidated
Total debt is long term and short term
Source: Ace Equity, annual report



East West Pipeline (EWPL), earlier known as Reliance Gas Transportation Infrastructure – for an enterprise valuation of ₹13,000 crore.

Why is Ambani going in for stake dilution? The reason can be found in largely weak economic conditions and slowing domestic demand.

RIL's refining margins have been shrinking for the last seven quarters. The telecom business may have made a profit of ₹2,964 crore in the last financial year, but earnings are not enough to repay debts and earn returns on the equity investments at least in the next 10 years.

Moreover, cut throat-discounting in the retail business is still a stumbling block for Reliance Retail in increasing its margins. The turnaround of businesses like hydrocarbon E&P and media (the company owns Network 18 assets) are not yet clear.

Problem Points

The biggest reason behind RIL's struggle is its shrinking refining margins, primarily due to volatile crude prices and demand fluctuations caused by trade wars and economic slowdown in various geographies. A weak rupee has also played spoilsport in RIL's case. Falling gross refining margins (GRM) resulted in a 21 per cent fall in the segment PBIT to ₹19,868 crore in the last two financial years.

Global petroleum and petrochemical giants like ExxonMobil, Royal Dutch Shell and Total are also struggling with rising crude costs even as product prices shrink. Companies like Chevron have increased output to counter reducing margins.

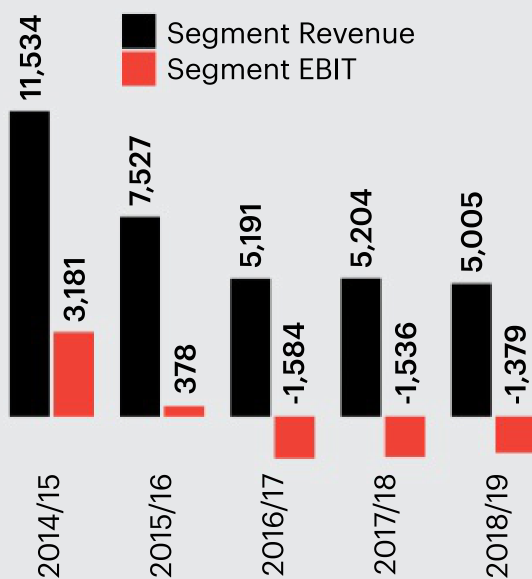
RIL's petrochemicals business, which surpassed the PBIT of its refining segment in the last financial year, has also been affected by subdued demand and lower price realisation in the first quarter of this financial year — the segment PBIT fell 4.4 per cent while revenue went down by 6.6 per cent.

The E&P business has also been making losses for the last three financial years. RIL roped in BP in 2011 to revive the business, but the step failed to bear fruit. At the AGM, Ambani said that both the partners will invest ₹35,000 crore to bring to production three sets of natural gas fields in the Krishna Godavari (KG) basin block. He is optimistic about starting production from a set of blocks next year.

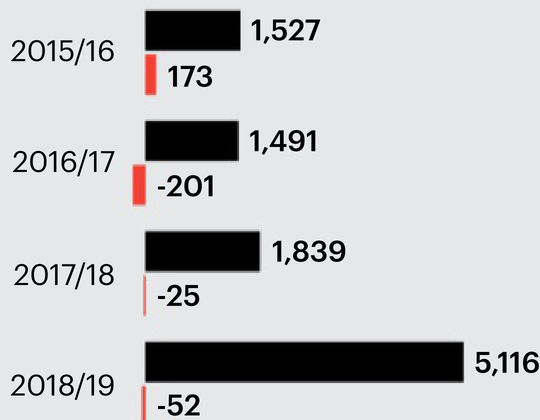
These massive investments have

Drop in revenue in oil and gas (exploration & production) business

Data in ₹crore

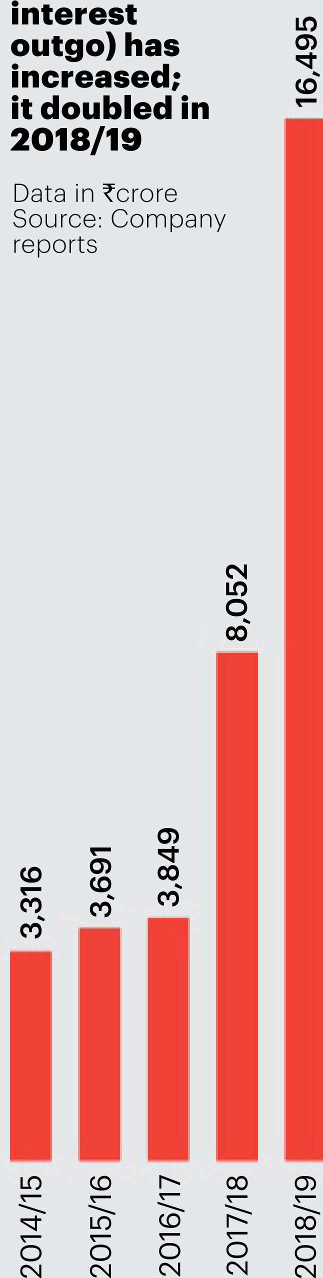


Media business is pulling in less



Finance cost (majorly interest outgo) has increased; it doubled in 2018/19

Data in ₹crore
Source: Company reports



increased RIL's total finance cost, a major part of which is interest payments. In the last financial year, finance costs doubled to ₹16,495 crore compared to the previous year. According to analysts, interest payments are going to be higher in the forthcoming years and this can affect the company's profitability in turbulent economic conditions.

Swift Moves

The first step to reduce debt was taken by RIL early this year, when it formed two Infrastructure Investment Trusts (InvITs) – Digital Fibre Infrastructure Trust and Tower Infrastructure Trust. RIL transferred Reliance Jio Infratel's fibre and tower businesses into these trusts along with a gross debt of ₹1.07 lakh crore. An affiliate of Brookfield Asset Management invested ₹25,215 crore in the Tower Infrastructure Trust, which has 51 per cent stake in Reliance Jio Infratel. Ambani said, "We transferred our telecom infrastructure assets to two separate infrastructure trusts for a consideration of ₹1.25 lakh crore... Post this, we ended last year with net debt of ₹1,54,478 crore."

The second deal is to sell 20 per cent stake in RIL's oil and petrochemicals business – which has two refineries and a petchem complex in Jamnagar, Gujarat – to Saudi Aramco for ₹1.1 lakh crore. Earlier, Ambani had tried the same foreign partner model in Reliance Petroleum, which had the new export oriented refinery that was built in 2008/09. The American giant Chevron took 5 per cent stake in the subsidiary, but exited soon after. Aramco has evinced interest in holding stake in the $44 billion refinery project of state-run companies in Ratnagiri, Maharashtra.

A couple of weeks back, RIL had agreed to sell 49 per cent stake in its fuel retailing business to BP for ₹7,000 crore. The deal with Aramco will reduce RIL's controlling stake in this business to 40 per cent from 51 per cent, as the Saudi company will hold 10 per cent stake in the joint venture, which plans to set up 5,500 retail outlets across India. Aramco has also agreed to supply 500,000 barrels of crude oil every day to RIL's Jamnagar refinery (28 per cent of their requirement) on a long-term basis.

After the Aramco and BP deals, RIL's net debt is expected to come down to ₹37,000 crore. Ambani further announced that RIL has received strong interest from strategic and financial investors for its consumer businesses Jio and Reliance Retail. "We will induct leading global partners in these businesses in the next few quarters," he said. The plan is to list them within five years. If stake in these businesses is indeed sold, it will be another round of ownership dilution in the group businesses.

Ambani is also scouting for buyers for some of RIL's real estate assets (might include land that RIL bought for building special economic zones in Mumbai), and some financial investments. He mentioned that RIL is "de-emphasising" its shale gas business in the US and would only focus on India. This means he may consider selling off the shale gas business and exiting from the production business in the US.

Experts say Ambani has an uncanny sense about the future of businesses. The investment made to build a digital ecosystem was one of the right steps as India lacked infrastructure in this space. He also patiently waited for the right business environment before scaling up Reliance Retail. Ambani's steps to reduce debt may well be another such move. BT

@nevinjl

REVERSE IN GEAR

THE AUTOMOBILE INDUSTRY IS IN THE MIDDLE OF AN UNPRECEDENTED SLOWDOWN. WITH COMPANIES BEGINNING TO LAY OFF WORKERS, THE WORST IS YET TO COME.

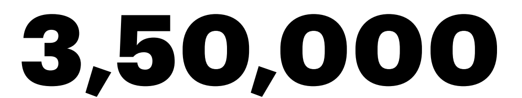
BY SUMANT BANERJI

T WAS EXACTLY 12 months ago when sale of automobiles in India in general and passenger vehicles in particular, began to feel the pinch of the economic slowdown that has gripped the country so viciously.

The initial ominous signs came in the first week of August last year when heavy rains had flattened Kerala. This happened ahead of the state's biggest festival, Onam, which is followed by Ganesh Chaturthi in West India, and Navratri and Diwali in the North. Together they form a near three-month spell of festivity that brings in good sales for automobile companies. The natural calamity last year was an early warning of what was in store. A bad Onam was a bad omen.

"Kerala is a very robust market. It contributes 10 per cent of industry sales and it is such a dependable market that everybody looks at Kerala to offset any shortfall in other markets," recalls Rajesh Goel, Senior Vice President and Director, Honda Cars India. "So when Kerala went down due to the floods, we knew we were in for a challenging time." But no one had any inkling of how challenging it would turn out to be.

Since July 2018, sale of passenger



Number of people estimated to have lost their jobs in the sector this year

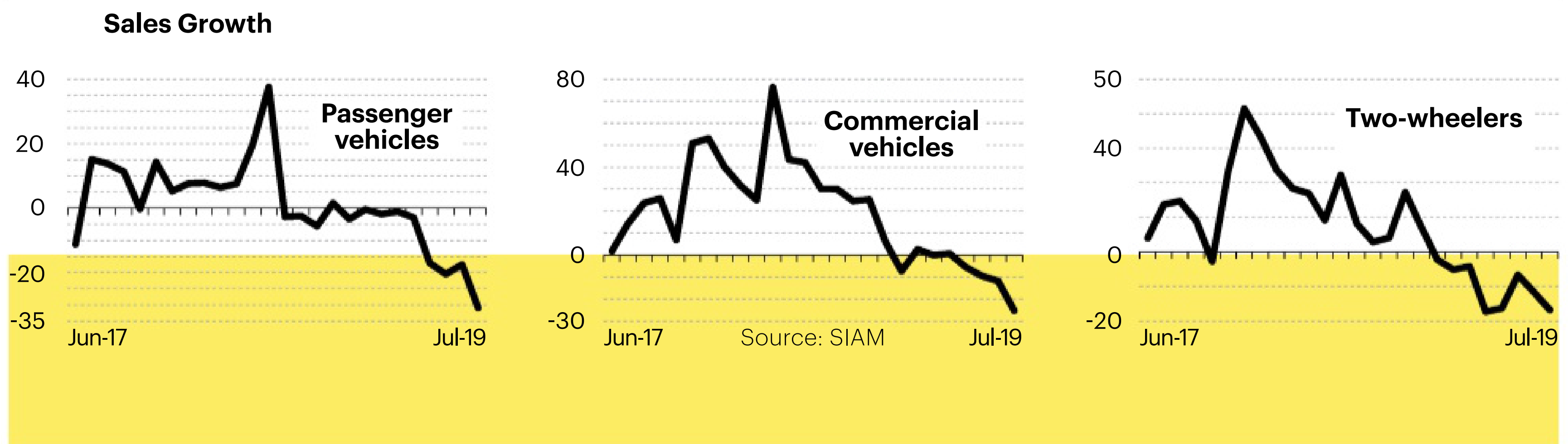
1 million

Number of workers who may have to be laid off if the slowdown continues

vehicles has declined on a year-on-year basis (compared to the same month in the previous year) every month except October, when there was marginal growth. It took only a little longer for the slowdown to show up in other segments as well. Sale of commercial vehicles, which is considered to be one of the barometers to measure the overall growth in the economy, declined for the first time in December last year. Since then it has declined in five of the seven months. Sale of two-wheelers, which constitutes the biggest pie in the overall automobile industry in India, has also been in the red since December. The slowdown that is now on the verge of turning into a full-blown recession has not spared tractors as well. After growing by a healthy 18.5 per cent and 23.7 per cent in fiscals 2017 and

DISTRESS CALL

All three main segments of the auto industry have seen negative growth (%) for the past six months; passenger vehicles have been particularly hit



2018, the growth came down to just 7.8 per cent in fiscal 2019. In the first quarter of this fiscal (2020), tractor sales declined 14.4 per cent, matching the performance of the other segments in the industry. In the quarter, sale of passenger cars, commercial vehicles and two-wheelers, all declined in double digits (see graph).

"This is the fourth slowdown that I have seen in my entire career but this has to be the most intense," says Pawan Goenka, Managing Director, Mahindra & Mahindra, India's largest utility vehicle and tractor maker. "I have never seen all the segments in the industry decline at the same time for such a long time."

On the Defensive

In hindsight, the industry was caught by surprise. After registering a blistering near 20 per cent growth in sales in the first quarter of this fiscal, it was almost as if somebody hit the brakes with full force for the domestic passenger vehicle industry. In the second quarter, sales declined by 2 per cent as the industry went into a tailspin for three consecutive months for the first time since 2013/14.

While the calamity in Kerala was unforeseen and a one-off, other more fundamental factors also became adverse. Retail prices of petrol and diesel hit record highs in October last year on the back of high international crude oil prices. Interest rates also went up as bankers became risk averse as a fallout of the IL&FS default and the ensuing NBFC crisis.

The overall economy has also worsened significantly with unemployment rate in the country hitting 45-year highs. Discretionary spending like on cars and two-wheelers has taken a beating while reduced industrial activity has dampened sale of commercial vehicles.

Then, there was a raft of regulatory changes. Change in insurance regulations that mandated payment of three-year premiums in the first year of purchase for third-party liability, while increasing the personal accident cover (PAC) from ₹2 lakh to ₹15 lakh, led to an increase of ₹6,000 in insurance cost for even an entry-level car such as the Maruti Alto. New safety norms that mandated anti-lock braking system for two-wheelers and airbags for cars increased the cost of vehicles. In 2019, insurance costs were increased again by up to 20 per cent.

Many state governments also increased their vehicle registration charges. The overall cost of owning and operating a vehicle became significantly more.

"If we look at it historically, then we have a slowdown every five years. The last time it happened was in 2013/14, so we were due for one," says R.C. Bhargava, Chairman, Maruti Suzuki India. "What has made matters worse is that all these regulatory changes also happened at the same

290

Number of dealerships that have shut down in last 18 months

49%

Auto sector's contribution to the country's manufacturing GDP

7.1%

Contribution of the automobile sector to India's GDP

37MN

People employed in the industry, directly and indirectly. Eight million work directly in factories that make cars, SUVs, two-wheelers, trucks, buses, three-wheelers and auto parts

PHOTOGRAPH BY RACHIT GOSWAMI

time. We have the banking crisis on one hand and a slowing economy on the other, at a time when prices of vehicles have gone up."

More regulatory changes are set to increase vehicle costs. In her maiden Budget speech in July, Finance Minister Nirmala Sitharaman increased the import duties on a host of automotive components in an attempt to encourage domestic manufacturing of those components. Some of these parts are, however, not produced in adequate quantities in India; the higher import duties have led to a cost increase for manufacturers.

Recently, in a draft notification, the Ministry of Road Transport and Highways proposed to increase registration charges 20-fold from the current ₹1,000 to ₹20,000 on new medium goods-passenger vehicles, from ₹1,500 to ₹20,000 on new trucks and buses, from ₹50 to ₹1,000 for new two-wheelers and from ₹600 to ₹5,000 for new cars.

"The most obvious and welcome first aid would be some temporary relief on GST front, either by modifying the slabs or by removing the cess"

Anand Mahindra, Chairman, Mahindra & Mahindra

The biggest change would come in April 2020 when the stringent BS VI emission norms come into effect. This will again lead to an increase in the cost of vehicles – around ₹20,000 for a petrol car and up to ₹1 lakh for a diesel car. There is uncertainty on whether consumers will choose to pre-buy cars to beat the price hike and, hence, there may be a temporary rise in sales in the run-up to the new fiscal, or postponement of purchases.

The widespread talk of electric vehicles, with the government making noises from time to time about banning existing technologies, has also confused buyers. "There is an impression among consumers that a practical and affordable electric vehicle is just around the corner. Nothing is further from the truth," Bhargava says. "In reality, an electric car for an individual consumer, with enough range and an affordable price is at least three years away, if not more. But some people may have put off their purchasing decision in anticipation of an electric vehicle. This hurts the industry in the short term."

