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Business Today

June 14, 2020 ₹100

HOW TO FREE UP THE ECONOMY

WHAT MORE NEEDS TO BE DONE BEYOND THE MODI GOVERNMENT'S ATMA NIRBHAR BHARAT PACKAGE IN FINANCE, HEALTHCARE, POWER, AGRI, LABOUR AND OTHER KEY SECTORS

MR. ZAC HOLLIS
Director – Sales, Service & Marketing at ŠKODA AUTO India with ŠKODA VISION IN

SIMPLY CLEVER AND MORE...

ŠKODA AUTO CELEBRATES ITS 125 YEARS OF LEGACY

Mít zlaté ruce meaning 'Hands of Gold', is a famous local saying in Czech lands. It refers to a natural skill and wit of the Czech people translates as having hands of gold. That is particularly true about two extraordinarily talented craftsmen-Václav Laurin and Václav Klement. These individuals were united by passion and started their work from repairing bicycles in a small repair shop in year 1895 which eventually became a mammoth and coveted automobile brand – ŠKODA AUTO in year 2020. From modest beginnings, the brand has produced a vast range of products over the decades, from bicycles to racing cars.

This year ŠKODA celebrates one-and-a-quarter centuries of innovation that is best encapsulated in the line 'Simply Clever.' It is a philosophy that radiates wisdom and action in just two words. And inspires us to do better. Unfortunately, this year is also marked by a serious pandemic which has impacted all individuals across the world.

Never in recent memory has the world faced an extraordinary and unprecedented situation like this. The coronavirus pandemic has thrown everything out of gear and has completely upended all the things that we were familiar and comfortable with. And it is going to be difficult to predict how things will unfold for the industry and for its people in the coming months.

This has prompted ŠKODA AUTO India to script a new growth story for their journey ahead, transforming from a traditional car manufacturer into a technologically advanced company that offers mobility solutions, especially in emerging markets such as India that has an evolving customer base. The introduction of a dedicated online booking platform (www.buyskodaonline.com) for the entire range of products was the first step in this direction. The recent launch of the new KAROQ, all new RAPID 1.0L TSI and new SUPERB 2.0 TSI through their first ever virtual press conference showcased their robust business continuity plan even in testing times. With TSI (Turbocharged Stratified Injection) is an award-winning petrol engine technology that offers blistering power delivery without compromising on fuel efficiency and low on emissions. In line with BS6 norms, TSI technology manages to straddle these extremes by combining direct petrol injection with turbocharging. An elegant, ingenious solution that satisfies not just technical and legal requirements, but driving thrill and fuel efficiency expectations too.

The company has already previously elaborated on its expansion plans in the Indian auto industry through its ambitious Euro one billion "India 2.0 Project" that aims at providing new cars with high degree of localization with superlative driving experience – a quality that the Czech brand is known for. ŠKODA's fluidic design language, state of the art connectivity platforms, unmatched safety features and built quality just add more to its "Simply Clever" tagline. You have seen the first direction towards it with VISION IN concept car. Which had a world premiere in New Delhi, February 2020.

Post the COVID – 19 lockdown, ŠKODA has resumed production in its Aurangabad and Chakan plants with strict adherence to guidelines imposed by the Government. On the dealership front, it has reopened operations in a phased manner across the country. As a responsible automaker, ŠKODA AUTO India is actively implementing social distancing norms. Also company is making sure that upkeep of hygiene in the premises is given prime importance by taking various measures. Which includes placement of hand sanitizers at all interactive places, mandatory use of masks for all customers and employees at all times, daily use of disinfectants for cleaning the property and vehicle sanitization for customer pre-test drives, receiving cars for service and finally delivering the car back to the customer, ensuring a contactless experience.

Thus, a seamless integration of technology and management along with ensuring professional development and safeguarding sustainable profit has led the brand to stay relevant and live up to the glorious history of 125 years. In its true sense, ŠKODA has always been and will continue to be a 'Simply Clever' company, being much ahead of the curve.

From the Editor

Break from Reforms Stasis

Reforms cannot have start and end dates. They are a continuum. But often, depending on what's keeping the government at the Centre busy, that continuum tends to slow or stall. This regime has also had its moments of excitable bursts such as IBC, RERA, a hurried GST, and long stretches of distraction.

India needs dream reforms to crack open the ossified corners of the economy. In financial services, to realise the ₹100-lakh crore infrastructure spend, there is need for development financial institutions and a robust debt market. Overdependence on banks, who borrow short term to fund 25-30-year-long infrastructure projects, causes massive asset-liability mismatch and is fraught with danger. This is evident from banks' NPA pile in areas such as power, telecom and real estate.

If India has to fulfil its dream of becoming a global hub, it needs to rid manufacturing of procedural delays, bureaucratic snafus, high power, logistics and capital costs. Not to forget the long-winding dispute resolution process.

In labour reforms, where 90 per cent of the workforce is from informal sector, there's need for a social security cover, unemployment benefits, skilling and formalisation.

These are the easy ones though. For others, there are often subtle reasons why the most obvious reforms never took place.

In taxes, can Centre take a dispassionate decision to delink direct tax changes from Budget, just like GST? For policy certainty, can there be a roadmap and a pre-declared band within which taxes would operate? Can rich farmers be taxed on their agricultural income? The former will take down a fiefdom, the latter is a political hot potato with direct bearing on votes on one hand; on the other, it needs approval of the very people who exploit the exemption – the politicians.

There's many a slip between the cup and the lip. For instance, the APMC reform to free the farmer and let him sell his produce to whoever he wishes to (not just to the local or state *mandis*) has been in the works for nearly two decades. The reason it hasn't materialised is because agriculture being a state subject, state and local politicians exercise a vice-like grip over the farmer. Intermediaries pocket all the profit and burden the farmer with usurious charges in APMC *mandis* which could be as high as 18 per cent of sale value.

Again, in defence, fat commissions in deals ensured that India had an apology of a defence-manufacturing industry even seven decades after Independence. Anything that was manufactured was dumbed down and the industry was relegated to making spare parts and vehicles for defence services – at best. It's a miracle that ISRO is a product of the same system. That's because, one, no space power was willing to sell rockets to let India launch own satellites. And two, ISRO was always structured to be administered directly by the prime minister of India, cutting a lot of bureaucracy in between.

Hence, Atma Nirbhar Bharat programme's ambitious proposals for farmers and local defence manufacturing need to tread with caution. Entrenched vested interests will scuttle every step of the way. The plan needs to steam ahead.

In the following pages, *Business Today*'s specialists explain what more needs to be done through continuous reforms to unshackle the economy. Tune in...

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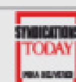

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ILLUSTRATION BY RAJ VERMA

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A study of fourth quarter results of 95 companies shows a huge fall in profits. FY20 will likely be the eighth consecutive year when corporate India's revenue growth will be lower than the country's GDP growth

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The Purchasing Managers' Index for services dipped to a mere 5.4 in April compared to 49.3 in March

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Mansi Tripathy

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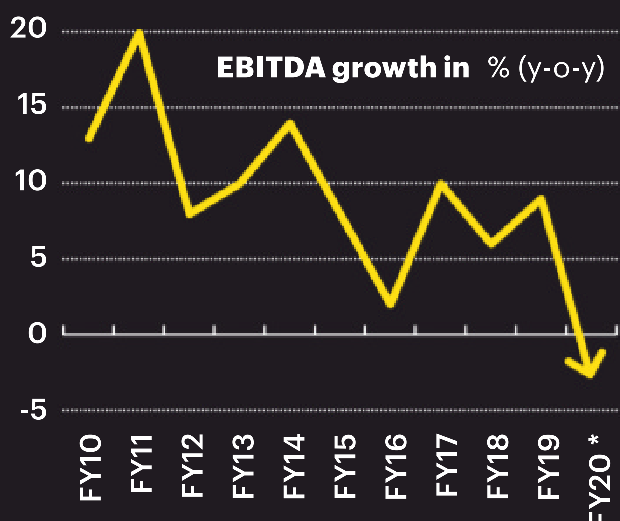
The Point

Early Results Show Distress

A study of fourth quarter early bird results of 95 companies shows a huge fall in profits. FY20 will, in all likelihood, be the eighth consecutive year when corporate India's revenue growth will be lower than the country's nominal GDP growth

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

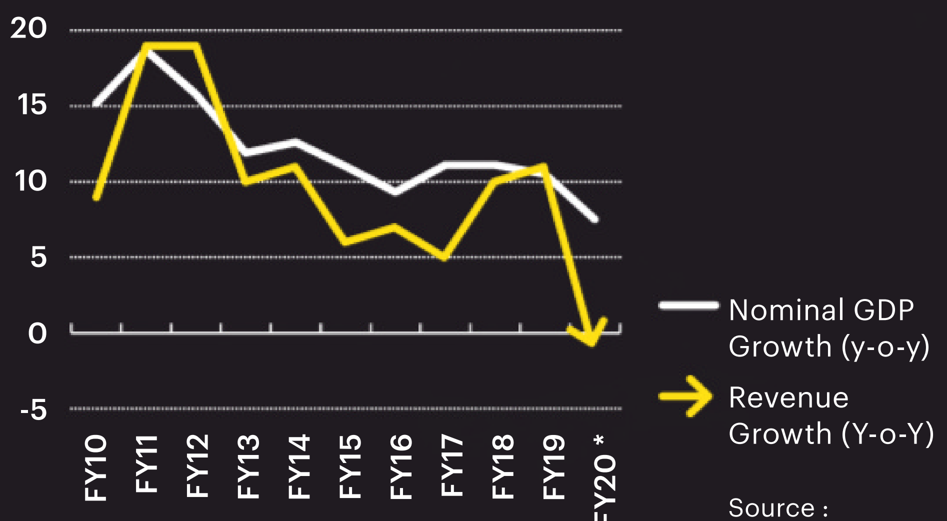
Worst EBITDA Performance for Business in a Decade



* Estimated

Source: Company reports

Revenue Growth Far Short of Nominal GDP Growth, Again



* Estimated

Source : Company Reports, Crisil

-9%

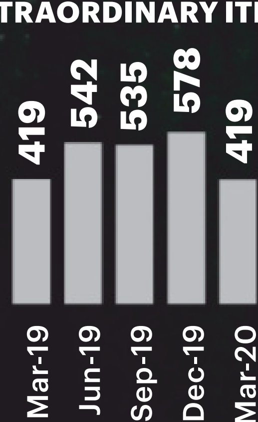
Fall in net profit in fourth quarter of FY20; net sales fall 0.1 per cent during the period

In Q4, Early Bird Results Provide Little Hope

NET SALES (In ₹ '000 crore)

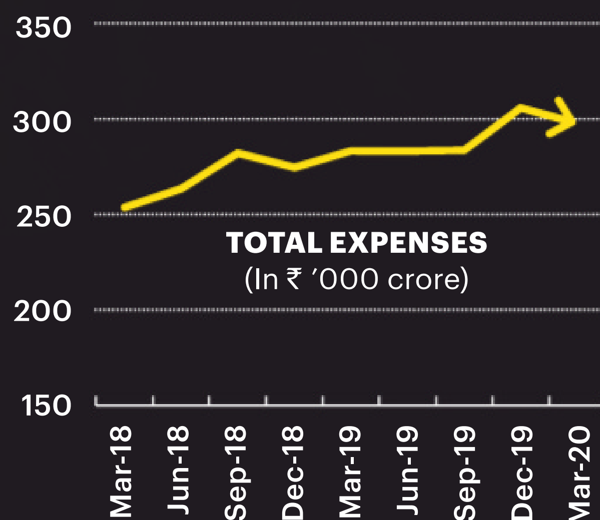
NET PROFIT (In ₹ '000 crore)

DILUTED EARNINGS PER SHARE (IN ₹) AFTER EXTRAORDINARY ITEMS

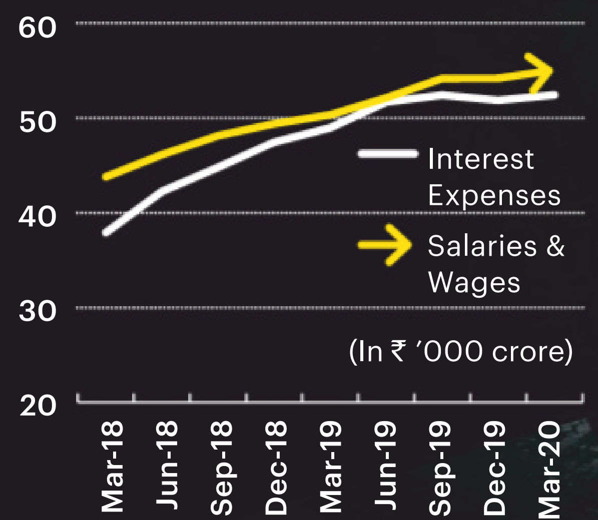


Source: BSE

Q-o-Q Expenses are in Control...



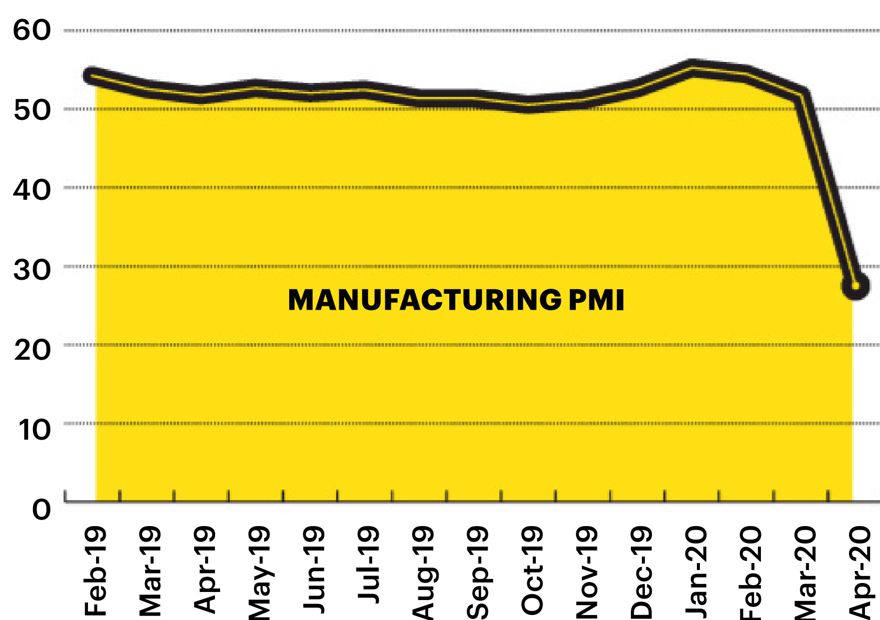
...Despite of Higher Wages and Interest Costs



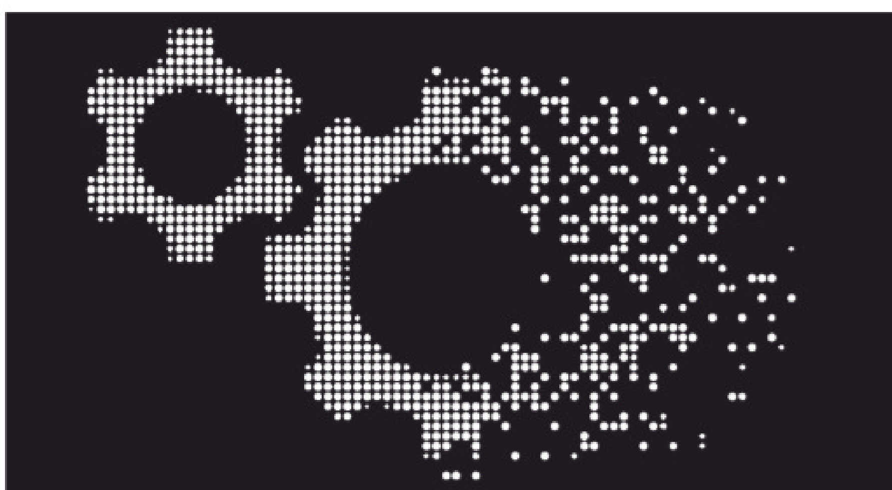
Based on 95 companies that have filed results till May 11; Source: BSE

MANUFACTURING PMI AT RECORD LOW

- The Purchasing Managers' Index (PMI) for manufacturing fell to 27.4 in April, pointing to an unprecedented slowdown
- It was 51.8 in March; a reading above 50 means expansion
- The trend points to a sharp deterioration in business conditions



Source: Mospi

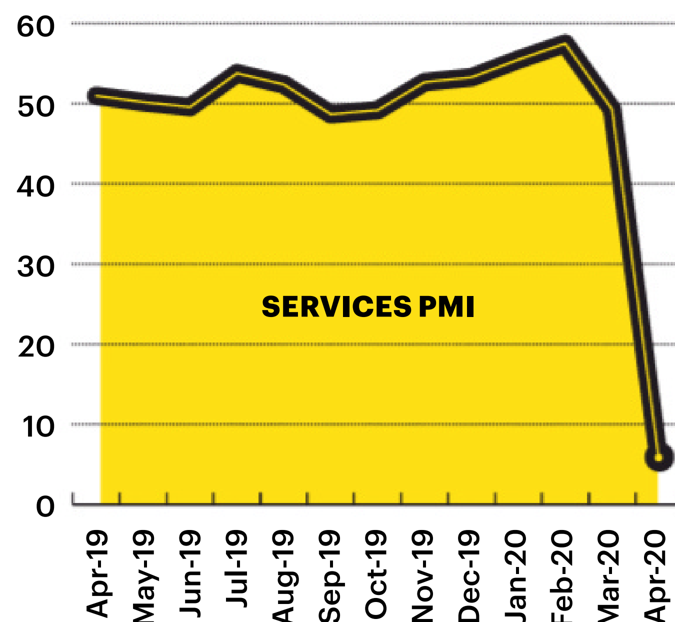


8.6%
Food inflation in April, mainly due to supply disruptions in the wake of the lockdown; the number was 7.8 per cent in March

3.5%
Rise in the country's farm output in Q3 of FY20, compared to 3.1 per cent in Q2; Q4 numbers are expected to be lower due to the lockdown

SERVICES PMI DIPS TO ALL-TIME LOW

- The Purchasing Managers' Index (PMI) for services dipped to a mere 5.4 in April compared to 49.3 in March
- This is the sharpest monthly contraction since the formation of the index 14 years ago
- Services sector contributes 55 per cent to India's GDP

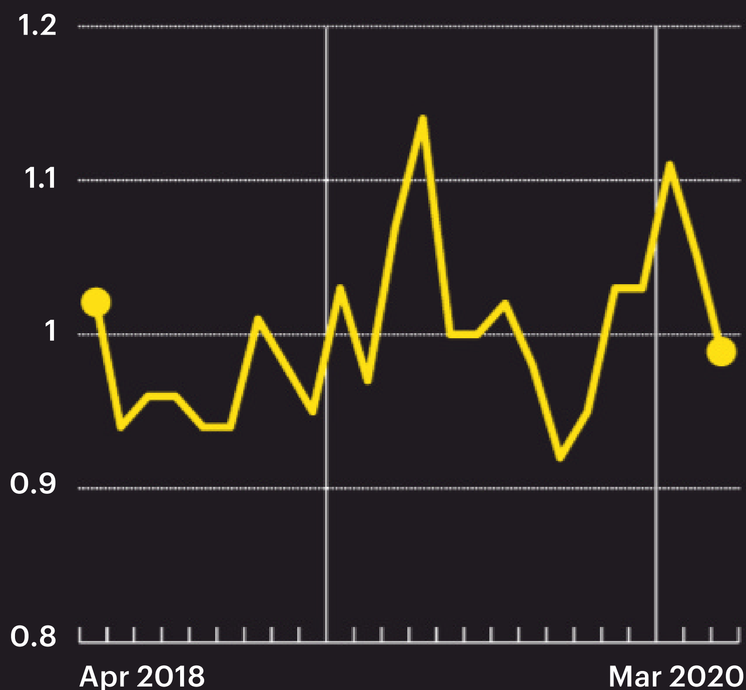


Source: Mospi

FY20 GST COLLECTIONS JUST SHORT OF REVISED TARGET

➘ Gross goods & services tax (GST) collections fell 8.4 per cent YoY to ₹97,000 crore in March as economic activity came to a halt in mid-March