Production Cuts, Job Losses

The steep fall in sales this fiscal so far has surprisingly not resulted in a commensurate decline in production as companies have sought to clear the inventory at their dealerships. There has been a spate of block closures – an industrial term used to denote no-production days at factories – in the last couple of months.

Market leader Maruti Suzuki suspended production for a week in June (23-30). Japanese auto major Honda Cars India also halted production in the same month (June 5-8). Renault Nissan Alliance had a longer shutdown between May 26 and June 5, while the country's second-largest

two-wheeler manufacturer Honda Motorcycle and Scooter India shut its factories between June 4-11.

Tata Motors and Mahindra & Mahindra have also undertaken multiple block closures at their factories. Tata Motors has so far undertaken two block closures at its Jamshedpur factory that produces commercial vehicles. It is slated to take a third one, for two days from August 16. It has also undertaken a three-day block closure at its Pimpri Chinchwad (Pune) plant that makes passenger vehicles.

In the first quarter, shutdowns at Mahindra's factories across the country ranged between five and 13 days. In the second quarter, the company has said it will shut down production at its plants for another eight to 14 days.

"Even if I add up all the reasons for the slowdown, it doesn't explain the kind we are seeing. There is something about this animal called 'sentiment' that is causing the slowdown," says Goenka. "The concern is that the worst is not over yet."

The damage is widespread and goes beyond original equipment manufacturers (OEMs). Lower sales also mean bleak business for hundreds of ancillary suppliers around the country. On July 20, Bosch, one of the largest auto parts makers in India, said it has suspended operations at its Gangaikondan plant in Tamil Nadu for five days starting July 23. Later, it suspended operations at its Naganathapura unit in Karnataka for two days (July 27 and 29) followed by single-day shutdowns at Jaipur (July 27) and then Bidadi (July 29).

Other key Tier-I vendors such as Exide Industries, Continental Automotive Components (India), ZF, Brose India Automotive Systems, Schaeffler India, Brembo Brakes India, Kalyani Maxion Wheels, Varroc Group, Eaton and IAC India have adjusted their production schedules to align their inventory with the revised sales forecasts by the auto makers.

Kalyani Maxion Wheels shut its truck wheel manufacturing plant for five days while the car wheel facility was closed for three days. Brose, a German supplier of window regulators and door modules for cars, trimmed its daily production schedule from three shifts to a single shift.

"All the talk of EVs has confused consumers. Many think an affordable/ practical EV is around the corner... It is at least three years away if not more"

R.C. Bhargava, Chairman, Maruti Suzuki India

Another segment that has borne the brunt of the slowdown is auto dealerships. Estimates suggest that an unprecedented 290 dealerships have shut down in the last 18 months alone.

For a $119 billion industry that accounts for 7.1 per cent of the country's GDP, 49 per cent of its manufacturing GDP and employs 37 million people directly or indirectly, the slowdown has meant loss of employ-

WHY THE MESS

- **Poor consumer sentiment:** Low income growth and stagnant job market have made consumers wary of spending
- **Liquidity crunch:** Banking and NBFC crisis has affected cost and availability of capital for consumers and dealers
- **Price rise:** A host of regulatory changes, including stricter safety norms, have increased the cost of production of cars and two-wheelers which manufacturers have not been able to fully absorb
- **High fuel prices:** Prices of petrol and diesel have remained high due to volatility in international markets and higher taxation
- **Push for electric vehicles:** Widespread **talk of EVs** has given impression to consumers that affordable electric cars are around the corner. A section of buyers has postponed purchases in anticipation

WHAT THE INDUSTRY WANTS

- Lowering of GST on automobiles from 28 per cent to 18 per cent even if it is done temporarily.
- Cut in interest rates for consumers and easy access to funds for dealers.
- Check on prices of petrol and diesel
- Consistency and stability in policies both for existing and future technologies like electric vehicles

ment for many.

"The thumb rule says that every truck or bus produced in the country creates employment for 13 people. Every car does the same for five people and every two-wheeler for two people," says Sugato Sen, Deputy Director General, SIAM. "So, when fewer vehicles are produced, less employment is created."

Worse, widespread retrenchments have also begun to take place. According to the Federation of Automotive Dealers Associations (FADA), around 2,00,000 people are already out of employment as dealerships have scaled down their business. Another 32,000 have lost jobs due to dealerships that have shut down. Add to that the retrenchment of temporary workers at OEMs and ancillary units and the total number of people who have lost their jobs in the auto industry so far adds up to about 350,000.

"The majority of job cuts have happened in the last three months. It started around May and continued through June and July," says FADA President Ashish Harsharaj Kale. "Our estimate is that our members have already cut 7-8 per cent of the jobs in most of the dealerships as the slump was drastic. That means close to 2,00,000 people." Around 2.5 million people were employed directly in around 26,000 automobile showrooms operated by 15,000 dealers. Another 2.5 million are indirectly employed with the dealership ecosystem.

Job losses have also started in the ancillary sector that employs over five million people. The worry is, if the slowdown persists, about 20 per cent of those employed in the sector, or 1 million jobs, would be in danger.

"This industry employs about five million people and 70 per cent of this is contractual in nature. That is where retrenchments have begun but it is likely to get worse if the slowdown persists," says Vinnie Mehta, Director General, Automotive Component Manufacturers Association (ACMA). "We are looking at a possible 15-20 per cent reduction in workforce if things do not improve soon."

Clamour for GST Cut

With the crisis in the sector deepening, the clamour for a stimulus package for the industry has grown. The expectation of a cut in the GST rate for vehicles has been belied so far and there was nothing much for the industry in the Union Budget as well. Currently, automobiles are taxed at the highest GST bracket of 28 per cent. Further, a cess ranging between one and 20 per cent is also imposed depending on the size and type of vehicle. Finance Minister Nirmala Sitharaman's meeting with industry representatives in the first week of August has, however, raised expectations of some sops.

"The most obvious and welcome first aid would be some temporary relief on the GST front, either by modifying the slabs, or, if that is not possible, by removing the cess," Anand Mahindra, Chairman, Mahindra Group, said at the company's AGM earlier this month. "Another option would be a re-look at the registration fee, which has gone up substantially, and a rollback of the increases in road tax mandated by state governments after the introduction of GST. I am hopeful that these few actions along with the traditional post-monsoon revival will set us back on track and positively impact the economy."

"It is clear now that without government intervention a turnaround may not be possible," says Mathur of SIAM. "Maybe the extent of sales decline will come down as the low base effect from last year kicks in, but growth remains elusive. A GST cut would be the trigger to reverse the consumer sentiment. Otherwise, fiscal 2020 could be a total washout."

The festive season is around the corner – Onam is on September 1. And like last year, the signs are ominous. Kerala is flooded once more. BT

@sumantbanerji

Innov8's 25,000 sq. ft. co-working space in Saket, Delhi

THE NEW BUBBLE

There are over 300 co-working operators in India. Can they survive?

By **GOUTAM DAS AND APRAJITA SHARMA**
Photograph By **REUBEN SINGH**

3.9
MN SQ. FT.
Space taken up by co-working companies in 2018; double the 2017 figure

6.9
MN SQ. FT.
Cumulative space taken up between 2017 and first quarter of 2019

52,000
SQ. FT.
Average size of transactions in 2018, versus 37,000 sq. ft. in 2017. In the first quarter of 2019, this was much higher at 77,000 sq. ft

8%
Share of co-working in office leasing in the top seven cities in 2018. This was just 5% in 2017, but has jumped to 12% in the first quarter of 2019

(Source: JLL-FICCI report)

ONE OF THE FLOORS of GoWork's co-working facility in Gurgaon's Udyog Vihar has sleeping pods – private rooms with air conditioners, televisions, music systems, and lockers inside. A 'frustration zone' is in the works too.

"Millennials take too much stress. We have created a room where they can come and break stuff," says Sudeep Singh, CEO of the company that started two years ago. Users can wield a sledgehammer to smash old computers and mobiles. "I am thinking of getting old cars," he grins and says. "We also offer a gym, a yoga studio, a cafe and a bar. We have a full-time licence for running a bar."

GoWork started with the idea of creating a culture of walk-to-work, and staying and working in the same place. The company operates two large facilities in the Gurgaon location. One can seat 8,000 people and the second has a capacity of 5,000. "The concept of shared economy is growing across the globe. Today, millennials prefer Uber

AN EVOLVING ECOSYSTEM

Acquisitions by co-working players
AltF CoWorking has acquired Daftar India; OYO has bought Innov8

Real estate companies setting up co-working arms
CoWrks has come up as a unit of real estate developer RMZ Corp. Brigade Group has forayed into co-working with BuzzWorks

PE-backed retail developers/operators setting up own co-working spaces
Virtuous Retail has set up a collaborative workspace, The Hive

JV between Indian real estate company and international co-working player
WeWork has a JV with Embassy Group in India

Hospitality player venturing into the co-working segment
OYO launches its fully managed workspace

Source: JLL-FICCI

over cars and Oyo and Airbnb over hotels. This is a big cultural change. My idea is to play on it," says Singh.

There is another reason why co-working operators are rushing to offer facilities of all sorts. It is difficult to differentiate between the players and every extra bit counts. Co-working, after all, is a jazzed up business centre with a mix of seats. Most players offer flexible seats, where the same desk is not assured every day. These seats, mostly used by gig workers, are also the cheapest. Next, there are fixed seats in sprawling, well designed open spaces that start-ups love, and finally, cabins for corporate customers, which are the costliest. Some co-working operators let out the entire floor to a large enterprise customer. Co-working spaces, however, are different from business centres because of a 'community' layer that all companies invest in – every occupant is typically connected through an app, where they can seek business or personal collaborations.

"You need to get the best deal on rentals. Then efficiency of the operation... to a level where it makes economic sense"

KARAN VIRWANI
Co-CWeO, WeWork

Differentiation has also become difficult because there is a clutter. A JLL-Ficci white paper titled 'Co-working: Reshaping Indian Workplaces' pegs the number of players at 325-330 in the top seven cities of India alone. Other estimates say the number could be as high as 400. There is a clutter phonetically, too. The international big daddy of co-working is WeWork, a strong player in India as well. And then, there is GoWork, CoWrks, Smartworks, BuzzWorks and InnoWork, among others.

Never mind the similar sounding names. The larger question is whether there is space in the market for over 300 players. In some ways, the co-working industry resembles the food-tech bubble of 2015/16. After it burst, the stronger companies consolidated their share. Co-working, unlike e-commerce, is a tad different. There is a real asset with some value. Still, the market could see bloodbath over the next two years.

Singh is among those who believe that a bubble is building up. "It has become a 'son' rising industry," he jokes. "If a son

INVESTMENT DEALS IN CO-WORKING

Investor/Company
In $million

Sequoia Capital
Awfis
$20 million+

WestBridge Capital
IndiQube
$15 million

FreakOut
91Springboard
$10.2 million

(Source: Vestian Research)

PHOTOGRAPH BY REUBEN SINGH

"In 2019, players that can raise capital will expand aggressively. Scale will be important because the margins are going to be a challenge"

AMIT RAMANI, *CEO, Awfis*

is good for nothing, get him to start co-working on empty real estate."

Ritesh Malik, founder of Innov8 Co-working, estimates that there are 311 players in the industry, most of which, about 290, operate with only one campus. "They won't be able to sustain. Co-working is not a one-shop business. Ultimately, the top 10 players will survive," he says. Innov8 was recently acquired by Oyo in an all-cash deal, speculated at ₹220 crore. Malik did not confirm the number or other deal details.

Work Rush

From the supply perspective, the barrier to entry is low. Anyone with a large basement can open a co-working space. The other reason why land owners are interested in co-working is stagnant property values.

"The first 65 years (since independence), when land was growing in terms of appreciation, everyone wanted to invest in land. Then 10 years ago, people started investing in assets. But in the last five years, the assets have not appreciated. They have been stagnant in terms of value. Property tax and maintenance on an empty asset starts hurting," says Amit Ramani, CEO of co-working operator Awfis. "The ability of the non-professional land owners to sell these assets is a challenge," he adds. Co-working companies go to these land owners with a business model; and say that they can generate demand and deliver.

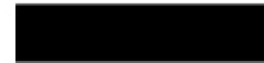
The space take-up in the co-working segment doubled to 3.9 million sq. ft. in 2018 compared to 2017. The cumulative space take-up from 2017 to the first quarter of 2019 was 6.9 million sq. ft., the JLL-Ficci white paper states. The average size of transactions increased from 37,000 sq. ft. in 2017 to 52,000 sq. ft. in 2018 and further to 77,000 sq. ft. in the first quarter of 2019. The report states that the share of co-working in office leasing in the top seven cities of India increased from 5 per cent in 2017 to 8 per cent in 2018 and 12 per cent in the first quarter of this year. Future projections remain bullish.

Sidharth Menda, Founder and Vice Chairman of CoWrks, notes in the white paper that 2019/20 is likely to see the flexible workspace industry attracting over $1 billion in investment. "This is fuelled in part by the slew of large enterprises that have started moving into flexible workspace solutions; thus validating the sector's presence. This has also resulted in commercial real estate markets seeing a shift wherein flexible workspaces account for a larger share of absorption. We

PHOTOGRAPH BY REUBEN SINGH

"Co-working is not a one-shop business. Ultimately, the top 10 players will survive"

RITESH MALIK
Co-founder, Innov8 Coworking



expect the flexible workspace sector to account for at least 40 per cent of all annual commercial real estate absorption by 2021," notes Menda.

Cost Control

There are different levers of demand. Start-ups get a main street address at one-fourth the cost, and, over the last decade, a large number of millennials have joined established enterprises, forcing these companies to adapt.

"Costs are a big part of this but corporates don't admit it. They save 15-25 per cent (versus setting up their own offices) when they get into co-working," says Harsh Lambah, Country Manager of Regus, which operates service offices and co-working spaces. When corporates set up and invest in their own facilities, there is an opportunity cost as it takes time to source and fit out a facility. "In co-working, you can expand or contract the number of seats. In some countries, we do well when the economy is not doing well," says Lambah.

The slowdown in India may, therefore, be good news for the co-working industry, but only for the bigger brands, with scale and consistent levels of service since enterprise customers have strict service level agreements. Those reliant on start-up clients and very small companies may see a higher churn. Unable to fill up capacity in quick time, they would bleed. Many co-working operators sign nine-year leases with land owners and have other fixed expenses.

Co-working in today's context is a mix of real estate, hospitality and technology. Many liken co-working facilities to a day hotel where the level of service expected are of a very high standard, everything from Internet connectivity to how the notepad and the pencil are placed in a meeting room. Technology is about connecting the users. Very few companies have the know-how in all the three.

Death By Rental

There are four predominant models in the co-working industry. First, the land owner himself starts a co-working centre. Second, a joint venture model where revenues and profits are shared between the land owner and the operator. This model is also the least risky because the owner foregoes rentals for a larger chunk of profits and also invests in the fit-outs. The third model

SPREADING OUT

How big are the co-working companies in India

*Existing+planned capacity

WeWork
35,000 desks, 23 centres, NCR plus 2 cities

IndiQube
30,000 seats (55,000 by year-end), 45 centres, 6 cities

91Springboard
20,000 desks, 28 centres, 9 cities

Innov8
15,000 seats, 20 centres, 8 cities

Smartworks
35,000 seats, 23 centres, 9 cities

Awfis
30,000 seats, 63 centres, 9 cities

Regus+Spaces
18,000 work stations, 120 centres, 16 cities

Avanta India
1,500 seats, one city (NCR)

is the management-operator model, like in a hotel. The owner takes the operational and capital risks. Co-working operators act as the management operator and charge a fee. The last model is a long-term lease agreement with the land owner; this is the most risky. The co-working operator, in this case, pays a security deposit, invests in the fit-outs, and pays a monthly rental. Smaller companies are the most vulnerable given the quantum of investment that is required. The rentals, depending on the location, can range between ₹70 a sq. ft. and ₹150 a sq. ft. So, for a 100,000 sq. ft.-facility, the monthly rental would be ₹70 lakh-1.5 crore. The capex required for fit-outs could be ₹1,500-3,000 per sq. ft.

The key to profitability in this business is managing rental, says Karan Virwani, Co-CWeO, WeWork India. The larger companies have the muscle to bargain harder. "Your raw material is the rental. You need to get the best deal on that. Then it is about the efficiency of the operation. How to keep the cost of cleaning, the consumables, all of that to a level where it makes economic sense," he says.