➘ However, strong collections in previous four months ensured the government almost met its revised FY20 target. The collections for the year were ₹12.22 lakh crore, just short of the target of ₹12.24 lakh crore — which was lowered from the earlier target of ₹13.32 lakh crore



Source: GST Council

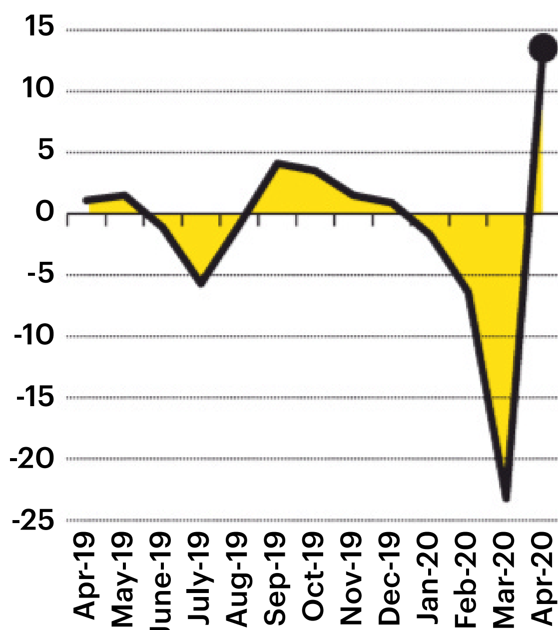
MARKETS IN RECOVERY MODE

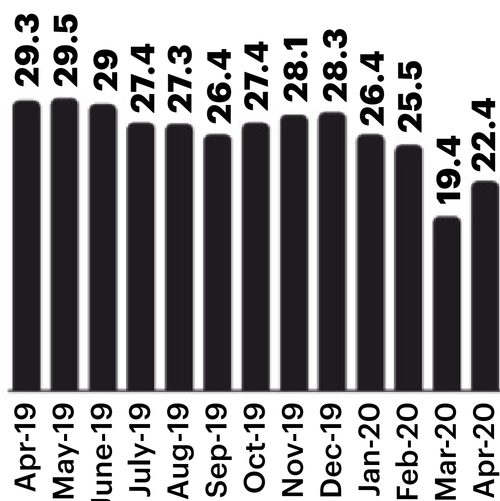
➘ Indian stock markets pared almost half their March losses in April. The Nifty 50 rose 14.7 per cent in April. It had fallen 23.2 per cent in March

➘ The BSE Sensex rose 14.4 per cent in April. It had fallen 23.1 per cent in March

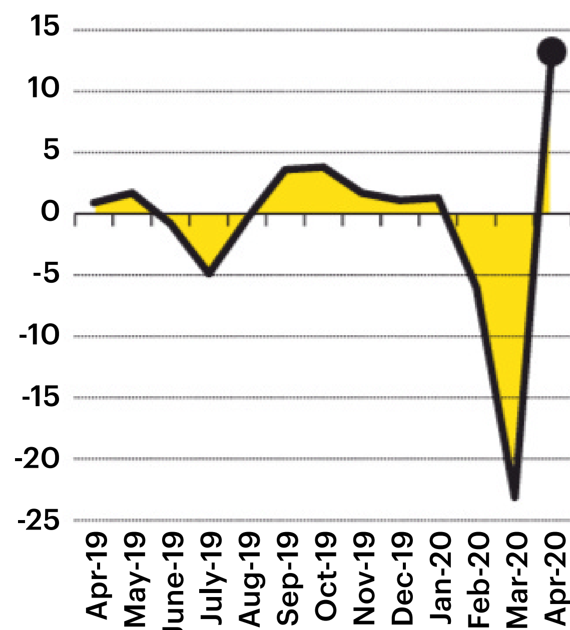
➘ Valuations improved. P/E multiples of Nifty 50 and BSE Sensex crossed 20. In March, they had fallen below 20, for the first time in four years

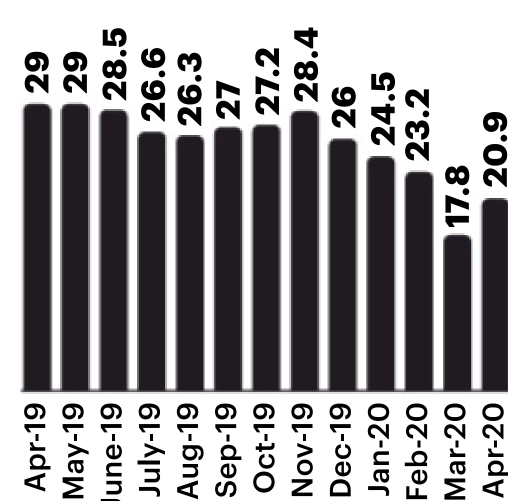
NIFTY 50





S&P BSE SENSEX



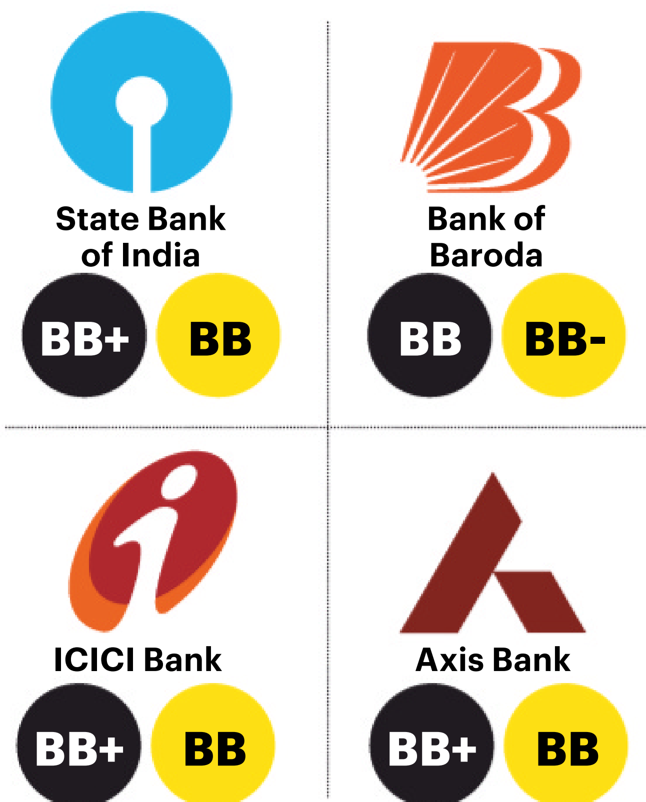


Source : BSE

FITCH LOWERS VIABILITY RATINGS FOR FOUR BANKS

➘ Fitch Ratings has downgraded the viability rating of SBI, ICICI Bank, Bank of Baroda and Axis Bank by one notch each due to impact of coronavirus on the operating environment

➘ Fitch said it expects SBI's financial performance to worsen in the foreseeable future



Previous Rating Latest Rating

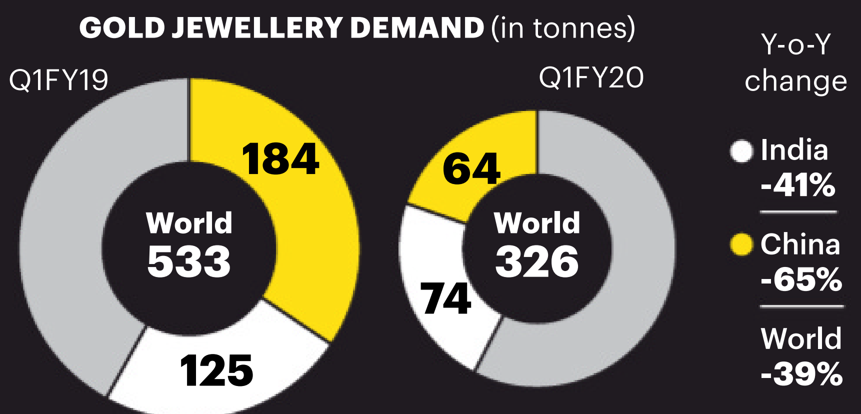
Source: Fitch Ratings

JEWELLERY DEMAND DIPS IN Q4

➘ Demand for gold jewellery in India slumped 41 per cent in quarter ended March to 73.9 tonnes as coronavirus triggered a rally in gold prices

➘ Global jewellery demand fell 39 per cent to 325.8 tonnes to hit the lowest quarterly total in World Gold Council series. This is 42 per cent less than the five-year quarterly average of 558.1 tonnes

➘ Demand for gold jewellery in China – the largest consumer of the yellow metal – fell 65 per cent to a 13-year low of 64 tonnes



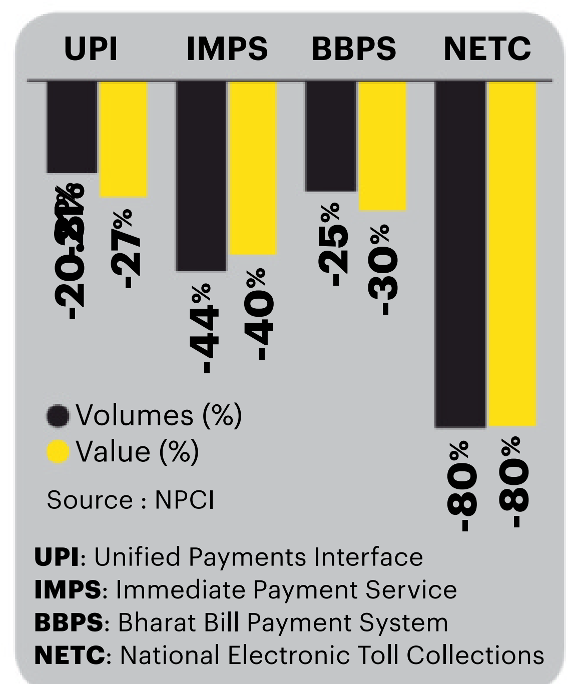
Source: World Gold Council

Digital Payments Crash in Lockdown

➘ Fast-growing digital payment channels UPI, IMPS, BBPS and NETC reported fall in volumes in April