In India, WeWork is a joint venture with the Embassy Group. The Embassy Group has always been a 'landlord'. With co-working, it is a 'tenant'. But being an established developer gives it the advantage of having an insight into the prevailing rents in many markets, and relationships with brokers. "We changed the way deals are done," says Virmani. "Land owners don't do zero deposit deals but we do only zero deposit ones. The market takes 10 months' security deposit. We don't do it, or do very less. We negotiate hard with them," he adds.

Those who pay high rentals on long-term lease are under pressure to fill up the capacity quickly and often under-price or undercut competition. "My team was poached, and other players sold seats at 40-45 per cent of our pricing," says Lambah of Regus. "Everyone now realises that to open one facility in one locality is easy. But to build scale is difficult. The new companies also went for occupancy from the word go – that was a problem because once you fill your centre you don't have the opportunity to create new revenues, which come from new customers. Many of these companies have issues in terms of investments and funding. Many are also not in a position to pay rents and salaries," Lambah adds.

TOO BIG, TOO FAST

The co-working industry has 300-400 operators. This is huge for a segment that caught on merely two years ago

Many companies are following a cash-burn model, just like e-commerce, and under-pricing to fill up capacity

Co-working is a services industry. Many companies are struggling with service quality

Barriers to scale up are high as it is an operationally heavy business

The key to profitability is managing rentals; most players are not large enough to drive a hard bargain

With the economy slowing, many players will struggle with client exits

Scale or Nothing

Scale, says Malik of Innov8, is important to make operations efficient and reduce funding pressure. Scale players can drive a better bargain with vendors, and in fitting out the space. Those multiple locations in a city or even one micro-market can share human resources such as community managers. "I went to Y Combinator (an American seed accelerator). I met many founders. They pointed out that we won't be able to scale up unless we take up big campuses. This business requires one to leverage economies of scale," says Malik. "That is why we took a conscious call to not have less than 700-1,000 seat facilities. Now we are doing campuses of 2,000 seaters," he adds. Overall, Innov8 has 20 active and under-construction centres with 15,000 seats.

The size of a typical co-working space in India is about 30,000 sq. ft. Smartworks says it doesn't lease properties less than 1,00,000-1,50,000 sq. ft. "We like leasing the entire building versus a few floors. Our tenure is two-and-a-half to three years. That gives me a lot more stability in cash flow," says Harsh Binani, Co-founder of the company. Smartworks started in 2016 and has been profitable for nearly a year, says Binani.

Smartworks focusses on the enterprise workforce customer rather than start-ups. Its buildings have lesser number of clients because one enterprise takes a larger space. "On average, we have 250-280 seats allotted to a customer. The more I sell, the more efficiency I can get. If I sell 20-30 seats, there is a lot of wastage that happens in between. We have also done a lot of R&D on our capital and operational expenditure. It is among the lowest in the industry," Binani says.

Capital expenditure on fit-outs and operational expenditure on running the centre are critical to determine the selling cost of seats. "We have optimised these expense heads. We use standardised brands in fit-outs, like Daikin for air conditioners. Because of our large scale, we directly deal with manufacturers. We have been able to cut down the price to a great extent. The fit-outs are also modular and can be reused across clients," adds Binani.

The future holds more consolidation, which is already brewing. "Compared to food-tech, this is a highly capex intensive business. Players of scale will be limited. Those with scale are likely to be the ones that will attract attention from the ecosystem, customers and investors," says Malik.

What attracted attention in 2018 was the euphoria around the rise of a new industry. That's now over. For co-working operators today, it is clearly about who has a real business and scale. BT

@Goutam20; @apri_sharma

THE HUB **INTERVIEW**

"THERE IS NO QUESTION OF ME NOT MEETING THE DEADLINE"

Punit Goenka, the 43-year-old Managing Director and CEO of Zee Entertainment, is fondly called 'Mr Positive' by his colleagues. Goenka has lived up to his positive and calm image even during the toughest phase of his professional life when the company has to repay a ₹6,776 crore debt by September 30. The promoters of Zee (part of Essel Group) recently sold 11 per cent stake for ₹4,224 crore to financial investor Invesco Oppenheimer in a bid to reduce their total debt of ₹11,000 crore. "It is life as usual," says Goenka as he stresses that he is confident of repaying the debt. In a conversation with *BT*'s **Ajita Shashidhar,** he talks about how he has been approaching the debt crisis and his plans after he gets done with the repayment. Edited excerpts:

PHOTOGRAPHS BY RACHIT GOSWAMI

Last few months must have been a roller coaster ride for you, not just from a business point of view but also emotionally. What did you tell yourself?
It's not so much emotional for me, (but) it's been a learning process. It is something that I need to learn from, that is how I am looking at it. I need to come out of it and that's what I am doing.

Have you been spending long hours at work meeting prospective buyers?
It's the same as before. Nothing has changed. Earlier, I just had the company to run, now debt repayment has become the second part of my job. The number of hours that I put in at work is actually the same.

What lessons have you learnt in the last few months, ever since the debt crisis broke out?
The two things I have learnt are that every opportunity needs to be studied thoroughly before one commits to it; one needs to know how much to commit and how much not to commit. Secondly, resolution of issues needs to be handled piece by piece rather than trying for an overnight solution. Overnight solutions don't work.

Now that you have sold the majority stake in your best performing asset, Zee Entertainment, what do you see as the future of this company?
Nothing changes in Zee Entertainment. It has been business as usual, apart from the fact that the promoters won't own as much of the stake as they did. The company has been functioning as it is, safe from the economic issues that we are facing in the short term. The company is poised to do well going forward as well. We will continue investments in Zee5; we are going to continue investments in the linear business too. There is still a lot of growth left in the media sector.

Your team at Zee must have been feeling uncertain amidst all the chatter about the debt crisis? What do you tell them?
I keep telling my team at Zee that it is business as usual. Don't worry about what happens, whether it's the Essel family or somebody else who owns the company, nothing changes for the employees. I tell my team that we will find a solution to this crisis, we will move on from here and we will rebuild the group as we want to. We will focus on verticals that we understand best, which is obviously media and entertainment, and not look at diversifying too aggressively until we have the resources with us.

What kind of questions are your employees asking on the employee engagement initiative called PG (Punit Goenka) Upfront?
One of the smartest questions that I got on PG Upfront was from a team member in Bengaluru, who asked me that with (Invesco) Oppenheimer coming in, will we be able to leverage their other investments in media to work together. I said that there will certainly be a time when we could discuss that with Oppenheimer. It may not be right now, but in due course, we definitely will. The other question I keep getting asked is if I will be around. I tell them not to worry, I am right here, running the company. Whatever decision I take will be in the best interest of the people and the company.

In November 2018, you had announced your intent to sell a part of your stake to a global strategic partner, but you ended up selling stake to a financial investor. You have said that you were forced to go with an investor, as the strategic partner was taking time and you had a deadline to meet. In your heart, would you have preferred a strategic partner to a financial investor?
We would have certainly preferred a strategic partner, had they met the timelines that the lenders had set for us. In fact, back in November, I was certain that I would get a strategic partner. But January 25 (when the Essel Group's debt crisis came out in the open and share prices of their group companies tanked) changed all that. The intent changed from bringing a strategic investor into the company to solving the debt issue for the family. That issue took precedence over what needs to be done. Therefore, the decisions had to be taken accordingly.

So, would you have preferred a strategic partner?
Absolutely. I waited till July 31, till the last date, to make the announcement (Sony Pictures and a consortium led by Comcast are known to have been in the race to invest in Zee Entertainment). I had the deal with Oppenheimer on July 23, when I announced it in my results call. I still gave it seven days before I took the decision. It was not an easy decision to take.

What would a strategic investor bring to the table? Would that have led to your exit from the company?

THE INTENT CHANGED FROM BRINGING A STRATEGIC INVESTOR INTO THE COMPANY TO SOLVING THE DEBT ISSUE FOR THE FAMILY. THAT ISSUE TOOK PRECEDENCE OVER WHAT NEEDS TO BE DONE

It may have involved our exit eventually as the promoter of the company. That intent was tabled by them even before we started discussions with them and I had said it's fine, as long as it solves our issue and within the deadline set by the lenders. The priority for the family was to get rid of the debt. But even if we would have exited Zee, we would still have been left with enough assets in the media and entertainment sector. Be it Dish, Siti or Zee Learn, all of them are pretty large businesses.

How would a strategic partner have helped the business?
It would have taken us from being an India centric business to a global media and entertainment powerhouse. Not that we couldn't have done it on our own, but it would have taken longer. Our dream of Zee being the first media powerhouse from emerging markets would have been realised.

we bought the asset from Videocon (the DTH business), and some of the investments in the infrastructure business didn't pan out the way they were supposed to. Therefore, we were continuously pumping in capital from family resources. It's a double edged sword. There will come a time when you can't do it anymore, and things will go southwards. We realised that early enough and started the process (of debt reduction) for Zee Entertainment in November itself. We had started the process for our infrastructure assets even before that, but January 25 changed all that because it became public knowledge. We were negotiating with practically both hands tied behind our back.

Has the current state of the economy and the liquidity crisis made things more difficult?
Of course, it has. That's where it all started. We didn't get a debt rollover and that was definitely the cause of it.

Where do you stand now in terms of selling your other assets?
We have roughly another ₹6,000 crore to be paid off and I am pretty confident that with the non-media assets and the Zee stake sale, we should be able to meet that.

Can I get some more details?
The solar sale project deal is on the cards. We already have binding offers for three of our road projects. We are waiting for certain regulatory approvals. As soon as those are received, funding should come in. We have a non-binding deal on three other road assets, which are under due diligence. It's the same party that is buying the first three. These will give us significant liquidity.

The further stake sale at Zee will probably solve the issue. The Dish TV deal (Dish was supposed to be bought out by Airtel for ₹5,000-odd crore but that is known to have hit a roadblock due to a fall in the former's stock prices) is a non-cash deal, so there will be no cash involved there. It is not going to help in the debt issue, but it will certainly re-rate the company.

After you settle your debts, what do you see yourself doing?
I will go back completely to running my business. Nothing else is on the cards for me. I will go back and start strategising as to what new I have to do at Zee, what more I can do to see the family stake go up again. In Zee, other verticals will be part of my day-to-day affairs – whether it is valuation of Dish TV or bringing Siti Cable out of the woods. BT

@ajitashashidhar

After the Oppenheimer deal, how does your ability to take strategic decisions change?
It doesn't change. It's still in the best interest of the company and the business. Whether I am at 42 per cent or 14 per cent (stake) doesn't make any difference.

So, you are open to diluting more stake in Zee if your other deals don't work out?
That's why I said 14 per cent. My objective is to build the 14 per cent value back to 42 per cent value and, therefore, I have to do what is in the interest of the company.

Lenders have given September 30 as the deadline to repay debts. In case you are not able to meet the deadline, what would be the course of action?
In the worst case scenario, I will dilute the Zee stake and meet the deadline. There is no question of me not meeting the deadline. The July 31 deadline was etched in stone, the September 30 deadline is also etched in stone. Till date, I have never failed to meet deadlines. Hopefully, I will not fail to meet the deadline this time also.

What went wrong? When we look at the company level debt in some of the listed companies, you seem to be fine. When did you get to know that you were in trouble?
We got to know of the signs last year itself. The problem was nothing but over-leveraging, which happened when

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Tech Upgrade

How you can manage money better by using the latest app and other digital upgrades. Pg 96

GUARD UP!

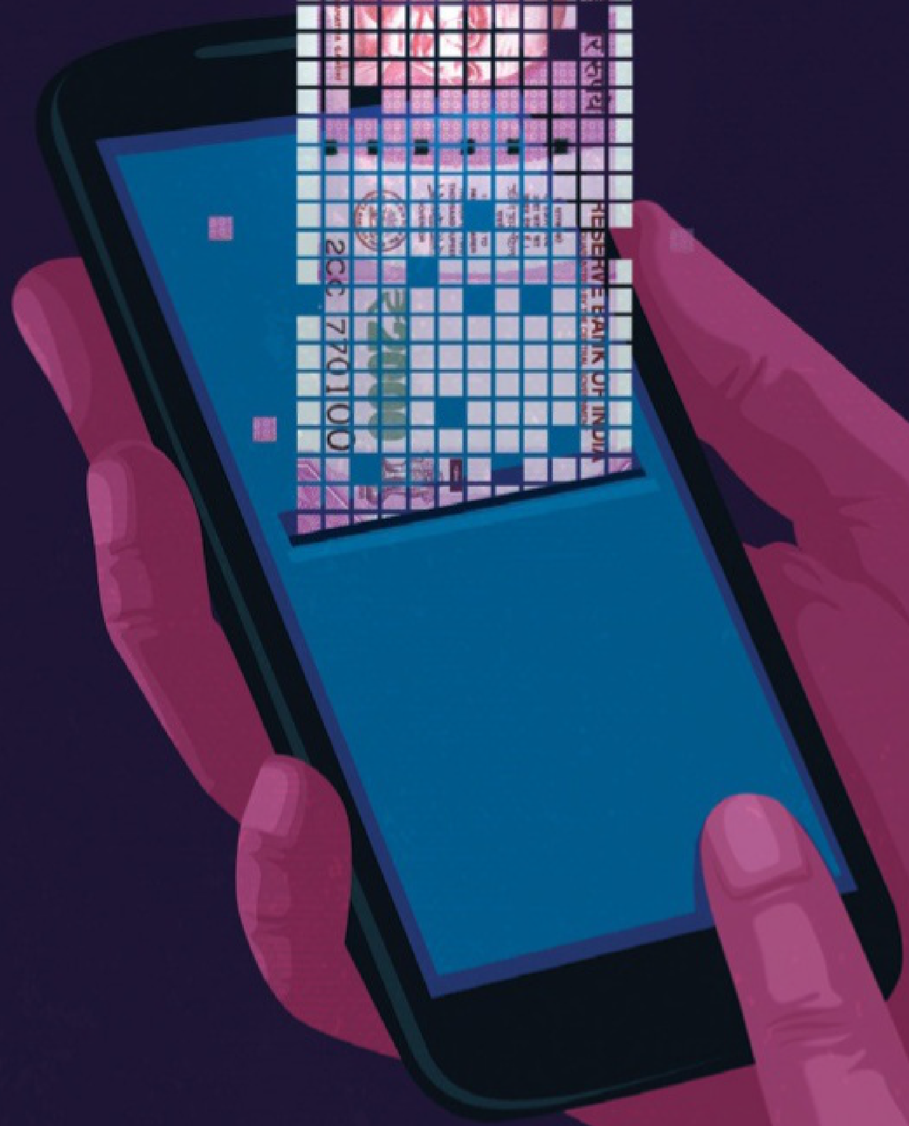
As online hacking into personal and financial data becomes more sophisticated and invasive, take these steps to insure yourself against losses. Pg 102

A CAUSE FOR CHEER

The introduction of additional tax benefit in this year's Union Budget gives you more reasons to buy a home. Pg 106

DATA PAGES:

Pg 110



TECH UPGRADE

How to manage your money better by using latest apps and other digital upgrades.

By NAVEEN KUMAR
Illustration by AJAY THAKURI

our money is no longer a piece of paper and ink, changing hands, getting soiled and landing up at a bank exchange counter. Theoretically, it may still happen, but much of this is history in the era of digital transactions. What kicked off with ATMs, debit/credit cards and Internet banking has now evolved into touch-and-go Web and mobile apps. They cover every aspect of our financial life, be it banking, borrowing, investing, tax filing, buying insurance or paying bills. But technology becomes obsolete fast, and by the time you are adept at using one, an advanced version comes into play. Of course, cash will not die all of a sudden, but you can manage your money better digitally, with a vast range of tech tools to choose from. But before we look at the latest technology changes and how you can make the best of it, a brief overview would not be out of order.

The most revolutionary tech feature is the ability to make and receive payments at any time, no matter how far the transacting parties are. "India's payments ecosystem has been recognised as global best by several developing and developed countries. The country has built a sound legal framework and state-of-the-art infrastructure, and they have contributed to digital payments adoption," says Monish Shah, Partner at Deloitte India. "The exponential adoption of digital transactions has made India a less-cash economy, and the trend is likely to continue with improved digital literacy."

The dramatic cost reduction in telecom data charges and the growing penetration of smartphones have helped in this transformation. But biometric authentication via Aadhaar has been most effective for KYC (know your customer) verification and has helped financial organisations increase their digital reach at a minimal cost. The Supreme Court halted this procedure, but the Indian government resumed it for speed and convenience. Banks and non-banking financial companies (NBFCs) are now allowed to use Aadhaar numbers for KYC verification, based on customer consent, and this has paved the way for even greater assimilation.