➘ The popular UPI reported a decline of 20.8 per cent in volume and 26.7 per cent in value of transactions

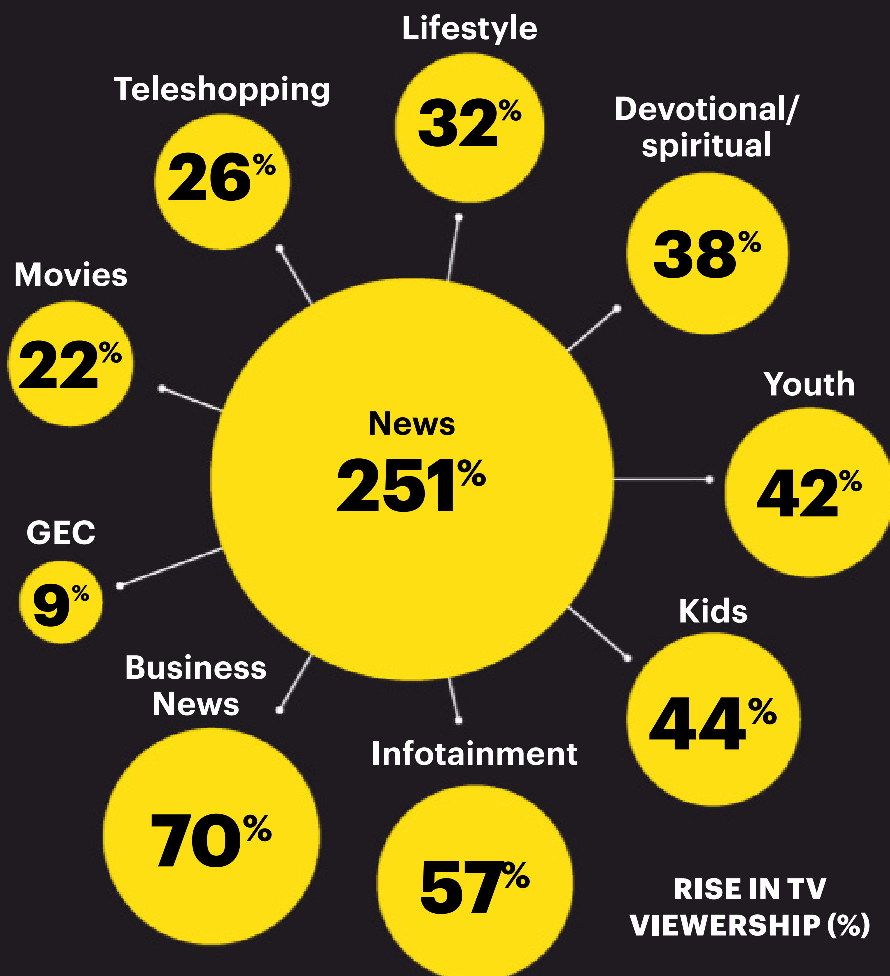
➘ IMPS, usually used for transfer of bigger funds, saw 44 per cent and 40 per cent plunge in volumes and value, respectively



Movies, News Viewership Clock Growth in Lockdown

- Due to the nation-wide lockdown, TV viewership in India rose 43 per cent in the April 15-May 2 period compared to the March 1-March 22 period
- There has been a 27 per cent rise in average daily time spent watching TV
- Non-prime time slots clocked 81 per cent growth between the two periods

Source: Motilal Oswal

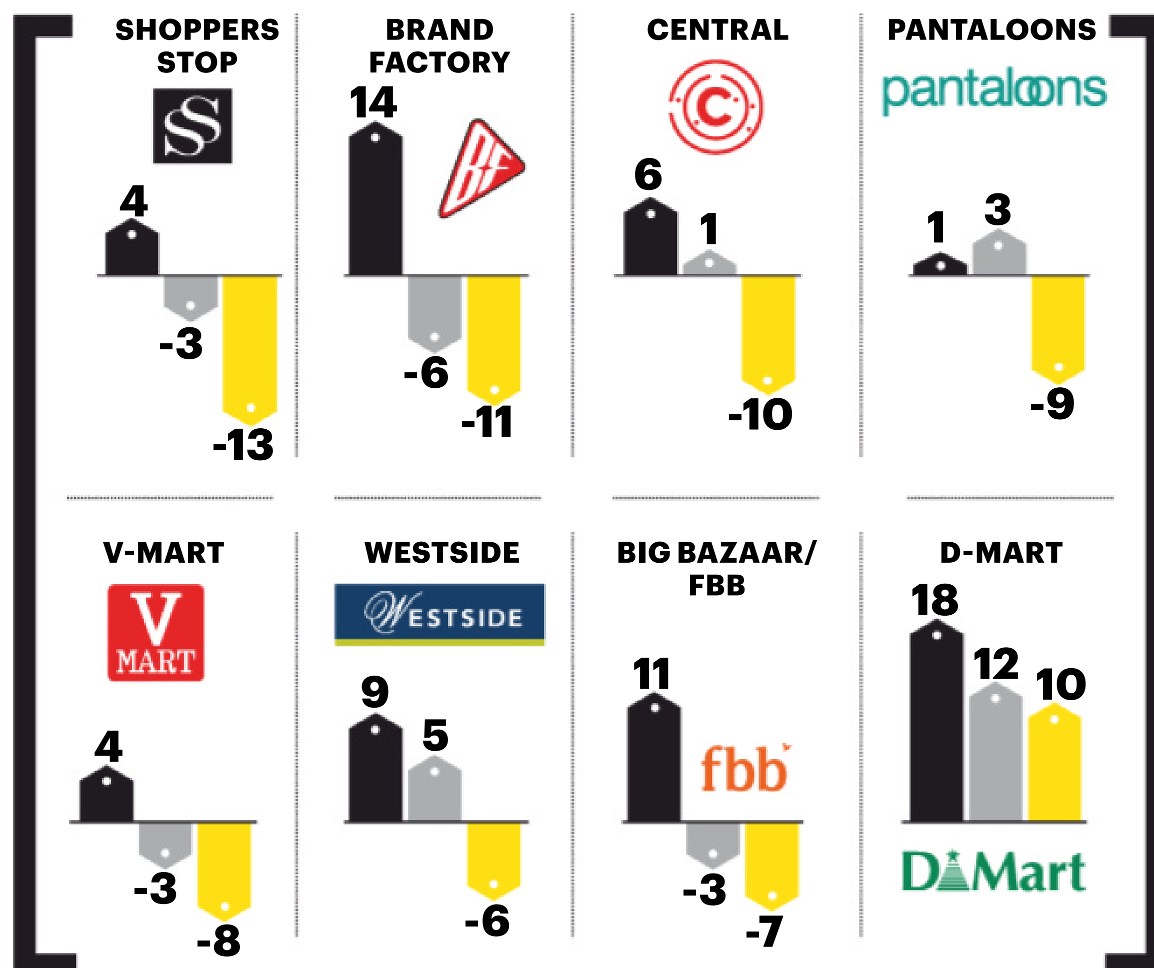


Same-store Sales Growth to Fall for Most Retailers

- Shoppers Stop expected to see a sharp fall in sales in FY21, after a 3 per cent dip in FY20
- Brand Factory and Central also likely to be hit
- D-Mart is the only chain that is expected to see growth (10 per cent)

● FY19 ● FY20 ● FY21E

Source :Motilal Oswal



Policy

In a Tight Corner

States finally have headroom to borrow more from the market. But there's a cost to it

BY ANAND ADHIKARI AND DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

The road to fiscal consolidation is never easy. It is, in fact, fraught with serious economic consequences.

For instance, the Centre's fiscal deficit was 2.5 per cent of gross domestic product (GDP) just before the global financial crisis hit the world in 2008. Government stimulus pushed it to a high of 6.5 per cent in FY10. It took almost a decade to bring it to sub-4 per cent – it was 3.33 per cent of GDP in FY20, far higher than the 2.5 per cent in FY08. And there is no likelihood of it coming down to 3 per cent any time soon.

Similarly, the Uday bonds scheme for the power sector — state governments took over 75 per cent of discoms' debt and pay back lenders by selling bonds — actually had a negative impact on states' fiscal position between 2015 and 2017. Their balance sheets are yet to recover from that shock. And there is no chance that they will recover anytime soon.

Under its economic stimulus package to combat the effect of Covid-19, the Centre has increased the borrowing limit for states from 3 per cent to 5 per cent of gross state domestic product (GSDP). This means states can borrow ₹4.28 lakh crore more to meet Covid expenditure and shortfall in revenues due to the lockdown. But additional borrowing brings in additional risks as well. State governments have to navigate judiciously ahead.

Spend Wisely

While the Central government has acceded to state governments' demand for increasing the borrowing limit to 5 per cent of GSDP, this has come with a set of riders. States are permitted to borrow up to 3.5 per cent, or around ₹7.5 lakh crore, unconditionally. For the next 150 basis points (100 basis points is 1 percentage point), they have to follow certain

The Big Picture

States' receipts
₹32.16 lakh crore

States' expenditure
₹37.68 lakh crore

States' fiscal deficit
₹5.52 lakh crore

Source: State Budgets

conditions. The first 100 bps of this has to be linked to "clearly specified, measurable and feasible reform actions". These include universalisation of the One Nation, One Ration Card Scheme, and improvements in ease of doing business, power distribution and revenues of urban local bodies. The last leg of 50 bps will be unlocked depending on how states score in three of the four reform areas.

So, how difficult is it for states to achieve these objectives? T.S. Singhdeo, Minister of Commercial Tax, Chhattisgarh, says One Nation, One Ration Card is not very difficult as ration cards are already linked to Aadhaar. "Earlier, you could duplicate ration cards, but with Aadhaar-linking, fudging ration cards is anyways not possible."

On reforms in power sector and urban local bodies, he says, "Reforms in urban local bodies mean you are forcing states to increase taxes on people. Same thing with power. You are saying we won't allow you to borrow more if you offer power subsidies. Again, you are encroaching upon rights of states to provide relief to farmers and citizens."