The New Face of Banking

Gone are the days of giant ledgers, paper cheques and physical accessories of traditional banking. Now, all banks feature dedicated mobile apps and websites, to say nothing of the chatbots – our virtual customer service executives. Banking entered a new era in 2016 when Asian major DBS launched a mobile-only bank (digibank) in India. It was a paperless, signatureless and branchless affair that combined biometrics and artificial intelligence (AI). Opening an account here takes 90 seconds and customer verification is done via Aadhaar. The speed and convenience have kept people hooked, and it has been able to attract 2.5 million customers in three years. More innovations have come in, and several debit and credit cards now allow you to use the tap-and-pay feature for cashless, contactless and PINless payments for up to ₹2,000. "People have a seamless experience when they book flights, taxis, hotels or movie tickets. Savings, investments and loans should be no different," says Shantanu Sengupta, Managing Director and Head of Consumer Banking Group at DBS Bank India.

India's central bank has kept pace with these changes, making sure that banking remains seamless and secure for account holders. The Reserve Bank of India (RBI) mandates that a customer will not be held liable if the fraud or negligence is on the part of the bank or has happened due to a third-party breach, provided the bank is notified within three working days. If an account holder reports it within seven days, his/her maximum liability will be limited to ₹25,000.

The RBI is changing the timings of national electronic fund transfer (NEFT) from December 2019, making it available 24x7, to encourage digital transactions. As of now, this channel can be used between 8 a.m. and 7 p.m. on working days. Timings of RTGS (real-time gross settlements) were also extended from 4.30 p.m. to 6 p.m. in June this year. Besides, the central bank has waived the processing charges levied on NEFT and RTGS to make online payments more attractive.

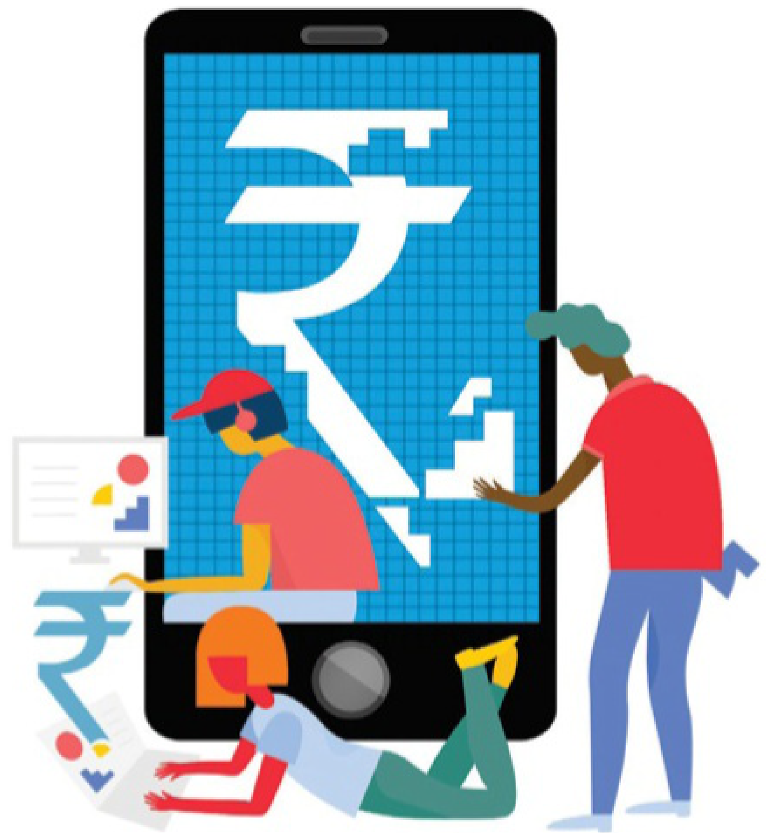
The National Payments Corporation of India (NPCI), which had launched Immediate Payment Service (IMPS) to enable interbank fund transfers, chipped in. The NPCI built a Unified Payment Interface or UPI based on the IMPS technology. It is a mobile platform that allows money transfers from one bank to another with the help of a virtual payment address, and users need not reveal crucial bank data. You can do much more with your UPI ID, though. Link it to pay your Uber or Ola or subscribe to IPOs on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). "The NPCI is considering the use of blockchain technology to enhance and promote this platform further," says Shah of Deloitte India.

The Fintech Push

It was the emergence of prepaid mobile wallets that inevitably changed the cashless payment landscape. Paytm was the best-equipped mobile payment service platform in those days but got an almighty lift after demonetisation in November 2016 and outpaced all until the launch of the UPI. The latter's growing popularity was a red flag to many, but a few dwindling e-wallets clawed their way back into the game by offering transactions via UPI. Players like

HOW DIGITAL PAYMENT LANDSCAPE IS CHANGING

- India's digital payments transaction value has reached $64.8 billion a year, as per an ASSOCHAM-PwC study.
- UPI recorded 822 million transactions with ₹1,46,387 crore value in July 2019.
- Bharat BillPay is emerging as the preferred platform for utility bill payments with 67.85 million transactions in July 2019.
- Google Pay has grown significantly after being launched on the BHIM UPI platform.
- The WhatsApp Payment pilot project is nearing completion.
- Pre-paid mobile wallets, after some hiccups, have started growing again.



PUSH FROM THE TOP

- The government has made it easier to do Aadhaar-based authentication.
- After RBI guidelines, mobile wallet interoperability will soon become a reality.
- The RBI has withdrawn NEFT and RTGS charges.
- SBI has waived off transaction charges for IMPS, NEFT and RTGS to promote digital payments.
- NEFT to become 24/7 from December 1, 2019.
- Fast adoption of the Bharat QR code is simplifying customer to merchant payments on UPI platform.
- The GST Council is likely to make it mandatory for shops with a certain turnover to offer the Bharat QR code payment option to customers.

EXPLAINING IMPS AND UPI

- The IT backbone of both transfer methods is the same; both allow instant money transfer from one bank account to another across banks.
- For IMPS transfer, you need beneficiary bank account details or MMID (Mobile Money Identifier).
- UPI allows you to transfer money with virtual payment address without disclosing your bank details.
- UPI-2 allows you to apply for IPOs and hold an overdraft account.
- Just like giving standing instructions to banks, you can give future payment mandates via UPI-2

NEW-AGE DIGITAL INSURANCE

- You can buy most insurance products online either directly or through an online intermediary.
- Insurers pass on the cost saved due to online buying and processing to the buyer.
- Many insurers have digitised the claim process for motor and term insurance
- Many are using video verification for motor insurance claim processing
- Wishfin has a Whatsapp-based facility to buy two-wheeler insurance

CUTTING EDGE MUTUAL FUND INVESTMENT

- Mutual fund houses and online distributors allow seamless mutual fund investment and liquidation.
- Direct plans, which save the distribution cost, can be bought from websites of fund houses.
- Digital platforms like Paytm Money and ET Money enable investors to buy direct mutual funds without charges.
- These platforms also offer investors a tool to compare the performance of the funds and get other insights.

Google Pay and PhonePe have seized this opportunity to enhance their reach on the UPI platform. But overall, Paytm continues to lead due to its wide range of offerings.

The rise of QR (quick response) code payment has also pushed cashless transactions between merchants and customers. A merchant accepting QR code payment prints his QR code profile to receive payment. A customer can scan it with a mobile app and pay through prepaid wallet, net banking or credit card, depending on the type of the QR code and the mobile app he/she is using. It is a cost-effective replacement of electronic data capture machines and NFC (near field communication) devices.

While many players offer their proprietary QR codes, a few work as aggregators and allow you to scan and pay for QR codes from multiple sources. For instance, ICICI Bank's m-banking app offers a QR scan feature that accepts QR codes from various platforms such as Visa, Mastercard, UPI, RuPay, BharatQR and ICICI Bank's mobile wallet called Pocket. In contrast, BharatPe is an aggregator and offers a QR code that works on multiple payment platforms. The BHIM QR code is UPI-based and mostly used for peer-to-peer (P2P) and peer-to-merchant (P2M) transactions using a virtual payment address. For the Bharat QR code, additional data elements such as merchant name, address and bank information are included as it is specifically used for P2M transactions wherein payments are made via cards. Here, each payment has to be authorised by an mPIN (passcode). This keeps your account safe even when you lose your phone as no one else knows the mPIN. If your phone is lost or stolen, contact your bank immediately and block all transactions through the app. QR code payments are likely to get bigger as the GST Council is planning to make them mandatory for shops with an aggregate turnover above a particular threshold.

Investments Go Digital

Open a Demat account within minutes (it is a paperless process) for online investments in stocks, futures & options, exchange-traded funds (ETFs), bonds and commodities. Also, seek professional help online from discount brokerage firms like Zerodha or 5Paisa, which charge a flat fee and keep it well below the charges of a traditional full-service broker. As per a July mandate, you have to use UPI payment for IPO application if you are a retail investor operating through a broker, depository participant or a registrar and transfer agent. "The new (payment) process will increase efficiency and eliminate the need for manual intervention and logistics at various stages," says Praveena Rai, COO of NPCI. "The UPI 2.0 mandate of one-time blocking also ensures that the amount remains blocked (and not gets debited) in the customer's account until the allotment is done, as is currently happening in the ASBA (applications supported by blocked amount) process."

Most mutual fund (MF) houses and several intermediaries allow customers to invest and redeem units online. Transact in direct plans online and enjoy cost advantage as you need not pay any commission to intermediaries. Then there are online platforms like Paytm Money, which direct people to these investor-friendly MFs. "We offer free-for-life MF investment accounts at zero fees, zero charges and no commissions. Most of our KYC requests are verified within 30 minutes and they are 100 per cent paperless. You need not courier paper documents or visit a brick-and-mortar service centre of an asset management company," says Pravin Jadhav, Whole Time Director at Paytm Money.

Breezy Insurance Experience

Insurers and their customers have benefited most as digital platforms offer wider reach, countless choices and operational ease. When policies are purchased online, companies save on precious distribution and processing costs incurred in offline deals. This saving is passed on to customers who buy policies online. In fact, online term insurance has gained popularity due to reduced premiums compared to offline pricing. And the same goes for health and auto insurances. "The digital platform is a low-cost point of sale, and studies show that by 2020, three out of four policies would be influenced online. Going digital has a disruptive impact on everything – from sales and marketing to post-sales services and claims management," says C.S. Sudheer, Founder and CEO of Bengaluru-based IndianMoney, an online platform offering free financial advice and education.

Vaidyanathan Ramani, Head of Product and Innovation at Policybazaar, a Gurgaon-based insurance aggregator and policy marketplace, concurs. "There are provisions for offering differential rates in the health insurance space and companies like Max Bupa and Star Health Insurance, among others, have differential pricing for online plans. In auto insurance, these provisions are part of the underwriting," he says. Besides, with all product information available online, buyers find it easy to compare policies, make informed decisions and save on costs.

People buying life insurance has a different agenda altogether – that of fast and smooth claim settlement in case of an untimely death. Automated claim processing becomes a necessity in such cases, but insuretech in India is mostly limited to sales and distribution instead of claim disbursal. The scenario is changing, albeit slowly. The Insurance Regulatory and Development Authority of India (IRDAI) is taking proactive steps to make claim settlement more efficient and transparent. And technology has stepped in to enhance the customer experience. "A few companies have been able to digitise almost all the steps involved in the claim process. For instance, notification and registration of claims are always done online, and agreement (closure with the customer) is mostly done that way. The payment part, as per the IRDAI regulation, has been digitised as well. However, loss assessment is largely done offline. Companies usually commission these to their internal assessors or qualified third-party experts," says Ramani. Some companies, especially those in auto and travel insurance space, have already started using AI and blockchain technology for processing damage claims. But these procedures need to evolve and scale.

Inheritance is another tricky topic when there is a death in the family. Of course, a last will and testament, properly done, would leave no scope for confusion. But people rarely make their wills due to a lack of procedural knowledge and the perceived difficulty in execution. This should not trouble you anymore as online will writing companies abound and your insurer can help as well. One such company is Aviva Life Insurance. "Now that we have launched the Aviva will writing service for free, the company aims to educate people on the importance of making a will. It makes inheritance smooth and hassle-free when a person is no more. With the help of our service, users can draft a will within 15 minutes, in three simple steps," says Anjali Malhotra, Chief Customer, Marketing, Digital and IT Officer at Aviva Life Insurance.

Online Lending Touches More Lives

Online borrowing has evolved dramatically due to digital innovations. In the beginning, lenders and intermediaries came online to carry out initial enquiries. Next came loan processing. Now, much of the assessment is done online so that both existing and new borrowers (without any credit history) can get loans from banks, NBFCs or P2P lending platforms. This has become possible with the development of new credit appraisal models which work on personal profiles and digital footprint of the borrowers.

"Around 30 per cent of customers are without any credit history. We consider all such applicants after going through more than 100 different data point checks, analysed by digital algorithms. It gives us an in-depth analysis of personal, professional and financial status. If an application passes through all algorithmic checks, it gets approved," says Bhavin Patel, Co-founder of LenDenClub, a Mumbai-based P2P lending marketplace. According to Aditya Kumar, Founder and CEO of Bengaluru-based personal loan provider Qbera, "Fintech lenders have a clear edge in terms of quick turnaround, tenure and flexibility. They provide easy and convenient access to credit for working-class professionals. They also ensure that individuals with subprime credit scores or those employed with unlisted companies get access to credit."

BORROWING ONLINE WITHOUT HASSLE

- **Most leading banks and NBFCs have starting offering instant online credit facility to existing customers.**
- **Most such loans are offered to customers who have a good repayment record and high credit score.**
- **There is a surge in the number of fintech players offering instant credit facility even to customers who are new to credit.**

Effortless Tax Filing

All individual taxpayers, barring those above 80 years, must file their income tax returns (ITRs) online to make the entire ecosystem fast and efficient. Accordingly, the Income Tax department has introduced an auto-fill feature for filling in ITR forms. These forms require your details (name, address, etc.) and financial data – vital information like TDS deduction as listed in 26AS. When you are filing ITR, make sure that the data there is correct and tallies with all relevant documents. Most of the salaried persons have to file ITR-1, and the auto-fill feature will help. But you need to check and update the information as required for hassle-free ITR filing. BT

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GUARD UP!

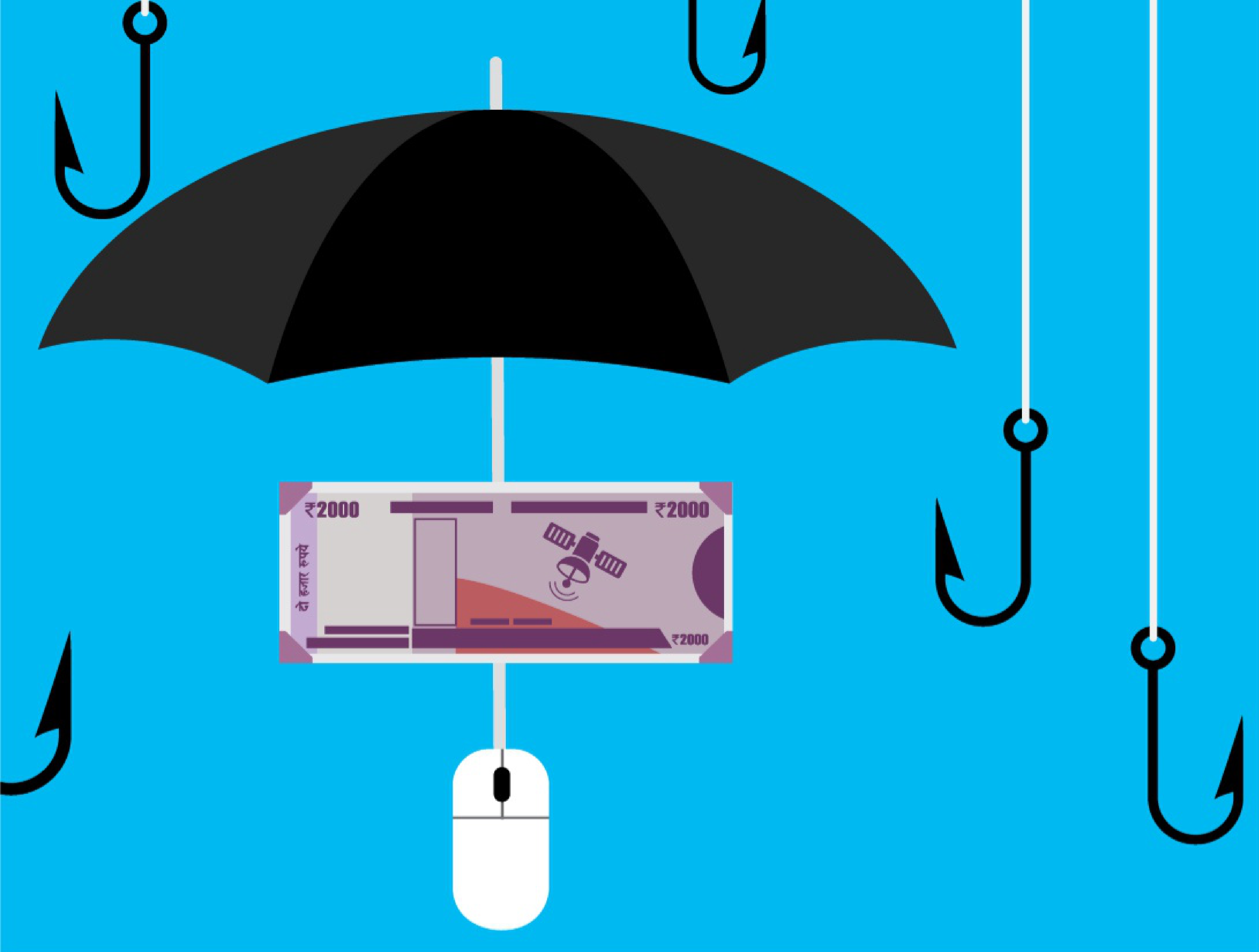
As online hacking into personal and financial data becomes more sophisticated and invasive, take these steps to insure yourself against losses.

By RENU YADAV
Illustration by Raj Verma

Sunetra Aggarwal (not her real name), a Delhi-based IT professional, is an avid Internet user. With rising digitisation, it has been a cinch for her to do all her banking, shopping and cab/ticket bookings online. She is also active on social media and accesses endless entertainment via OTT platforms. It was convenient and cost-efficient for some time until she faced a couple of phishing and vishing attacks. She got a mail, presumably from the Income Tax Department, prompting her to claim a tax refund by giving bank details for money transfer. The vishing (voice or VoIP phishing) attempt that followed was more alluring. The person who called her said he was a bank employee and needed credit card details to convert her reward points into cash. A cautious Aggarwal emerged unscathed, but these incidents underline the dire consequences if rising cyberattacks against consumers are not addressed.

"According to a survey by Symantec Norton, close to 978 million individuals all over the world fell prey to cybercrimes in 2017. An Assocham-NEC study in the same year estimated that cybercrimes in India rose 457 per cent between 2011 and 2016. The biggest financial loss during this period amounted to ₹70 lakh," says Jayant Saran, Partner at Deloitte India.

Typically, people do not realise how serious these threats are or how big the damage could be. Poor awareness, coupled with the growing sophistication of cyberthreats, means there is a strong case for buying cyber-risk insurance. For more than a decade and a half, businesses have been purchasing such coverage to mitigate these risks, but cyberinsurance for individuals is a recent phenomenon. In India, Bajaj Allianz was the first general insurance company to launch such a policy. Its Individual Cyber Safe scheme covers financial losses, data restoration costs and defence or prosecution costs related to cyberattacks. The cover ranges



from ₹1 lakh to ₹1 crore. HDFC Ergo came out with a similar policy last September, but its e@secure cover starts from ₹50,000. Here is a look at what these policies cover and whether you should opt for them.

How You Benefit

Coping with monetary losses: A cyberinsurance policy would cover all financial losses caused by unauthorised online transactions. If you are a victim of phishing or e-mail spoofing and have been duped into providing financial information or making an online transaction, the insurer will cover your losses. But in case you are claiming compensation from a bank or financial institution, you cannot claim the money from your insurer. Any amount recovered from the bank/financial institution should also be notified to the insurance company. If you have lost money due to identity theft or data breach, the same will be covered by your insurance company. It will also pay the cost of correcting the records. For instance, if a fraudulent transaction has impacted your credit score, your insurer will pay the amount needed for data restoration.

Staying safe on social media: Cyberbullying and cyberstalking on social media are on the rise – a grim reality considering the kind of personal information people share on these platforms. Karnika Seth, a cyberlaw expert and founder of Noida-based Seth Associates Law Firm, says the number of cases has gone up. She is handling at least three-four cases a day. The cyberspace is full of bullies who want to tarnish people's reputation by posting defamatory comments or pictures in poor taste. Cyberstalking could be more personal as one is attacked via e-mail, messenger apps or other online mediums. However, both could cause the victim emotional and psychological trauma. If the person insured needs to consult a psychologist to deal with the situation,

What Is Covered

Financial losses due to **unauthorised transaction**

Financial losses due to **phishing, e-mail spoofing,** identity theft and e-extortion

Legal cost of a **criminal suit filed by the insured** for identity theft, data and privacy breach, or cyberstalking

Legal fees for **claiming damage from financial institutions**

IT costs for **data restoration/ online content removal**

Psychologist's fee when **services are required to deal with stress** (comes under social media cover)

Cost to rectify records with financial institutions

All devices used by individuals

Transportation and **photocopying costs under various clauses of the policies**

the cost will be borne by the insurance company, subject to the sub-limits. Besides, it will pay for IT services to remove the content and also bear the cost of a lawsuit, either initiated by the insured or filed against him/her, for social media abuse.

Dealing with legal costs: Unlike the social media cover, the legal options here are wide open. Insurers cover the costs of legal consultation and criminal lawsuits against third parties in cases such as financial fraud, identity theft, data or privacy breach and cyberstalking. If you are seeking compensation from a bank or financial institution for any loss caused by a fraudulent online transaction, your insurer will bear the legal expenses of the procedure. Overall, legal coverage includes legal fees; transportation costs; call charges, postage and bank charges, if any. HDFC Ergo also provides for loss of wages for up to seven days.

All legal expenses must be incurred within the jurisdiction of Indian courts, though. And these costs could be astronomical – again, an excellent reason to buy a policy. According to Seth, cost of prosecution depends on the stake involved and may range from ₹50,000 to ₹10-15 lakh or more.

Read the Fine Print

As cyberinsurance is still evolving, one should thoroughly check the fine print and opt for the most comprehensive coverage. Keep in mind that both policies available in the consumer space have sublimits. Bajaj Allianz provides cover against 10 clauses with sublimits ranging from 10 to 25 per cent. So, if your sum assured is ₹5 lakh and the sublimit is 10 per cent, you will get ₹50,000 against a particular cover. HDFC Ergo has eight covers where sublimits vary between 10 and 100 per cent. There are a few clauses where HDFC is offering better coverage, and this could be the reason for a higher premium (see *What You Pay*). It also has deductibles of ₹3,500 for sum assured starting from ₹5 lakh.

There are other significant differences. Under HDFC Ergo, legal expenses are covered up to 100 per cent of the sum assured compared to 10 per cent under Bajaj Allianz. Plus, HDFC has a sublimit of 25 per cent for identity theft compared to Bajaj's sublimit of 10 per cent. It also provides 100 per cent coverage against fraudulent online transaction while Bajaj does not have 100 per cent coverage against any of its clauses. The latter's cover against malware is in-built with a sublimit of 10 per cent, but under HDFC, it is available as an add-on with a sublimit of 10 per cent. Moreover, HDFC Ergo provides a family cover as an add-on, but Bajaj Allianz does not offer it. If you want to add the members of your family, you will have to buy individual policies.

What Is Not Covered

Any unauthorised financial transaction happening offline

If an unauthorised transaction has happened **due to your credit/debit card being swiped** at a store

Unauthorised **ATM cash withdrawal**

Damage to reputation caused by media reports or **any physical medium of communication**

Anything written by a journalist against the **insured**

Any claim **arising outside India**

Legal proceedings against a **third party prior to the commencement** of the policy

WHAT YOU PAY

Sum Assured	Annual Premium	
	HDFC Ergo's E@secure	Bajaj Allianz's Individual Cyber Safe
₹1 lakh	₹1,938	₹662
₹5 lakh	₹3,524	₹1,823
₹20 lakh	₹6,167	₹4,187
₹50 lakh	₹10,044	₹6,156
₹1 crore	₹14,273	₹8,933

Source: Companies; annual premium does not include GST

Should You Buy?

"We live in an increasingly connected world where the amount of personal data being generated, transmitted and stored on various digital devices is growing exponentially. The critical nature of this data and the complexity of the systems that support its transmission and use have created a gamut of cyber-risks," says Sasikumar Adidamu, Chief Technical Officer, Bajaj Allianz General Insurance. Add to that offensive AI, which could make it more threatening than any real-world heist. Hence, an insurance shield is mandatory nowadays. However, the type of coverage and the insurance amount will largely depend on one's online presence and activities. "It is best to consider an individual's average spending online or credit card/e-wallet limit to ascertain the sum insured. An adequate cover will depend on the risks to which a person is exposed," says Anurag Rastogi, Chief Actuary and Chief Underwriting Officer at HDFC ERGO General Insurance.

The products discussed here are relatively new and likely to improve as more data, use cases and customer feedback pour in. We may see sub-limits increase or get removed altogether, or premiums may go down as more companies and consumers enter the domestic market. But even now, one cannot afford to ignore the risks. "Whoever deals in this online world will need the cybercover sooner than later. I would recommend it to every adult as most of the transactions are now done online," says Rakesh Goyal, Director at Mumbai-based Probus Insurance. Seth, however, is more concerned about social media misuse. "If you are a celebrity and have a good presence on social media or an individual who is very active on those platforms, you should have a cyberinsurance policy," she says. BT

@renuyadav08

MONEY MATTERS

Managing your money can be tricky. Send your queries, and personal finance experts will help you resolve any issue.

Health Insurance

Rajesh Shukla: **I have a corporate health cover of ₹3 lakh for my family. I am now planning to buy a ₹10 lakh super top-up plan with a deductible of ₹3 lakh. Will this new plan work in the absence of a base plan when I leave my job?**

Anand Roy, *Joint Managing Director of Star Health and Allied Insurance, replies:*
Yes, it will work when you leave the company. But as you may be aware, a top-up policy does not cover the deductible part. For instance, if your hospital bill amounts to ₹3.75 lakh, the top-up plan will only pay ₹75,000 (depending on terms and conditions). You have to pay the deductible amount of ₹3 lakh from your pocket in the absence of a base plan. To avoid this situation, you should buy a standalone health insurance policy for the entire family, and the sum insured should be at least ₹10-15 lakh.

Taxation

Narender Kumar: **I am a private sector employee and planning to open an NPS (National Pension System) Tier-II account. But I want to understand its tax implications. I may also invest in equity, corporate bonds or G-secs, but would like to know more about taxes on short-term and long-term capital gains.**

Divya Baweja, *Partner at Deloitte India, replies:*
The NPS comes with two accounts – Tier I and Tier II. The first is a non-withdrawable retirement account featuring several tax breaks. The second is a voluntary account that allows Tier-I account holders to invest and withdraw money whenever they want. When you take out your money from a Tier-II account, the tax liability will be similar to mutual fund redemption and will be treated as capital gains. One has to pay security transaction tax or STT for equity-oriented funds, and the gains will be taxable as follows: Long-term capital gains: 10 per cent without indexation in case the amount is higher than ₹1,00,000; short-term capital gains: 15 per cent. As for debt-oriented funds, long-term gains are taxable at the rate of 20 per cent with indexation, and short-term gains are taxable at slab rates.

Investment

Saket Lokhande: **I have a two-year-old son, and I am planning to save ₹20 lakh in the next 15 years for his higher education. I can save ₹2,000 every month. Should I invest this amount in PPF to reach my goal? I will be able to save more after five years.**

Rajesh Cheruvu, *Chief Investment Officer of Validus Wealth, replies:*
Equities give volatile returns in the short term but tend to perform better than debt investments in the longer term. As you have enough time to reach this goal, you can stay invested in equities for bigger returns. Monthly SIPs in mutual funds will help you get through market volatility. But one should not invest in stocks without market understanding or financial knowledge. PPF rates tend to move in line with ongoing policy rates. The current rate is 7.9 per cent, slightly above the fixed deposit rates. Also, investments in PPF will have a 15-year lock-in period.

Inflation must be taken into consideration as it will substantially increase the amount required. Annual inflation of 5 per cent means you must have an education corpus of ₹42 lakh, more than double of what you are planning. A monthly SIP of ₹2,000 will not be enough as you will get ₹10 lakh in 15 years, assuming a 12 per cent CAGR. If you invest the same in PPF, you will get ₹7 lakh at the current PPF rate. So, you should start a minimum monthly SIP of ₹5,000, which will lead to a corpus of ₹23 lakh in 15 years (at 12 per cent CAGR). A higher amount (say, ₹9,000) is recommended to beat inflation and accumulate ₹42 lakh in 15 years. The amount needs to be higher if you invest in PPF as expected returns will be lower than equity investments. BT

Please send your queries to moneytoday@intoday.com

A CAUSE FOR CHEER

The introduction of additional tax benefit in this year's Union Budget gives you more reasons to buy a home.

By NAVEEN KUMAR

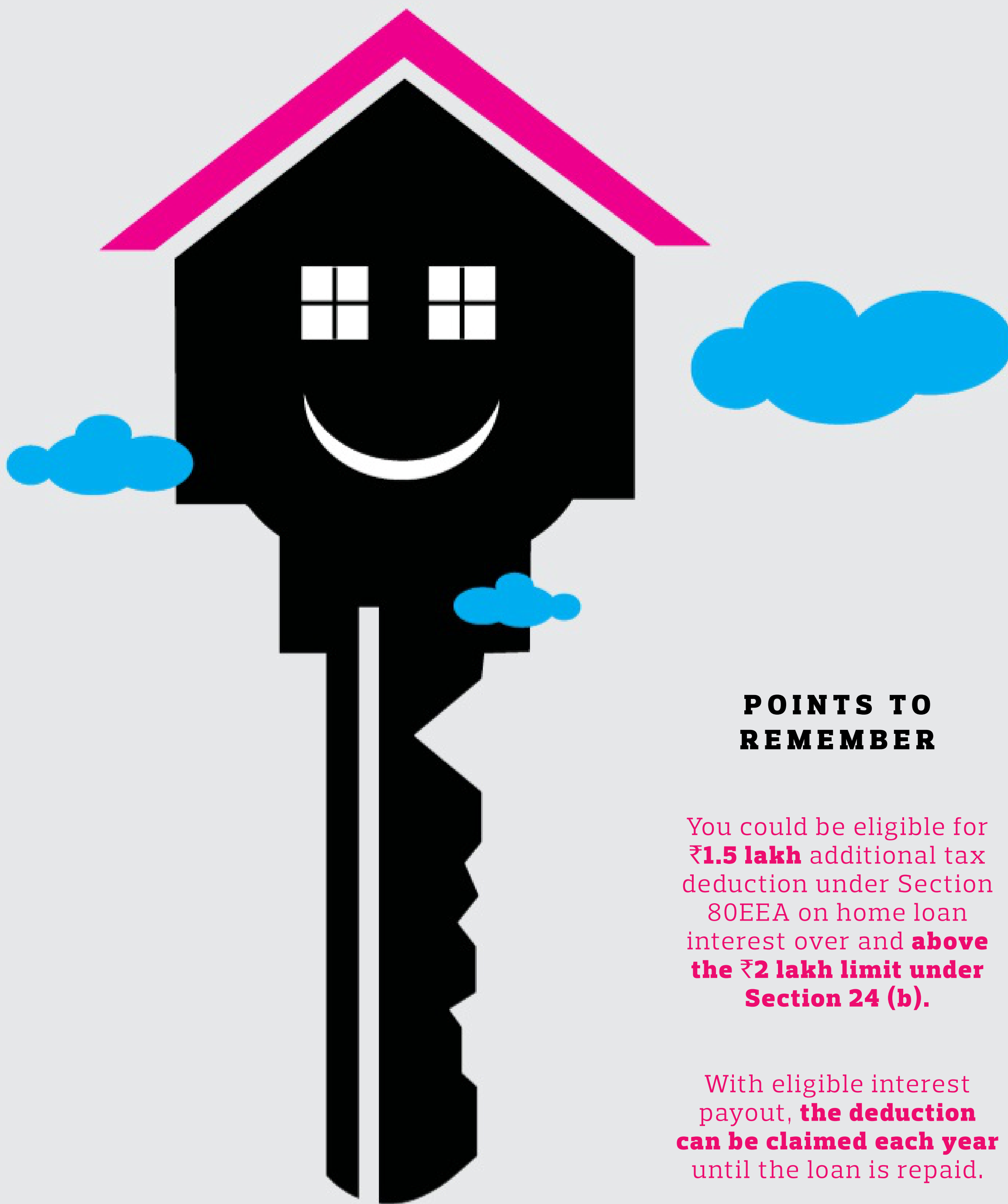
Illustration by SAFIA ZAHID

Homebuyers have a reason to cheer after Finance Minister Nirmala Sitharaman presented the Union Budget on July 5. In a bid to boost Housing for All, the government has introduced an additional income tax deduction of ₹1.5 lakh on the interest paid on home loan under Section 80EEA. It comes with a few riders, though, but before we get there, let us look at the current scenario. All existing borrowers are already eligible for an annual deduction of up to ₹2 lakh under Section 24(b) until their loans are paid off. The additional deduction will be over and above the ₹2 lakh limit. "Deductions under Sections 24(b) and 80EEA are independent of each other, and the interest you are paying cannot be considered for both sections. However, you can claim an aggregate deduction of ₹3.5 lakh per year (using each Section separately)," says Kuldip Kumar, Partner and Leader, Personal Tax, at PwC India. You can claim the additional benefit only when the annual interest on your home loan exceeds ₹2 lakh. Otherwise, your tax benefit will be limited to Section 24(b) as before.