According to Abhijit Sen, Economist and Former Member, 14th Finance Commission, most of the conditions relate to the ease of doing business, and are in any case difficult to measure. "There will be so much confusion on the issue that it cannot be done," he adds. He warns that by the first half of the current financial year, states will end up spending the entire 3 per cent, and if they are left with no money after that, there will be such a huge demand squeeze that the economy will go into recession.

RBI And Borrowing Costs

The cost of borrowing is also likely to shoot up for states. The combined gross borrowings of the Centre and states have been revised to ₹22.69 lakh crore for FY21, 50 per cent higher than what was budgeted for the year. In fact, states were already struggling to raise budgeted borrowings. State governments usually tap the bond market in the second half of the year, but this year has been unusual. Cash-strapped states flooded the market with bonds post-lockdown as their coffers ran dry. "This resulted in higher costs as yields shot up," says Barendra Kumar Bhoi, Former Head, Monetary Policy Department, Reserve Bank of India (RBI). For example, the Kerala government had to pay 8.96 per cent to mobilise some ₹2,000 crore. The Centre raises funds at around 6 per cent while states pay 7 per cent-plus. The RBI had earlier come to states' rescue by increasing the overdraft facility – short-term temporary funds – for a period of three months.

But now, with a much larger borrowing programme, the central bank will struggle to manage yields. Given the limited savings in the economy, the states are likely to pay higher interest rates on their market borrowings.

Centralisation of Power

The coronavirus outbreak has put the spotlight on the Centre-state relationship. With GST, states had given up their powers to levy a number of service-related taxes. "There is financial and economic disempowerment of states, which is not good in the long-term interest of states," warns Suresh Kumar, Chief Principal Secretary to Punjab Chief Minister Amarinder Singh.

According to Ranen Banerjee, Leader at PwC, GST revenues of states are protected as the Centre compensates them in case of any shortfall. The bigger issue, he says, could be devolution of the Centre's tax pool. Falling GST collections will mean shrinking of the overall tax pool for distribution to states. In FY19, states had received ₹7.6 lakh crore from the Centre's tax pool. The figure works out to be ₹6.5 lakh crore according to the revised estimate for FY20. This share might fall by another ₹1 lakh crore, estimates Banerjee. For instance, Uttar Pradesh, which gets 18 per cent of the divisible pool, could lose around ₹18,000 crore. This is over and above the loss of state goods and services tax and other state taxes.

Given the sharp fall in revenues, the other difficult task for state governments is to cut capital expenditure sharply – the money spent on creating assets such as roads, infrastructure, etc. Capital expenditure is generally one-fifth of states' budgets. Punjab Finance Minister Manpreet Badal told *Business Today* the state had budgeted for ₹10,000-crore capi-

REFORMS AGENDA

Bring large-scale reforms in labour, land acquisition laws to attract investments

Fiscal prudence, check on indiscriminate guarantees and off-balance sheet items in budgets

Avoid populist schemes such as agri loan waiver, addressing farm sector issues

Uday bonds have burdened state finances. States can look at raising power tariffs, increasing efficiency of discoms

Developing new areas such as tourism. This has a multiplier effect on other services

"The Centre has already released all payments in advance, and it has been very liberal in taking all necessary steps. Despite us being in such an extraordinary situation, payments have been released without any delays"

K. Subramanian
Chief Economic Adviser

States' Status Check

24.76 Himachal Pradesh

35.06 Uttarakhand

55 Punjab

55 Haryana

34.48 Uttar Pradesh

47 / 22.53 Bihar

46 / 27.89 Jharkhand

48 / 23.49 Assam

55 Gujarat

51 Maharashtra

54 / 40.31 West Bengal

30.01 Odisha

33.28 Chhattisgarh

% **States which depend largely on Centre for revenue**
Own tax revenue as percenage of total revenue receipts

% **States which have limited headroom for increasing non-GST revenue**
Non-GST revenue as percentage of total tax revenue

Source: Budget documents
Map not to scale

OPTIONS ON THE TABLE...

Utilising the additional window of 200 basis points prudently after the revision in the fiscal deficit target from 3% to 5%

Increasing the RBI's overdraft facility (Ways and Means Advances or WMA) by 100% from existing 60%.

Front-loading dues like devolution of states' share in the Centre's tax pool

Raising state excise and VAT rates further if needed

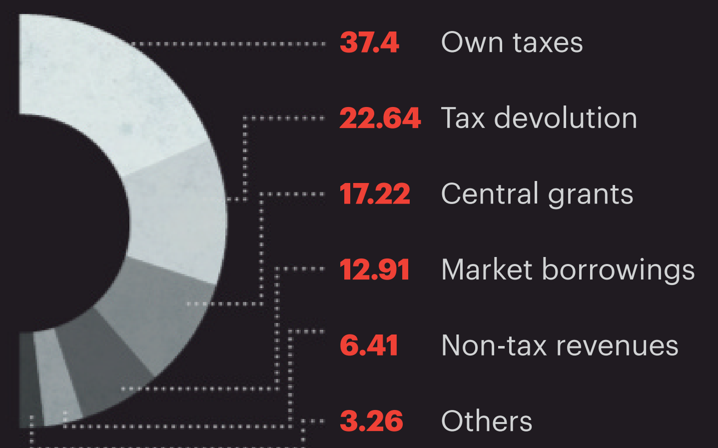
Tapping more non-tax revenue sources like lotteries, profits and state PSU dividends

Borrowing from LIC, SBI and other institutions

An RBI guarantee to banks for subscribing to state bonds on repo rate-plus basis

...STATES SHOULD RAISE TAXES AND NON-TAX REVENUE POOL

State receipts for FY20; Source: RBI



WHAT THE GOVT HAS DONE

The Centre has raised the borrowing limit for states from 3 per cent to 5 per cent of gross state domestic product

This gives states an additional borrowing headroom of ₹4.28 lakh crore

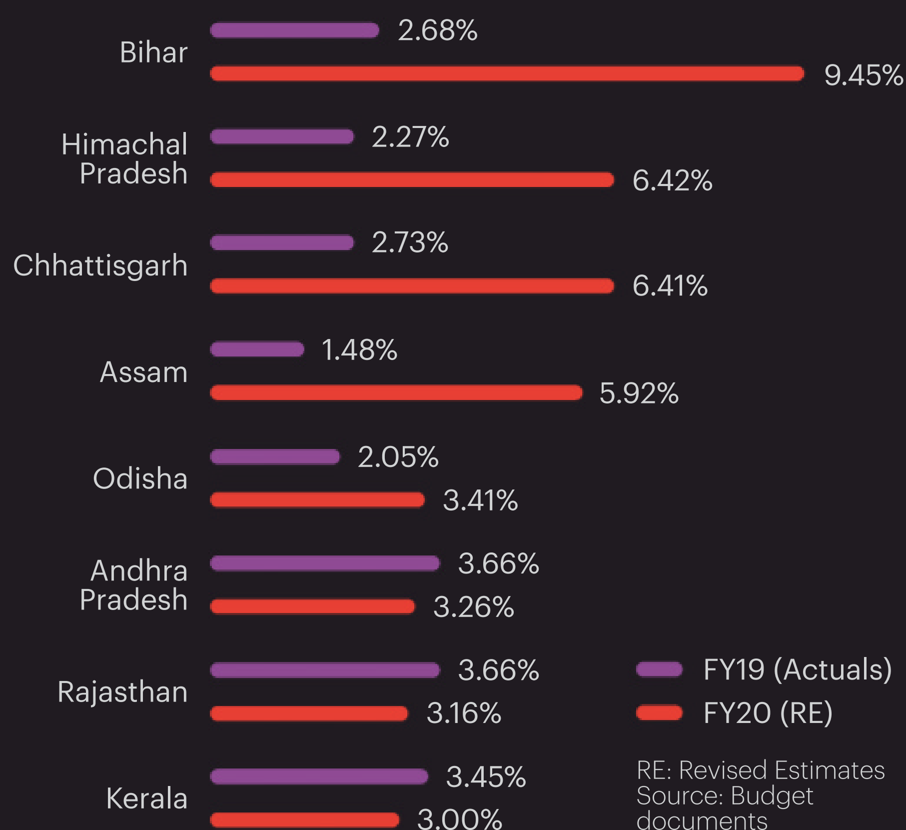
The extra borrowing will be linked to specific reforms undertaken by states

States can borrow up to 3.5 per cent, or ₹7.5 lakh crore, unconditionally

The next 100 bps borrowing amount has been linked to four reform measures

The next 50 bps will depend on states' achievements in three of the four reform areas

STATES WITH HIGH FISCAL DEFICIT IN FY20



OUTSTANDING LIABILITIES OF STATES

tal expenditure, which it would have to defer to the next financial year. In fact, the Centre's move to invoke the Disaster Management Act 2005 (some states had earlier invoked the Epidemic Diseases Act 1897) has centralised power. "There is nothing wrong since the Central government has a legitimate role to play, but it is also a fact that ultimately the burden of handling the pandemic has fallen on weak shoulders of states," says Govinda Rao, a member of the 14th Finance Commission.

Experts believe states have a bigger role to play, especially in public health, public order and feeding the poor and the migrants. Though the Central government finally agreed to states' demand for higher borrowing, it attached certain conditions. Some also cite the suspension of the Parliament Local Area Development fund of close to ₹8,000 crore as another example of decision-making becoming centralised.

Long-term Solution

States generate 60 per cent resources themselves while the remaining 40 per cent comes from the Centre in the form of devolution and grants. Both taps have dried up due to the lockdown.

According to Badal, Punjab is staring at a revenue loss of ₹20,000 crore out of the budgeted ₹88,000 crore in FY21. NCP Chief Sharad Pawar, who is part of the Maharashtra government, expects a revenue shortfall of 40 per cent (around ₹1.40 lakh crore). Desperate to mobilise

funds, cash-strapped states recently opened liquor shops in the middle of the lockdown. Liquor is one of the largest contributors to states' tax pool. In fact, Andhra Pradesh and Delhi increased tax rates on liquor sales by 50-70 per cent, followed by others. But the move has its own pitfalls as well. "You can raise taxes but not beyond a limit. Otherwise, consumption will go down," says Suresh Kumar.

States should now look at mopping up more non-tax revenues such as from lotteries and profits and dividends from state PSUs. Also, they need to reduce inefficiencies and cut costs thro-ugh effective use of technology. Losses incurred by discoms will hit state finances. Farm loan waivers could also affect states' fiscal consolidation drive. Farm sector reforms should be dealt with more judiciously. Also, taxes and incomes can increase if states manage to attract more investments.

"Punjab is staring at a revenue loss of ₹20,000 crore out of the budgeted ₹88,000 crore. The state had budgeted for ₹10,000-crore capital expenditure, which it would have to defer to next year"

Manpreet Badal
Finance Minister, Punjab

Reforms, Reforms & Reforms

The Centre has released around ₹11,090 crore for states under the Disaster Risk Management Fund and ₹14,013 crore as GST compensation cess. It has also provided another ₹15,000 crore under the Emergency Health Response Package. "The Centre has already released all payments in advance, and it has been very liberal in taking all necessary steps. Despite us being in such an extraordinary situation, payments have been released without any delays," says Chief Economic Adviser Krishnamurthy Subramanian.

However, the long-term solution lies in being fiscally prudent. States have to take the fiscal consolidation path, which will help them borrow at lower rates, and also keep headroom for future emergencies such as pandemics or natural disasters.

States have to plan to exploit opportunities that will arise from the shift in global supply chain post-coronavirus. Land reforms, by addressing farmers' concerns, are also the need of the hour. The Centre should closely work with farmers to make the best use of land resources. Electricity distribution and tariffs should be another focus area. The whole agri space offers numerous opportunities for states. Similarly, state PSUs should be overhauled by ensuring more professional management, lesser political interference and hiring ofconsultants to chart out the future course of action.

This time, the Centre has hiked borrowing limits for states. But state governments need to shore up revenues and address expenditure issues to equip themselves adequately to tide over any future crisis. BT

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THANKING
CORONA
WARRIORS

In the last two months, $25 billion worth of export orders cancelled

50-60% cancellations seen across sectors

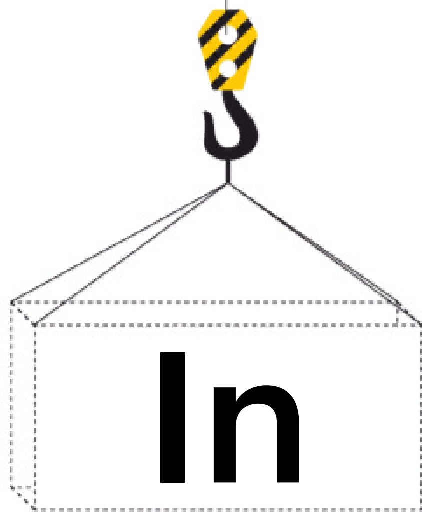
Apparel, leather, handicraft and carpets worst affected

No immediate revival signs as global demand is at its worst

Cancelled Hopes

As orders are scrapped, supply chain is disrupted and global demand slumps, Indian exporters struggle to remain in business

BY JOE C. MATHEW



In **his 42-year career,** Gurugram-based Raj Kumar Malhotra, owner of a star export house specialising in handcrafts, has never seen a more severe business disruption. His company, Asian Handicrafts Pvt Ltd, which makes thousands of customised textile-based handicraft gift items – boxes, photo frames, ornaments, home accessories – targeting festival sales in US and European markets has seen its production and delivery plans go awry. "Fifty per cent orders have been cancelled outright. Another 25 per cent are on hold without confirmed delivery dates. A third set of 20 per cent say they will buy, but when and where, and at what price, they are not certain. The remaining (5 per cent) are yet to firm up their plans," says Malhotra. With 95 per cent of his products custom-made, Malhotra, who has since 1976 bagged a dozen national awards for record exports in his category, is taking the full brunt of the economic distress that is unfolding because of the coronavirus pandemic.

The proof of Malhotra's testimony is export figures for April and March, the two months when economic activity come to a screeching halt due to lockdowns globally, including in India. Handicraft exports plunged 91.84 per cent to $11.53 million in April from $141.3 million in the same month a year ago. In March, they were 27.9 per cent lower than the $171.13 million in March 2019.

The overall merchandise exports did not fare any better. In April, India recorded a 60.28 per cent decline in merchandise exports to $10.36 billion as compared to $26.07 billion in April 2019, the steepest fall in 25 years. India got into the lockdown mode in the fourth week of March. The month's exports were 34.57 per cent lower at $21.41 billion.

Only drugs and pharmaceuticals, and iron ore, registered growth

PHOTOGRAPH BY SHAILESH RAVAL

in April. In March, only iron ore was in the positive territory. The most affected are labour-intensive sectors like leather, apparel, handicrafts, carpets.

60%

Decline in merchandise exports in April

"Overseas clients don't wait. When they know your factories are locked in April, they will cancel orders till June. We saw cancellation of 50 per cent orders," says Ravi Seghal, Chairman, Engineering Export Promotion Council of India (EEPC). Seghal, Joint Managing Director of Kolkata-based Carnation Industries – a foundry-based engineering goods manufacturing company, says even when customers return, they may renegotiate prices "if they have tapped other sources in the meantime and got better prices." He says opening of factories in May will not lead to increase in production as several other problems will still be there. "The government allowed partial opening of units from the first week of May but our units were in a containment area. We have just got the permission. Even after you open, you won't get more than 25-30 per cent la-

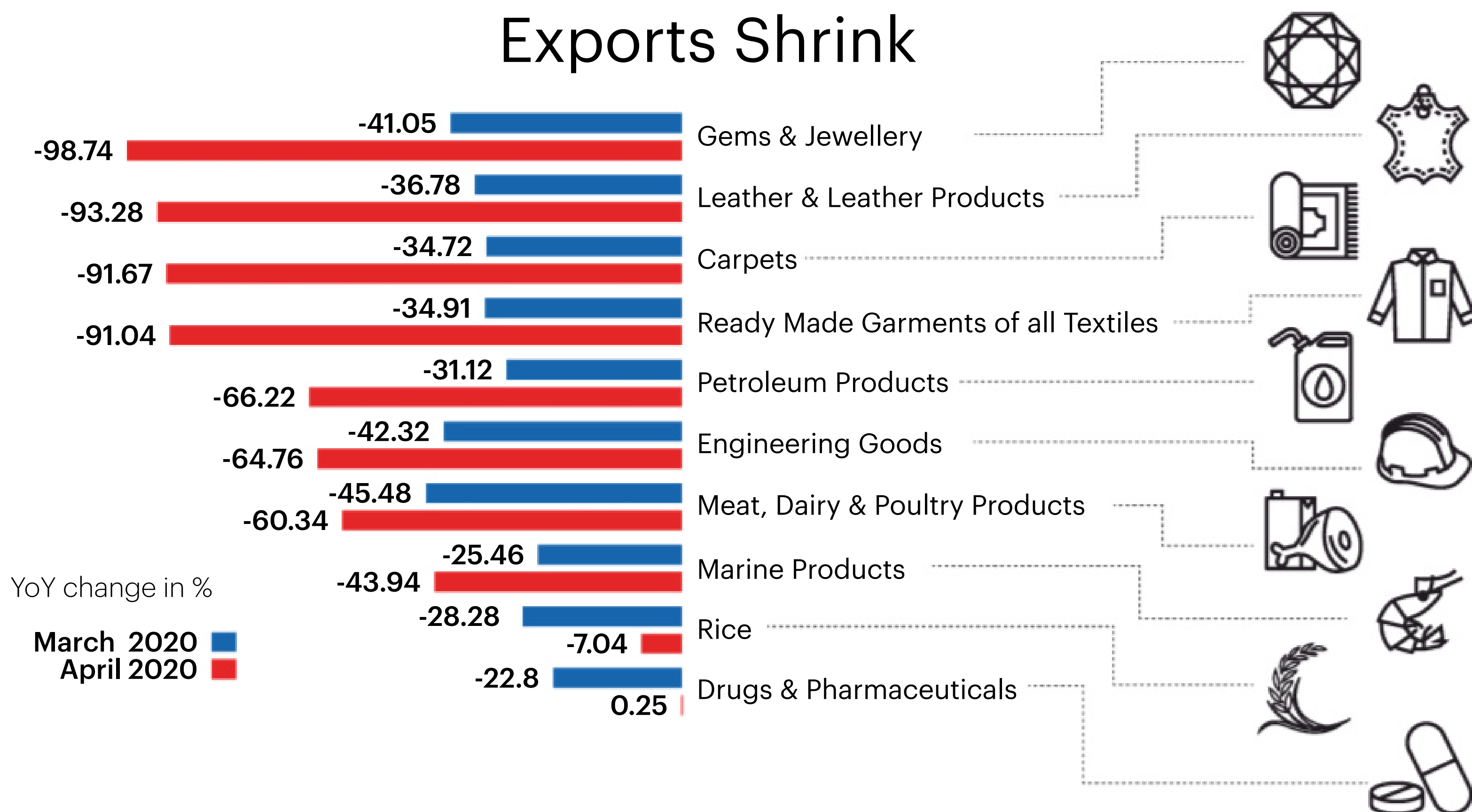
bour right away. Many of them cannot travel until local trains resume operations," he says. "It will take until June to really open up."

The Noida Special Economic Zone (NSEZ), which exports ₹9,000 crore worth of goods each year and employs over 50,000 people, is perhaps the biggest example of how lifting the lockdown is meaningless if there is a containment zone nearby. For several weeks, none of the 262 manufacturing units in the NSEZ, except 15 that produce essential items like medical goods, were allowed to function, despite the central government issuing clear instructions for permitting operations in access controlled zones such as SEZs with safety precautions and up to 50 per cent employee strength. The reason: there were Covid positive patients some 1.5 kms away. "The administration did not give permission to operate the units," says Vilas Gupta, Managing Director of Taurus Englobe, which functions from the NSEZ. Gupta is also the regional chairman of the Export Promotion Council of EoUs and SEZs. Technically, over 30 per cent of India's $2.7 trillion economy was allowed to function from April 21. But that did not help exporters.