Now comes the caveat. Only individual taxpayers who do not own any property on the day of the home loan approval can avail of this additional deduction. So, housing co-operatives, HUFs (Hindu Undivided Families) or companies cannot benefit from this provision. The property under question can be self-occupied or let-out, but the housing loan should be taken only from a financial institution such as a bank or a housing finance company.

What Homebuyers Need to Know

Property size: There is a cap on the size of the property. "Carpet areas have been specified in the memorandum of the Finance Bill 2019. The carpet area should not exceed 60 sq. m. (645 sq. ft) in metropolitan cities of Bengaluru, Chennai, the National Capital Region (limited to Delhi, Noida and Greater Noida, Ghaziabad, Gurgaon and Faridabad), Hyderabad, Kolkata and Mumbai (entire Mumbai Metropolitan Region). In other cities or towns, it should not be more than 90



sq. m. (968 sq. ft.)," says Anshuman Magazine, Chairman and CEO (India, South-east Asia, Middle East and Africa), CBRE.

Given the cap on property sizes, this is bound to help people purchase smaller units and thus boost the affordable housing segment. "Usually, 1-BHK flats would have a carpet area of 645 sq. ft, the maximum permissible space for properties located in metropolitan cities. The other provision for non-metros would mostly cover 2-BHK flats," says Rishi Mehra, CEO of Noida-based financial services company Wishfin.com.

Property value & loan amount: To get the additional tax benefit, the stamp duty value of the property should not exceed ₹45 lakh. "But there is no cap on the loan amount, and one can borrow to cover the cost of the house property if it is in sync with the stamp duty value. However, the loan must be approved between April 1, 2019, and March 31, 2020, by a financial institution," says Kumar of PwC India.

Although there is no official cap on the loan amount, it cannot be more than ₹45 lakh, points out Mehra of Wishfin. "The cap in the property value means the maximum loan amount would most likely be ₹36 lakh, going by the loan-to-value ratio used by lenders nowadays. This is how it works. A loan amount between ₹30 lakh and ₹75 lakh is usually granted at 80 per cent of the property value. If a lender has a provision for financing more than 80 per cent in the said loan range, the maximum loan limit may exceed ₹36 lakh," he says.

When property is jointly owned: As properties are often purchased jointly, one should also know the terms and conditions in such cases. "Those claiming deduction under 80EEA must be co-owners, co-borrowers and must contribute to the loan EMI," says Archit Gupta, Founder and CEO of Bengaluru-based fintech company ClearTax. Each joint owner can claim a tax deduction up to ₹1.5 lakh, subject to fulfilling all other conditions.

How You Gain

As Section 24(b) already provides a deduction up to ₹2 lakh, the additional benefit will benefit people whose property value is more than ₹20 lakh or even higher. "The average interest rate for this loan quantum can be anywhere between 8.75-9.20 per cent per annum. Assuming that an individual has availed of a loan of ₹36 lakh for a house property valued at ₹45 lakh on April 2, 2019, for 20 years, the interest payment can amount to ₹3,12,256-3,28,472 until March 31, 2020. This is a much larger amount than ₹2 lakh, and therefore, the additional tax deduction will be helpful," explains Mehra of Wishfin. In this case, you will be paying an interest amount above ₹2 lakh for half the loan tenure. So, you should continue claiming the additional deduction until that time. BT

@naveenkumar80

POINTS TO REMEMBER

You could be eligible for **₹1.5 lakh** additional tax deduction under Section 80EEA on home loan interest over and **above the ₹2 lakh limit under Section 24 (b).**

With eligible interest payout, **the deduction can be claimed each year** until the loan is repaid.

Property should be registered between April 1, 2019, and **March 31, 2020.**

The stamp value of the property **should not be more than ₹45 lakh.**

For metro cities, the carpet area **should not exceed 645 sq.** ft.; for non-metros, it should not be more than **968 sq. ft.**

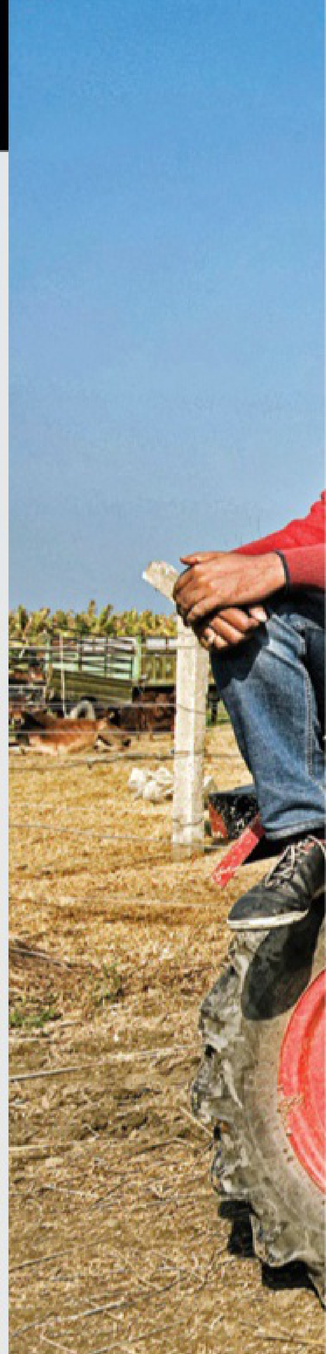
Home loan should be taken from **financial institutions** such as banks or housing finance companies.

On the day of loan approval, **the buyer should not own any other property.**

PLAN WISELY FOR LIFE GOALS

The Sain family should liquidate one real estate asset and invest in aggressive hybrid equity funds, says Mumbai-based Financial Planner **Pankaaj Maalde.**

Photograph By SHEKHAR GHOSH



Noida-based Sameek Sain, 40, and his wife Madhumita, 35, both engineers, want to stop working a couple of years before the usual retirement age. Both plan to retire at 55 and need to build a retirement corpus of nearly ₹5 crore for their golden years. They are also planning to put together ₹50 lakh for the education of their four-year-old son Sayonav and another ₹15 lakh for his marriage. Besides, they want to go on a dream vacation in 2022, which will cost around ₹5 lakh.

The couple brings home a combined monthly salary of ₹2.39 lakh and also have assets worth ₹1.54 crore, including two residential properties (₹54 lakh and ₹40 lakh) and a commercial property (worth ₹32 lakh), bank balance of ₹1.5 lakh, ₹21 lakh in EPF and PPF and an investment of ₹6 lakh in equity mutual funds. They have an outstanding home loan of ₹26 lakh for which they pay an EMI of ₹27,000. Household expenses cost around ₹66,000 while Sameek contributes ₹10,000 a month to his dependent parents. The couple has purchased four traditional life insurance plans and pays a total annual premium of ₹1.37 lakh. Plus, there is a family health insurance plan worth ₹5 lakh for which an annual premium of ₹30,000 has to be paid. The monthly outflow leaves a surplus of ₹1.06 lakh.

On the plus side, they have already invested in equity mutual funds to grow their wealth and the healthy surplus can be invested wisely to fulfil in all long-term goals. On the other hand, the duo must make provisions for emergencies and do away with their home loan at the earliest. Over-reliance on real estate is not desirable either. As realty accounts for 72 per cent of their total investment, the family should sell their second home to repay the ongoing home loan and free up funds for goal planning (see table *In-flow-Outflow*). The financial road map given here is based on the information provided by the couple. We also assume that dual income will continue until Sameek's retirement.

Action Plans for Now

Contingency: They should have a contingency fund to cover all expenses for three months. The savings bank balance of ₹1.5 lakh has been allocated for this, but it should be increased later to cover six months' expenditure. The money should be kept in ultra-short-term funds for easy liquidity.

Life insurance: As mentioned before, the family has already bought four traditional (LIC) plans, and these should be continued as part of the debt portfolio as the IRR of these plans is likely to beat inflation. As per the need-based theory, none of the spouses is adequately covered. Therefore, Sameek should get an online term plan of ₹1 crore for 20 years, and his wife should purchase a plan worth ₹75 lakh for the same tenure. Together, these will cost around ₹25,000 a year.

Health and disability plans: The

company where Sameek works provides a health cover of ₹5 lakh for the entire family. However, one should not rely on employer-provided health insurance alone as it will not be valid when one leaves the job or retires. Therefore, on the top of the existing health policies, the couple should purchase a separate family floater plan for ₹10 lakh sum assured, which will cost around ₹20,000 a year. Sameek and Madhumita should also get accident disability covers of ₹50 lakh and ₹25 lakh, respectively, at a total cost of ₹12,000 per annum.

Action Plans for Bigger Life Goals

Retirement: Both Sameek and Madhumita plan to hang up their boots at 55 and they will need a retirement fund of ₹4.85 crore, assuming monthly expenses of ₹60,000 in current value (after factoring 7 per cent inflation) and a life span of 80 for both. Their current investments in commercial property, mutual funds and LIC, as well as EPF and PPF balance, could help build a corpus of ₹2.65 crore. For the rest, the couple is required to start a monthly investment of ₹50,000 and put it in aggressive hybrid equity funds via SIP (see table *Retirement Funding*).

Son's education and marriage: The couple should start a monthly SIP of ₹35,000 in aggressive hybrid equity funds to amass ₹50 lakh in today's value (future value will be ₹1.30 crore) by the time their son is 18 years old and ready for higher education. A marriage fund of ₹25 lakh in today's value (future value will be ₹1 crore) will be needed when Sayonav turns 25. To accumulate the desired corpus, they have to start a monthly SIP of ₹22,500, again in aggressive hybrid equity funds, and invest ₹2,500 per month in the government's gold bond schemes.

Dream vacation: The couple should start a monthly recurring deposit of ₹15,000 for three years or park the amount in an ultra short-term fund to meet this goal. BT

As told to Renu Yadav

If you need help on how to manage your money and want expert advice, write to moneytoday@intoday.com.

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MONTHLY INFLOW/ OUTFLOW

	Current	Recommended
Net take-home salary	2,39,000	2,39,000
Total Inflow	2,39,000	2,39,000
Household expenses	66,083	66,083
Child's education	15,000	15,000
Contribution to dependents	10,000	10,000
Loan EMI	27,000	0
Life insurance	11,417	13,500
Health insurance	2,500	4,167
Disability insurance	0	1,000
Total Outflow	1,32,000	1,09,750
Savings	1,07,000	1,29,250
Actual Investments	1,000	1,25,000
Surplus	1,06,000	4,250

Recommended monthly investments: ₹35,000 for son's education, ₹25,000 for son's marriage, ₹15,000 for dream vacation and ₹50,000 for retirement

RETIREMENT FUNDING

Investment Assets Utilised	Current Value (in ₹)	Term (in years)	Assumed Rate of Return	Future Value (in ₹)
Commercial property	32,00,000	15	7.00%	88,29,000
Equity MF	6,00,000	15	10.50%	26,83,000
Life insurance maturity	NA	15	0.00%	60,00,000
PPF	5,00,000	15	7.00%	13,80,000
EPF*	16,00,000	15	7.00%	76,41,000
Total				2,65,33,000

*Assuming they will work until 55 and contribute to EPF

THE WINNERS

Large-cap and multi-cap funds have held on to their gains while others have seen some correction

Fund Name	Assets (In ₹Cr)	% Assets in Top 10 Holdings	No. of Hold-ings	Net Expense Ratio	Returns (In %)			
					6 mths	1 Year	3 Years	5 Years
Large-Cap								
Mirae Asset Large Cap Reg Gr	13,492	47.25	64	1.76	3.14	0.75	11.20	13.04
Axis Bluechip Fund Gr	6,501	60.47	35	2.02	7.92	0.73	12.56	11.33
Reliance Large Cap Gr	12,261	51.12	50	1.86	0.88	-0.24	10.19	11.05
SBI Bluechip Reg Gr	21,585	47.15	53	1.70	5.57	-2.42	6.39	10.75
ICICI Pru Bluechip Gr	21,125	48.62	63	1.83	2.69	-2.11	8.77	9.78
MidCap								
Kotak Emerging Equity Reg Gr	4,321	31.45	69	2.02	1.15	-8.25	6.00	13.85
L&T Midcap Gr	4,805	24.01	82	2.01	-4.70	-14.02	7.26	13.05
DSP Midcap Reg Gr	5,856	32.95	51	1.97	1.57	-8.55	6.23	12.76
Franklin India Prima Gr	6,686	27.64	64	1.87	-1.19	-7.67	5.49	12.24
Axis Midcap Gr	2,634	41.41	39	2.18	2.09	-3.18	9.73	11.62
Small-Cap								
SBI Small Cap Fund Reg Gr	2,255	35.50	46	2.35	0.48	-9.43	10.80	18.29
Reliance Small Cap Gr	7,542	18.65	127	2.03	-5.22	-15.26	8.25	13.67
L&T Emerging Businesses Reg Gr	5,611	22.53	88	2.02	-8.03	-18.62	8.03	12.94
HDFC Small Cap Gr	7,894	25.74	76	1.94	-8.41	-14.69	9.01	12.27
DSP Small Cap Reg Gr	4,571	32.02	77	2.03	-4.25	-15.42	-0.07	11.69
MultiCap								
Motilal Oswal Multicap 35 Reg Gr	12,413	61.37	27	1.86	1.36	-9.11	7.65	15.14
Kotak Standard Multicap Reg Gr	24,960	45.91	60	1.75	3.92	-1.91	9.89	13.44
SBI Magnum Multicap Reg Gr	7,465	43.92	58	1.82	5.43	-1.08	8.46	13.10
Aditya BSL Equity Gr	10,694	43.84	73	1.93	0.44	-4.45	8.23	10.75
ICICI Pru Multicap Gr	3,940	39.90	75	2.15	2.30	-2.61	7.83	10.68
ELSS (Tax Savings)								
Axis Long Term Equity Gr	18,953	64.96	33	1.76	8.14	-3.03	9.62	12.92
Kotak Taxsaver Reg Gr	896	46.48	55	2.43	3.90	-0.15	8.62	12.16
Aditya BSL Tax Relief 96 Gr	8,416	55.97	45	2.04	-4.27	-10.27	7.05	11.86
DSP Tax Saver Reg Gr	5,434	40.51	66	1.90	5.41	-1.30	8.10	11.72
Aditya BSL Tax Gr	572	57.41	46	2.43	-4.79	-11.28	6.43	11.12

Returns are as of 31 July 2019
Funds are ranked on the basis of five-year performance
AUM filter of minimum ₹500 Cr has been applied
Returns of six months and one year are absolute, while returns of more than one year are annualised;
All portfolio related data is as of July 2019 end; expense ratios as per latest available disclosures by AMCs in monthly factsheets
Source: Morningstar

IT'S A DEAL

The most competitive loan and deposit rates in the market

SMALL SAVINGS SCHEMES

Instruments	Interest rate (%)*
1 year Time Deposit	6.90
2 year Time Deposit	6.90
3 year Time Deposit	6.90
5 year Time Deposit	7.70
5 year Recurring Deposit	7.20
5 year Senior Citizens Savings Scheme	8.60
5 year Monthly Income Account Scheme	7.60
5 year National Savings Certificate	7.90
Public Provident Fund Scheme	7.90
Kisan Vikas Patra	7.60
Sukanya Samriddhi Account Scheme	8.40

Source: CMIE, Loan data from Wishfin
For quarter ended September 2019

HOME LOAN:
Floating Rate;
Interest Tenure – Up to 20 years
For Salaried Person

Bank	₹50 lakh
SBI	8.75%–8.90%
LIC Housing Finance	8.75%–8.95%
HDFC Ltd.	8.80%–9.35%
Axis Bank	8.90%–9.05%
ICICI Bank	9.15%

FIXED DEPOSITS

For amount less than ₹1 crore (regular)

Bank	1 year
RBL Bank	7.90%
Lakshmi Vilas Bank	7.75%
IndusInd Bank	7.60%
DBS Bank	7.50%
Bandhan Bank	7.35%

Bank	2 years
IDFC Bank	8.50%
RBL Bank	8.00%
Lakshmi Vilas Bank	7.85%
IndusInd Bank	7.75%
Bandhan Bank	7.65%

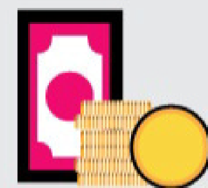
Bank	5 years
Lakshmi Vilas Bank	7.85%
Bandhan Bank	7.65%
RBL Bank	7.60%
IDFC Bank	7.50%
IndusInd Bank	7.35%

CAR LOAN:
For New Cars,
Tenure– 7 years

Bank	Interest Rates
PNB	8.90%–9.35%
Axis Bank	9.05%–11.30%
SBI	9.15%–9.85%
ICICI Bank	9.30%–12.85%
HDFC	9.65%–10.60%

EDUCATION LOAN:
Loan Amount – Up to ₹7.5 lakh
Tenure – 15 years

Bank	Interest Rates
PNB	8.40%–10.30%
SBI	8.60%–10.40%
Canara Bank	8.60%–10.60%
IDBI Bank	8.65%–10.30%
Central Bank of India	9.00%–10.50%



PERSONAL LOAN:
Loan Amount – Up to ₹15 lakh
Tenure – Up to 5 years

Bank	Interest Rates
SBI	10.90%–15.30%
Bajaj Finserv	10.99%–16%
ICICI Bank	10.99%–18.49%
Kotak Mahindra Bank	10.99%–20.99%
HDFC Bank	11.25%–21.50%

GO AHEAD AND TOTAL UP ALL THE PEOPLE WHO LIVE IN BAHRAIN, QATAR, AND OMAN.