With cancellation of orders, slump in global demand, Covid lockdown and supply chain disruptions all hitting at one go, it's a perfect storm for Indian apparel manufacturers. A. Shaktivel, founder of Poppys Knitwear, Tiruppur, and Chairman of the Apparel Export Promotion Council (APEC), says approximately $4 billion (₹30,000 crore) worth of orders are at stake in his sector. "We are not receiving payments for goods we have sent. There are a lot of cancellations. A lot of stocks are left. On top of it, we are not able to produce and export. It's a really bad situation," he says.

Apparel as well as handicraft sectors are facing cancellation of orders by big global brands. However, nobody is willing to accuse any particular buyer as the crisis is global. "We are in regular talks with the Ethical Trading Initiative (an international network of buyers and sellers) to help us out, our Textile Minister Smriti Irani has also appealed to buyers to not cancel orders but take delivery later. So, we are negotiating with buyers. But situation of buyers is also grim with all stores in Europe closed," says Shaktivel. According to him, demand is unlikely to come back soon, and the industry is planning to restart gradually.

In fact, there are different implications for orders of different periods. There may be some hope for July and August, or later, as factory operations are allowed in Lockdown 4.0. However, May and June orders are unlikely to be honoured. "Depending on the delivery period, there is some hope," says Ajay Sahai, Director General and CEO of the Federation of Indian Export Organisations (FIEO). According to him, order cancellations across merchandise export sectors range from 50-60 per cent, while for sectors such as apparel, leather (footwear), handicraft and carpets, it is over 80 per cent. "In just two months, roughly $25 billion worth of export orders have been cancelled," says Sahai. The mass cancellations due to slump in demand is not only impacting the viability of Indian exporters. It is casting doubts over the financial health of suppliers too. "Let us say an overseas buyer placed an order in January and



Textile Minister Smriti Irani has **appealed to buyers to not cancel orders** but take delivery later. We are negotiating with buyers"

A. Shaktivel, Chairman, Apparel Export Promotion Council

In just two months, roughly **$ 25 billion worth of export orders** have been cancelled"

Ajay Sahai, DG & CEO, Federation of Indian Export Organisations

asked for delivery in May. You have to see his current financial soundness before dispatching the order. Companies in the US and Europe are going bankrupt," says Sahai. "We are telling exporters to go ahead with their orders after taking insurance cover."

FIEO President Sharad Kumar Saraf says India can expect revival in exports from the third quarter of the fiscal depending on conditions in international markets. "With major global players, including the US, the UK, Canada, Japan, Germany, France, Austria, Spain, the Netherlands, Italy, Sweden and Bangladesh providing bailout or financial packages to their industry to sail through these difficult times, one can expect good news on the international trade front," says Saraf.

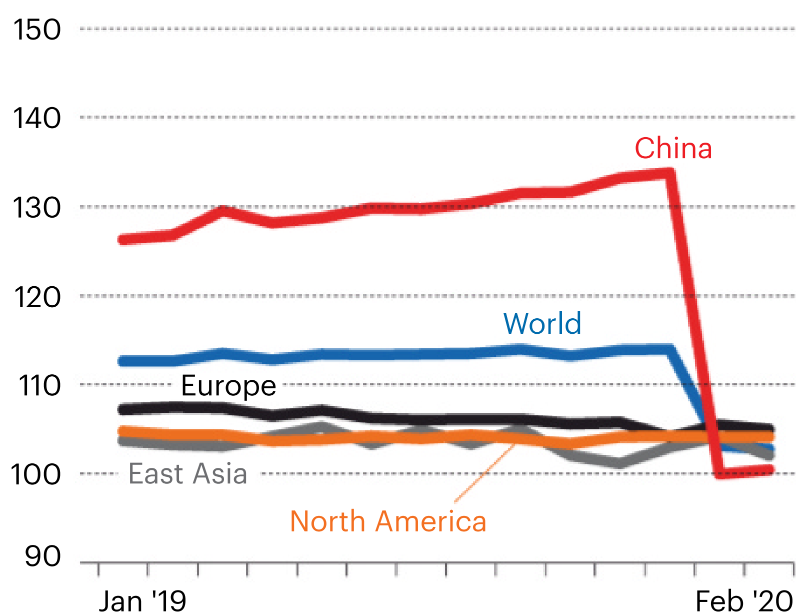
According to the apex exporters' body, the government should provide specific incentives to help exporters tide over the crisis caused by the cancellation of 70-80 per cent orders to avoid big job losses and NPAs. "Exports may be provided additional incentives under the Merchandise Exports from India Scheme like 2 per cent across the board and 4 per cent for labour-intensive sectors. The rollover of forward cover without interest and penalty and automatic enhancement of limit by 25 per cent to address liquidity challenges should be allowed. There should also be an Export Development Fund and various reforms measures including ease of doing business for marketing of Brand India products across the globe and boost to foreign direct investment in the country," says Saraf.

What is certain is that post-Covid businesses can never operate in the same fashion again. As and when demand improves, customers will be back. At least that is the hope that is driving exporters. Malhotra of Asian Handicrafts has good words for the Export Promotion Council of Handicrafts (EPCH) for looking beyond Covid. "The council is planning a virtual trade fair in July. A total of 2,000 exporters from India may get to display their products online to buyers from key overseas markets. The EPCH has also prepared a Covid compliance manual for member companies to follow. We are gearing up for the change," says Malhotra about the future of cancellation-hit exporters. BT

@joecmathew

Fading Hope

Industrial production indices are under pressure the world over



2015 base 100; Source: Unctad

New Gen Reliance

As **Mukesh Ambani's** children play a greater role in Reliance Industries, the group is adding muscle to its digital, retail and petrochemicals businesses

BY NEVIN JOHN

If you thought Mukesh Ambani and Mark Zuckerberg sat across a table, assisted by a battery of experts, to frame the Facebook-Jio deal, you are mistaken. Ambani's twin children Isha and Akash led talks for sale of a stake in Jio Platforms (JPL), flying down multiple times to Facebook headquarters in Menlo Park, California, for negotiations. The senior Ambani was given the minutes of the negotiations by the children. The details were shared often at dinner time in Antilla.

The stake sale is a step towards transforming the business empire founded by late Dhirubhai Ambani as a yarn trading company in Mumbai's Masjid Bunder about 63 years ago. One aim is to rid Reliance Industries (RIL) of a bulk of the massive ₹3.36 lakh crore gross debt ac-

WHAT THE RESTRUCTURING MEANS

Build three global-size businesses: refining & petrochemicals; digital & telecom; and retail

Cut financial interdependence of businesses and create net debt-free balance sheets

Transition of business to next generation

Anant Ambani, Isha Ambani and Akash Ambani at the company's 40th Annual General Meeting in Mumbai

PHOTOGRAPH BY MILIND SHELTE

Less Clutter

The new-look RIL has four businesses under its belt — oil & gas; telecom & digital; retail; and media

OIL & GAS

Reliance O2C Ltd (Saudi Aramco is looking to pick a 20% stake for ₹1,14,000 crore)

The petroleum refining & marketing business (Jamnagar refinery) and petrochemicals manufacturing

Upstream oil and gas exploration and production blocks in India (this includes the KG-D6 basin. BP Plc owns 30% for ₹7,000 crore)

Jio-BP fuel stations (BP Plc. 49%, Reliance O2C 51%)

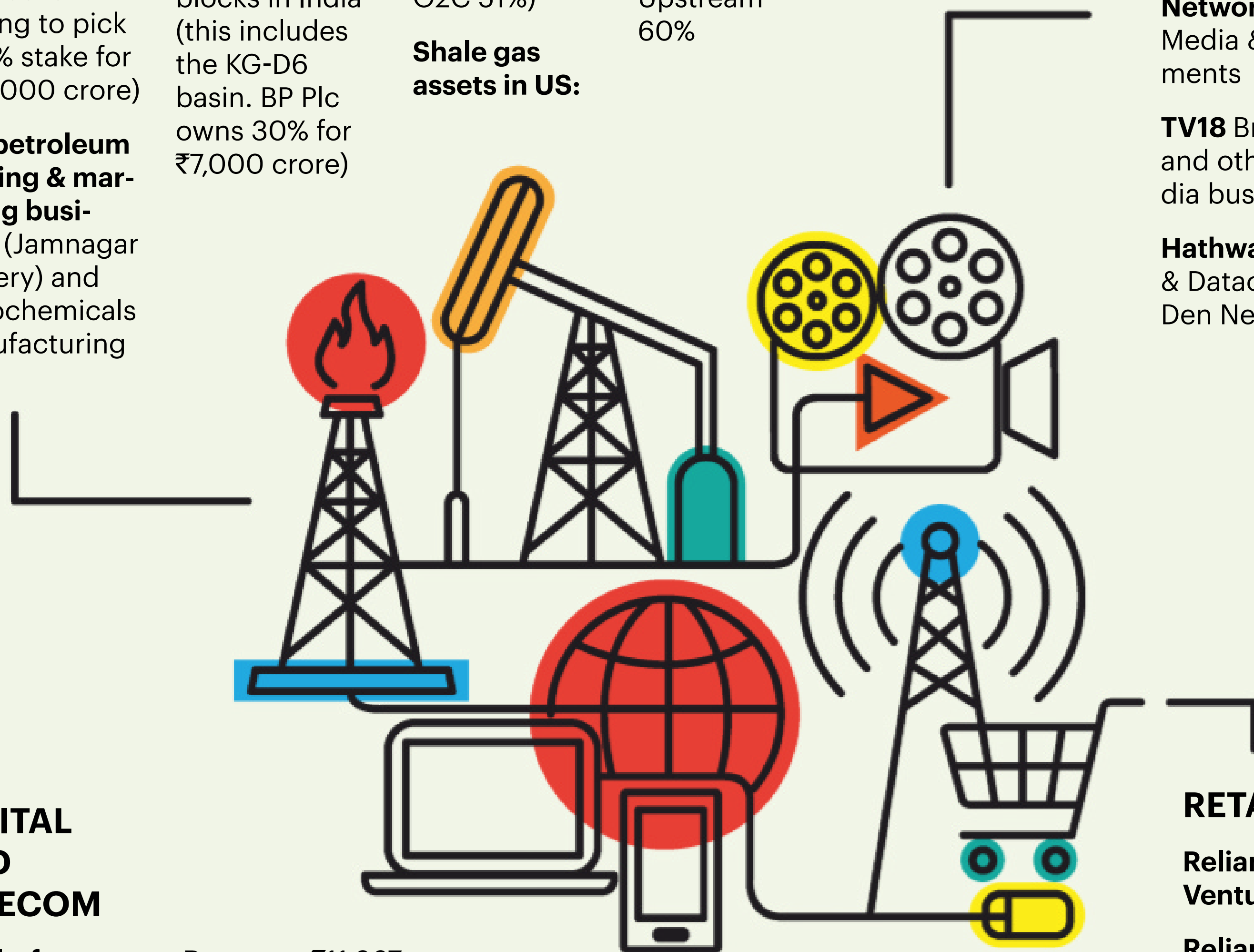
Shale gas assets in US: Marcellus-Pioneer 46.4% and Eagle Ford-Chevron Upstream 60%