YOU NOW KNOW THE MILLIONS OF READERS MAGAZINES HAVE ADDED SINCE 2017.

The math is simple. You are looking at almost 90 lakh new magazine readers in India. (85.90 lakhs to be precise.) Or a gain of around 9 million readers across the last 2 years. Considering this is part of the new IRS (Q1 IRS 2019), you now have millions of reasons to reinforce your magazine plan. With 63% of magazine-reading India younger than 30, your media plan can now reach an even bigger chunk of an India that's eager to buy. Who knows by next year, we might have to use very different comparisons to give scale to our numbers.

banginthemiddle

THE BREAKOUT ZONE

P.116 BUILD IT LIKE A CODER

P.120 SETTING GOALS BEYOND CSR

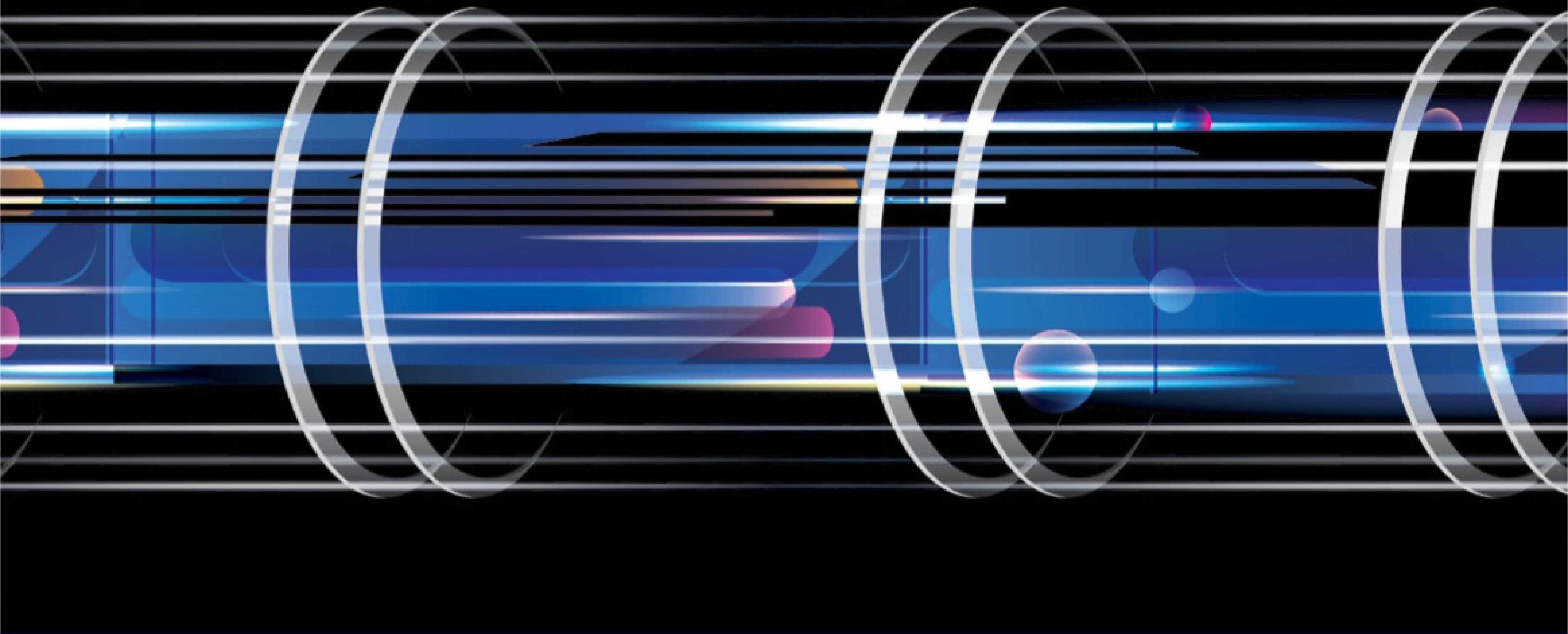
P.122 LEADERSPEAK: VIVEK BHALLA

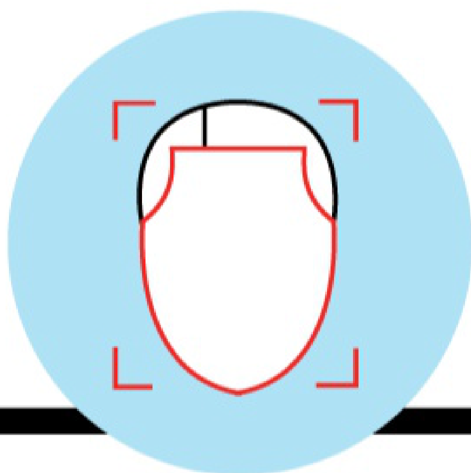
SMART COMMUTE

TRAVELLING AT SONIC SPEED

The Hyperloop is not just incredibly fast but also syncs with an automated traffic management system.

Illustration By Raj Verma





TECH BLUES

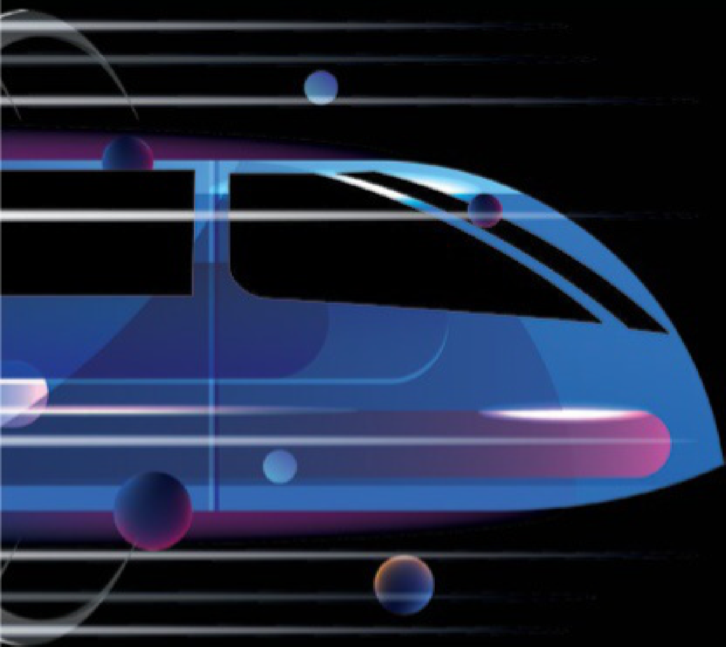
CAN WE BLOCK FACE RECOGNITION?

WHERE THERE is technology, there will be anti-technology protests. The growing use of face recognition in China and elsewhere is unsurprisingly leading to a backlash from those at the receiving end. The privacy threat cannot be underestimated either as this technology can be duped by photographs or 3D-printed heads.

One way to ward off facial recognition is to attack the software. That is what Joey Bose, a student of Computer Engineering at the University of Toronto, did a year ago. The tool he developed is called

INDIA'S PLAN to set up a Mumbai-Pune Hyperloop stretch and slash the four-hour road trip to 35-odd minutes is now a step closer to reality. The Maharashtra government recently gave it the status of a public infrastructure project and paved the path for companies to bid for this autonomous, superfast and zero-emission transit system.

If that sounds exciting, so is the technology behind Hyperloop, the brainchild of tech billionaire Elon Musk and his company SpaceX. The concept: People and cargo will move in pods at about 90 per cent of the speed of sound, either at ground level or below it. The pods will travel through sealed tubes/tunnels, not totally vacuum but depressurised enough to ensure very low friction. This is the speciality of hyperloop – it has to create an artificial environment to enable super-speed travelling. Without that environment, the pressure and the sonic boom generated by a pod travelling at near-sonic speed would be dangerous, to say nothing of the high energy required for propelling it. But as things stand, the pods will have neither wheels nor engines. They will levitate magnetically, and a 5,000 HP induction motor underneath will move them forward. Incidentally, it is not SpaceX, but the US-based Virgin Hyperloop One and the UAE's DP World who are the original project proponents for the Mumbai-Pune link.



The Hyperloop tube will be built on columns or tunnelled below ground so that there are no grade crossings (similar to railway crossings) or danger to humans and wildlife. The system will be fully autonomous, thus eliminating driver error. Each pod moves independently but travels in the same direction within the same tube. They also keep their distance and avoid bumping into each other by using an automated traffic management system.

One is already familiar with that traffic system, widely adopted by Delhi, Bengaluru, Kochi and Mumbai metro railways. For instance, Delhi metro trains ply every three-four minutes during rush hours. But when a train gets stranded due to a technical snag, the one running three minutes behind it stops or slows down, and all trains coming behind them do the same. The Hyperloop pods will operate similarly. They will leave one by one when passengers are on board, much like a cable-car system, and gently accelerate to top speed while maintaining a safe distance from other pods. If a pod has to slow down for any reason, it will communicate the same to the management system, which will slow down all the pods travelling behind it. Multiple pods can be remotely coupled like the cars or compartments of a metro rake.

A pod can stick to a schedule and leave periodically, but smaller pods may travel more frequently. An estimated 16,000 passengers can travel per hour in one direction. But given the twists and turns of the Mumbai-Pune track, they could be moving at half the speed for safe navigation. Overall, you will only experience 0.2 g-force (the measure of acceleration) on the Hyperloop, about the same as on a train. While travelling, you should be able to enjoy your favourite cuppa without spilling a drop, companies with the knowhow tell us. That is quite believable. After all, Japan's Shinkansen (bullet train) goes from zero to 300 km per hour in two minutes, and even then, not a drop spills from a glass full of water.

Faceshield, and his company describes it as an Instagram-like filter that can be applied to photographs to block face detection online. "It adds noise to specific regions of the face such as eyes, nose or jawline to 'fool' the face detector into thinking there is no face in the photo. The photo is still recognisable, but the face detectors catastrophically fail," the company states. There are three levels of modifications done to the image. The first makes subtle changes, but these are enough to thwart face recognition and possibly the use of your face online. A medium-level modification breaks more detectors while an intense level makes enough changes to ensure that you will not recognise your face. One can submit one's photo for free modification on the FaceShield.ai website.

Almost everyone (from bars to airports to police) is keen on face recognition, but a few cities are also trying to ban it. However, what the protestors in Hong Kong did was unique. The islanders, who suspect that the surveillance methods of Mainland China are being imported there, found that goggles, masks and helmets were not enough for identity masking. So, they decided to shine green lasers at police cameras and riot officers to foil face recognition systems while taking part in anti-government rallies. BT

BUILD IT LIKE A CODER

YOU MAY NOT BE A PERSON WHO CODES, BUT YOU CAN STILL CREATE YOUR VERY OWN 'SKILLS' AND 'ACTIONS' ON ALEXA AND GOOGLE, AND SHARE IT WITH THE WORLD.

By NIDHI SINGAL
Illustration by AJAY THAKURI

THEY ARE ALL over the place – on smart speakers, smartphones and synced with a lot many smart appliances. They can talk to us, fetch us information and carry out tasks as bidden. They are the voice-controlled virtual assistants, which are steadily growing in number. Of course, there is no Siri for Android users. But Amazon's Alexa, Google Assistant, Lyra, Robin and their ilk are doing an excellent job. Look around, and you will find thousands of apps doing the same or more. The only problem: Finding those apps can be difficult. Even if you manage to download them all, running different apps for different tasks is not exactly convenient. Also, let us not deny it; you have always looked for new applications for new kinds of tasks and new ways of interaction. But you are not that tech wizard who can make it happen. You do not even know how to code.

That should not be a problem in an era of short-cuts and quick fixes. In fact, tech giants like Google and Amazon are helping non-techies build their very own voice apps by using pre-coded templates. Imagine publishing a personalised platform that will allow you to share your hobby, nay, passion, with netizens far and wide. If you are a budding author, share an audio clip featuring your latest poem or short story. Or if you fancy yourself as a quiz master, create hard-to-crack trivia. Now that you know the potential, let us create some new activities on Alexa and Google (they call these activities skills and actions, respectively).

CREATING 'SKILLS' ON ALEXA

Amazon has kept things quite simple for the 'layman' keen to experiment with and create customised Alexa skills. Go to Alexa Blueprints (blueprints.amazon.in), log in using your Amazon account and follow the steps featured there. This starts with the kind of 'skill' you want to develop. As of now, the Blueprints offers several categories, including At Home, Learning & Knowledge, Fun & Games, Storyteller, Greetings & Occasions and Community & Organisations. So, you can create a quiz or flash card under Learning & Knowledge or develop spiritual talks under Community & Organisations.

I started with the Quiz skill. The first step required replacing the existing questions, answers and follow-up facts (optional) with new content. I customised it further by adding a welcome message, player greetings and responses for right and wrong quiz answers, and then named the quiz. After that, I had to hit the Create Skill icon on the top and it was done. A new window opened, showing a brief of the quiz, its visibility, publishing option on the Alexa Skill Store and ways to share it via e-mail, social media and messenger apps. Sharing creates a link to the new skill that can be pasted anywhere. You can also unshare it by choosing revoke. But skill stores are region-specific, and Indians can only publish their skills on the India store.

Creating activities on Alexa is mostly about replacing the content or doing some fill-in-the-blanks. So, go ahead and try more activities. Creating a Flash Card can be useful as it helps students with a quick revision. Assign topic names to the cards and customise them with terms, definitions and hints, and you will be through.

MORE 'ACTIONS' ON GOOGLE

Just like Alexa Skills, one can create activities on Actions on Google (developers.google.com/actions/). Log in using your Google Account, select Go to Action Console and click on New Project. Follow the prompts and name your new project post which you will be on a colourful landing page. This contains eight categories such as Smart Home, Health & Fitness, Games & Fun, Shopping and more. But many of these will require technical knowledge and use of SDKs or software development kits. Do not worry, though, as anyone can use the Templates option at the bottom left of the page. However, you can only create trivia, personality quiz, flash cards and how-to videos with Templates, and the process is not as simple as creating Skills.

The first step is Invocation, where you have to give your action/activity a display name. This will be listed in the Actions Directory. Now, go to the action category you have chosen and start by selecting the Personality you like. There are three options under each Templates category, but how-to videos do not have this feature. Personality typically defines how you want the project to appeal to others. The next step is the most important and a little tricky. When you hit Get Started and click on the content template for putting in new content, a new window pops up, asking you to make a copy of the existing Google Sheet. Do as prompted, enter the new content on the first page and make necessary changes on the configuration page within the same sheet. Every time you make a change, it will be automatically saved in the cloud.

GOOGLE AND AMAZON ARE HELPING NON-TECHIES BUILD THEIR VERY OWN VOICE APPS BY USING PRE-CODED TEMPLATES

When the content part is done, click on Share Link to generate a sharable link for your document. Now, head back to the content console page, click on Upload Content and paste the link in the Google Sheet URL box for uploading. If the uploading is successful, you will be asked to Create App.

To test the Action, click on Go to Simulator that enables testing. Next, go back to the Overview page and click on Get Ready for Deployment. You will come across a dropdown list and need to enter all details required for Directory information, location targeting and specifying device capabilities. Finally, submit the production for release, and you will get an e-mail message within a few minutes regarding the status of the Action. BT

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BLAUPUNKT TRUE WIRELESS BTW-01

VALUE FOR MONEY

By NIDHI SINGAL

THE POPULARITY of Apple AirPods and Samsung Galaxy Buds has paved the way for a new category – Bluetooth earbuds with a charging case. The latest in this line, from the German car audio manufacturer, is not very impressive, though. The charging-cum-carry case has a small LED indicator at the front for charging status and a microUSB port at the rear, but it does not feel sturdy. Opening and closing the case lid was not smooth either. In contrast, the earbuds looked decent. The design might have been inspired by the Samsung buds, but the Blaupunkt buds are big. Each has an LED indicator for charging and pairing, and there is a touch button at the top. The buds switch on automatically when taken out of the case and powers off when they are slipped back. But you can do it manually by using the touch button.

The buds must be separately paired with your smartphone. I was able to pair the left earbud to one phone and the right one to another. While these can be used as two independent buds for listening to music, calling is supported on the right earbud alone. Pressing the touch button once answers the call; a long press (for two seconds) and release rejects the incoming call, and short-pressing the touch button for three seconds activates the voice assistant on the phone. As for music, a double-click pauses/resumes the audio; pressing the left earbud for two seconds takes you back to the previous track, and a similar action with the right earbud takes you to the next track.

Considering the price, this is a nice device. The call clarity was impressive, without distortion. I also tested the earbuds with my regular playlist of international and Bollywood tracks, including *Something Just Like This* by The Chainsmokers and Coldplay, *Afreen Afreen* by Nusrat Fateh Ali Khan and more. The sound quality was good for most of the tracks. Vocals were clear and well-pronounced, and the lows and highs were well-balanced. But the bass could have been better. The earbuds manage to cut out the outside noise as well, but they do not support the equaliser. And there is no app support for adjusting highs and lows. Unlike the AirPods, it does not have sensors to pause and resume music when an earbud is removed or worn again.

When paired with an Android device, the battery status of the earbuds was visible in settings, but it did not show up on my iPhone. A single charge lasted me close to three hours of music and calling while a fully charged case was able to juice up the buds twice. **BT**

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BENQ W1700M HOME CINEMA PROJECTOR

Entertainment in 4K

By NIDHI SINGAL

YOU CANNOT DO without a powerful home theatre nowadays if you are addicted to the endless high-resolution content streamed by OTT players. The options: Either invest in a 4K TV or go for a movie-grade projector like the W1700M from BenQ. In spite of its price point, the high-spec device offering active 3D support is worth a look for the excellent viewing experience.

The all-plastic design looks premium, and at 4.2 kg, it is much more compact than many of its genre. There are grills at the front and the sides, and the heat extraction happens through the left grill. The projection lens sits at front right; all physical controls, along with the manual dials for adjusting focus and zoom, are at the top and the connectivity ports are placed at the back. The adjustable foot at the bottom enables the best projection angle while the backlit remote makes it easy to operate it even in the pitch dark. It also has dedicated buttons for 3D, light mode, eco blank, detail enhancer, cinema master and more. But the projector does not come with 3D glasses and one has to shell out ₹4,250 plus taxes for a pair.

Setting up this projector is easy. Place it on a table, adjust the height for the preferred angle, connect power and content source, and you will be good to go. Otherwise, it can be ceiling-mounted. When used for the first time, the projector prompted me to select from the various projection options such as front, front ceiling, back and back ceiling.

The W1700M uses a 0.47 single-DMD DLP (digital light processing) projection system and features a contrast ratio of 10,000:1 and a brightness of 2,000 ANSI Lumens. I had plugged in the Amazon Fire TV Stick to an HDMI port and streamed the content from several apps, including YouTube, Netflix, Hotstar and Prime Video. The projection was far superior to what you would see on a 4K flat-panel television. The content looked sharp with natural-looking and bright colour reproductions. It also worked well across content genres (action, anime, cartoons and more), thanks to a host of projection modes, including bright, vivid TV, cinema and sports. Connectivity was not a problem either as this one comes with two HDMI and a PC VGA port.

The device can be used to project anywhere between 60 inches and over 200 inches. But I kept it close to 150 inches and the experience was amazing. Normal lamp life is close to 4,000 hours, but it goes up to 8,000 hours in the SmartEco mode and 15,000 hours in lamp save. The 5W sound output is decent, but you may have to instal a sound system for a cinematic experience. **BT**

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EX-LIBRIS

SETTING GOALS BEYOND CSR

COMPANIES THAT FOCUS ONLY ON THE '2 PER CENT MANDATE' BUT CANNOT FIND THE BALANCE FOR THEIR CORE BUSINESS COULD BE DRIVEN TO EXTINCTION.

By Prasanto K. Roy

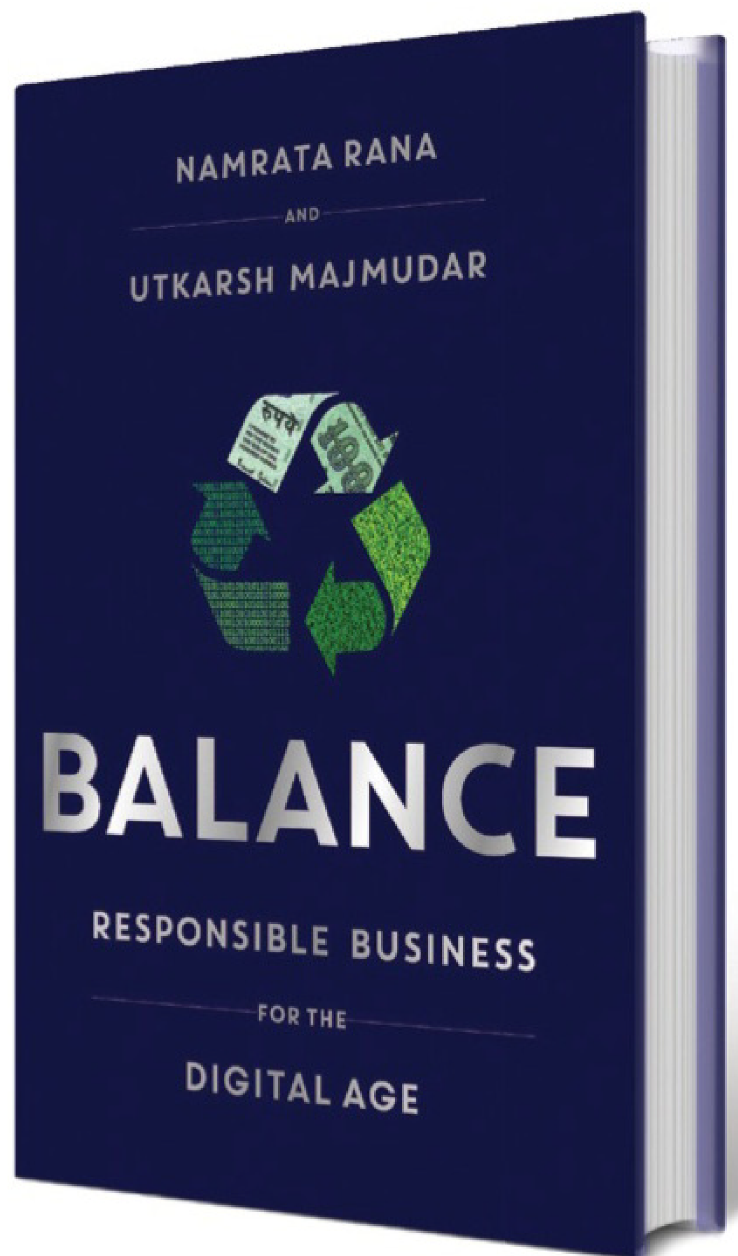
Balance: Responsible Business for the Digital Age

By Namrata Rana and Utkarsh Majumdar

Publisher: **Westland**

Pages: **302**

Price: ₹**799**



AS JULY FADED INTO AUGUST, India Inc. abruptly moved its subject of heated discussion away from CCD to CSR.

While Café Coffee Day (CCD), whose founder had committed suicide, was crashing on the bourses, the Companies (Amendment) Bill was passed in Parliament.

The Bill says businesses *must* spend 2 per cent of profits on corporate social responsibility (CSR) – and violations can attract a fine and *up to three years in jail for every officer of the company*. That changes this social responsibility to a tax that management will worry deeply about. (This provision is likely to be reviewed.)

Which makes the premise of this book even more important: Social and environmental responsibility must be integrated into business. It is not about the '2 per cent' CSR mandate. It is about your business.

Balance uses real-life stories to analyse businesses caught in the middle of technological disruption and climate change. A few have managed to find the balance; most are struggling to find it.

This balance is not about charity or public good. Legal compliances for most business areas are increasing. Take the automobile industry, getting disrupted in the US by electric vehicles and in India by emissions regulation.

India's top carmaker Maruti Suzuki will phase out its diesel cars – one quarter of its sales revenue – by April 2020, when new Bharat Stage VI emission standards would demand big investment to upgrade diesel engines. So, the company's focus will shift to CNG and electric or hybrid vehicles. It is being 'driven' to the balance, and not by the 2 per cent 'CSR tax'. Automakers who found the balance earlier would have a competitive edge, anticipating, and staying ahead of, regulations that force you to the brink as it did Maruti Suzuki.

Or take the global concerns about single-use plastic. There could be more pieces of plastic in the ocean than fish by 2050. Still, in the global medical industry, 80 per cent of items are single-use. Disposable syringes, catheters, gloves and blood bags transformed medical safety, hygiene and mortality, but all that plastic is killing the earth. Pioneers looking for the balance are focussing on finding answers in biodegradable material or reusable alternatives.

Often, economics drives this quest rather than environmental concerns. As with sanitary pads in India. Disposable pads, the norm for global female hygiene, are often out of reach of India's poor. Local innovation is finding cheaper and reusable alternatives such as silicone menstrual cups and even washable, reusable cotton pads. Reusable pads are now big. You can buy a dozen brands off Amazon. American women are also using them because

they reportedly do not contain the chemicals which the disposables have been found to have.

We are facing real environmental challenges – cancer-causing pollution, unprecedented floods, drought and earthquakes, and they dovetail with businesses, co-author Namrata Rana tells me. "If India has to attract FDI, we have to be seen as a country where the impact and risk of climate change can be mitigated. We are a long way off. Why are we using plastic wrap and a thermocol (polystyrene) tray to sell a banana? Why are Delhi offices at 19°C?"

Business exists not for charity but to make profit, she adds. Finding the balance means aligning business goals with, for instance, sustainable development goals (SDGs). "Else, you just get stuck on compliance around the 2 per cent, and someday your larger business is disrupted," says Rana.

The insights in this book come from research by IIM-Udaipur and Futurescape, a consultancy founded by Rana, into Indian firms' sustainability and CSR activities. The authors studied strategies of Indian and multinational firms to arrive at this "new way of thinking about business and CSR". While good governance and far-reaching policies help, firms now need to factor in a new reality where reputation, responsibility and risk are connected.

SINGLE-USE PLASTIC TRANSFORMED MEDICAL SAFETY. NOW, ENVIRONMENTAL CONCERNS AND REGULATIONS DEMAND A BETTER WAY

Data is a key part of this balance, say the authors. Every sector of the economy is busy capturing data and using it for increasing sales. Data personalisation is central to business models across industries – education, healthcare, insurance and banking – and ordinary people are targeted, identified, manipulated. Ad-tech gives us constant reminders to complete the purchase. We accept terms and conditions without reading them. We freely allow apps to access our camera and mic and messages. As India grapples with data storage and privacy regulations, and a lack of awareness as 100 million lower-literacy users come online, we could be "sitting on a time bomb".

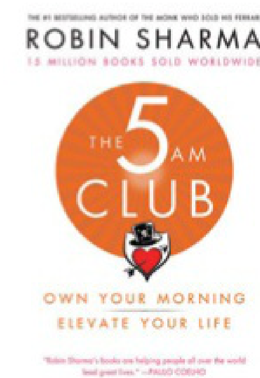
If companies do not find the balance but are forced to it by law, there is resistance. When Maharashtra banned plastic, complaints piled up, and the government backtracked in some areas. But most realised the reprieves were temporary; alternatives must be found. Growth cannot be at any cost. A balance is necessary.

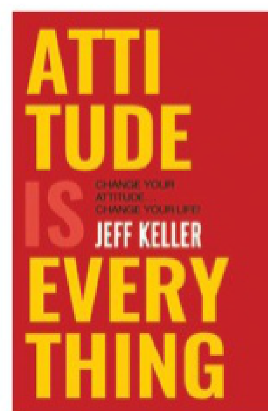
Finding that balance is not just "the prime directive our planet needs", but what corporations need to survive, compete, and thrive. **BT**

The reviewer is a policy consultant and technology writer

Business Bestsellers*

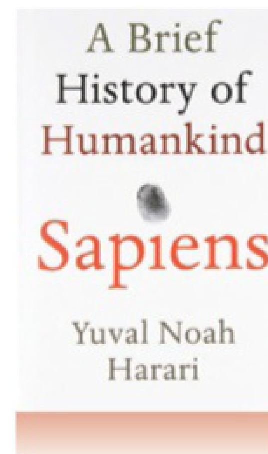
The 5 AM Club: Own Your Morning, Elevate Your Life
By Robin Sharma
Jaico Publishing House
Price: ₹350

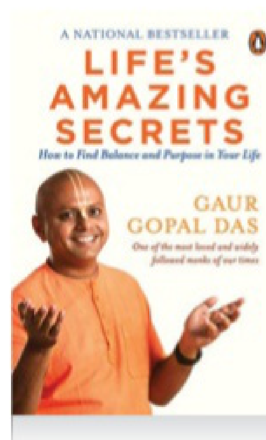




Attitude Is Everything: Change Your Attitude ... Change Your Life!
By Jeff Keller
Collins
Price: ₹199

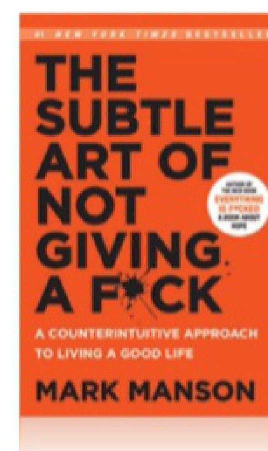
Sapiens: A Brief History of Humankind
By Yuval Noah Harari
Penguin Random House
Price: ₹499





Life's Amazing Secrets: How to Find Balance and Purpose in Your Life
By Gaur Gopal Das
Penguin Ananda
Price: ₹250

The Subtle Art of Not Giving a F*ck
By Mark Manson
Harper Collins
Price: ₹499



*Top books by sales for July 2019; Information provided by amazon.in

LEADERSPEAK

VIVEK BHALLA

REGIONAL VICE PRESIDENT (SOUTH-WEST ASIA), INTERCONTINENTAL HOTELS GROUP

He has spearheaded the group's strategic growth as well as the operational performance of 39 hotels across four brands. Last year, IHG launched 11 hotels in the region, including 10 properties under the Holiday Inn Express brand in India. The company is planning to open 150 properties within the next two-three years.

PHOTOGRAPH BY REUBEN SINGH

Q. The biggest challenge in your career

A. Given my long journey in the hospitality sector, I can list many. However, helping people understand the need to evolve in a constantly changing business context and adapt to disruptions has always been the biggest challenge. In a fast-paced and highly competitive industry like ours, one should closely follow emerging trends, adapt quickly to break through the clutter and stay ahead of the curve.

Q. Your best teacher in business

A. Over the past 20 years, I have had the privilege to meet and interact with great business leaders in the hospitality industry. So, naming only one would not be fair. Here is my key learning from them: In a constantly shifting and volatile world, you must stick to your values, do the right thing and make a difference with what you do.

Q. Key lessons for young people

A. You should focus on three areas. Keep learning and developing yourself. Invest time in building and growing a strong team around you. Finally, be adaptable and resilient. These three lessons will help you grow, innovate and succeed.

Q. Two essential qualities of a leader

A. In my opinion, honesty and integrity are the two most essential qualities a leader should have. It is also imperative to have a clear vision of where your workforce is heading. You must tell them what is expected from them and what is in it for them and be honest about both. BT

"IN A CONSTANTLY SHIFTING AND VOLATILE WORLD, YOU MUST STICK TO YOUR VALUES, DO THE RIGHT THING AND MAKE A DIFFERENCE WITH WHAT YOU DO."

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