MEDIA & ENTERTAINMENT

Network18 Media & Investments

TV18 Broadcast and other media businesses

Hathway Cable & Datacom and Den Networks



DIGITAL AND TELECOM

Jio Platforms Ltd (RIL recently sold 17.12% stake for ₹78,562 crore)

Facebook: ₹43,574 crore (9.99%); Silver Lake: ₹5,656 crore (1.15%); Vista Equity **Partners:** ₹11,367 crore (2.32%); General Atlantic: ₹6,598 crore (1.34%); KKR: ₹11,367 crore (2.32%)

Reliance Jio Infocomm: Wireless, Home and Enterprise Broadband

Cloud (with Microsoft), IoT, Blockchain, Big Data, Games, Apps & Content

Payments and finance

RETAIL

Reliance Retail Ventures Ltd

Reliance Retail — Grocery, fashion and lifestyle, electronics

E-commerce platform Jio Mart, which will be partly owned by Jio Platforms

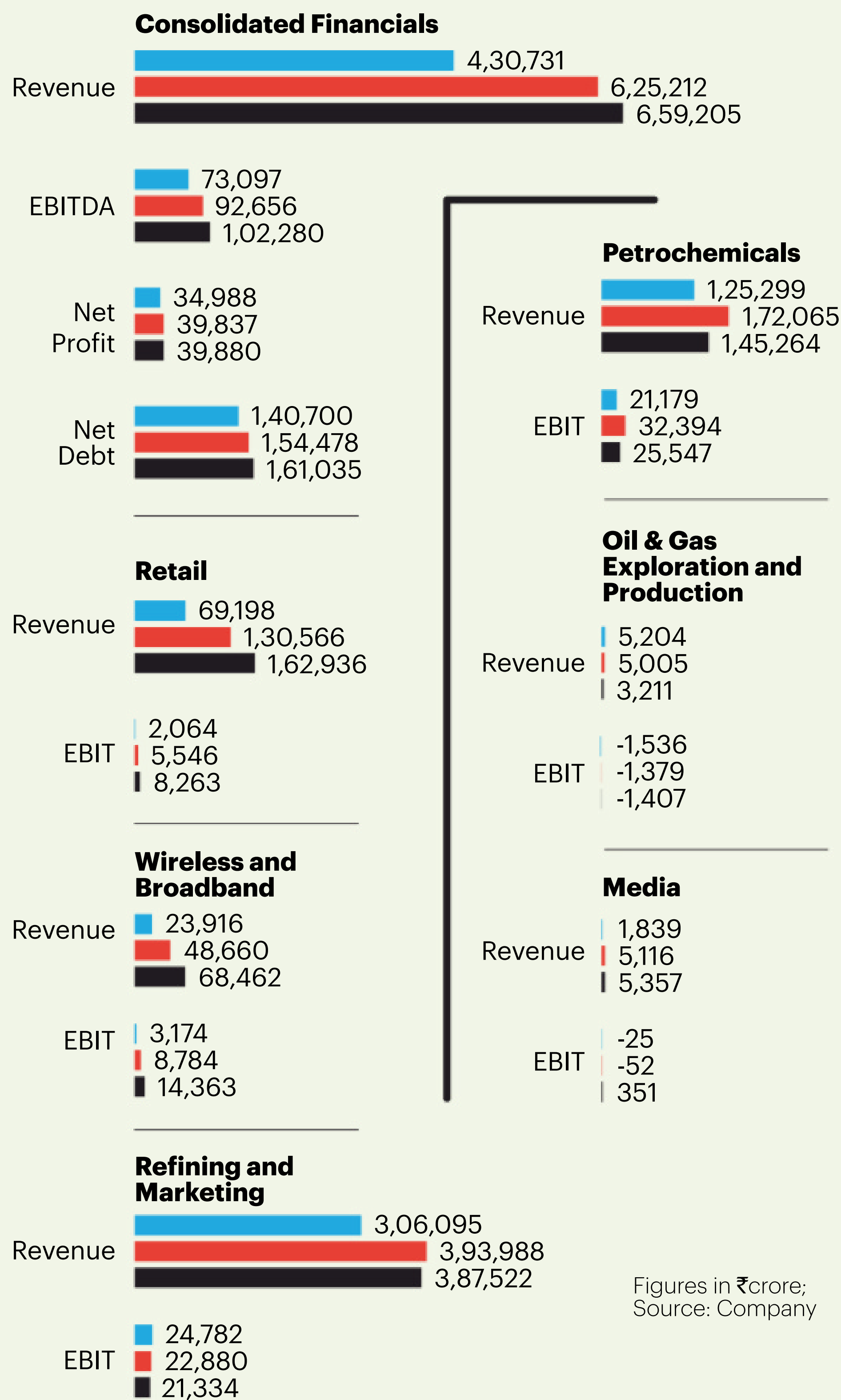
Reliance Brands

cumulated to fund growth businesses — Reliance Jio, Reliance Retail and petrochemicals. The other is to prepare the group for a digital/consumer future. For years, petrochemicals and refining stood taller than others. That is changing. In fact, Ambani doesn't even call RIL an oil and gas conglomerate any more. Instead, it's being positioned as a technology company so that the larger objectives are clear: build three businesses — refining & petrochemicals, digital & telecom and retail — of global scale; cut off financial inter-dependence of these businesses; create debt-free balance sheets.

The JPL-FB Deal

Facebook is buying 9.99 per cent equity in JPL for ₹43,574 crore. This values the digital and telecom company at ₹4.62 lakh crore. This has come amid the coronavirus pandemic that has brought the world economy on its knees and a 41 per cent fall in RIL stock price over the last few months. The deal typifies what Ambani once said, "Our fundamental belief is that for us growth is a way of life and we have to grow at all times". JPL signed four more deals within two weeks of the Facebook announcement with American private equity giants — Silver Lake, Vista Equity Partners, General Atlantic and KKR — worth a total ₹78,562 crore, and launched a rights issue to raise an eye-popping ₹53,125 crore. Saudi Arabia's $320 billion sovereign wealth fund, Public Investment Fund, is also in talks to pick up a stake in JPL.

The massive fundraising to deleverage RIL is not over.



The world's largest publicly listed company, Saudi Aramco, is doing due diligence to buy a 20 per cent stake in the refining and petrochemicals business for ₹1.14 lakh crore. Aramco will pick up the stake in the newly floated subsidiary, Reliance O2C Ltd, in which oil and petrochemical businesses are being shifted. Ambani has already completed negotiations with British oil giant BP Plc for selling 49 per cent stake in his fuel station business for ₹7,000 crore. The brand will be renamed as 'Jio-BP. The mission is zero net debt by March 2021. However, the pace at which the deals are being signed, the target will be met by December 2020, says V. Srikanth, Joint Chief Financial Officer, RIL.

RIL is also looking for buyers for a stake in retail holding company Reliance Retail Ventures Ltd. It will also divest the optical fiber investment trust (InvIT), land parcels that it bought for building special economic zones in Mumbai and some financial investments. Ambani had mentioned in the last shareholder meeting that RIL is "de-emphasising" its loss-making shale gas business in the US and will focus only on India, hinting he may sell the US shale gas business, which is bleeding because of crude oil price crash.

The intention seems to be to unlock value for now and convert group companies into technology driven, zero liability, entrepreneurial entities like Alphabet or Microsoft or Amazon. Building three equally strong businesses may also ease transition of power to the third generation — Isha, Akash and Anant. The twins are fully into the business and part of RIL's technological transformation; Anant is yet to join the business.

Reinventing Reliance

Refining and petrochemicals were accounting for 90 per cent of RIL's cash till recently. The money was being ploughed into consumer businesses — retail and telecom — that were growing at a frenetic pace. The retail arm, for years a small player, way behind Kishore Biyani's and Aditya Birla group's businesses, grew at a scorching pace post 2015. In telecom, launched in 2016, cracking into fiefdoms of giants Bharti Airtel, Vodafone and Idea looked nearly impossible. But the bets are paying off. In the January-March quarter, digital and retail businesses combined contributed 35 per cent to RIL cash flows. Refining and petrochemicals contributed 60 per cent.

Building The New

Ambani took the bet to invest nearly ₹4 lakh crore to build Reliance Jio and the supplementary digital businesses. The effort started 10 years back. Besides debt, he used the large cash flows from refining. Reliance Retail was founded in a similar way in 2006.

The journey was not smooth. In some states, Ambani initially failed to scale up Reliance Retail because of opposition from local *kiranas* and political parties. However, he persisted, and managed to turn things around in the last five years. Reliance Retail has achieved multifold growth since 2015, and that too during a period when established players such as Future Retail and More weakened and e-tailers like Amazon and Flipkart failed to expand to Tier-II and Tier-III cities. In FY20, retail posted earnings before interest and tax (EBIT) of ₹8,263 crore, 49 per cent more than in FY19. Its EBIT was ₹417 crore in 2014/15. The revenue has risen from ₹17,640 crore to ₹1.63 lakh crore in the last five years. Reliance Retail is India's biggest retailer today.

Deloitte has ranked Reliance Retail as the fastest growing retail company in the world. It added 30 per cent more space and over 1,500 stores in FY20. A recent Bernstein research report says, "In retail, slower-than-expected footfalls, increase in capital expenditures and higher competition are key downside risks." The company is set to scale up e-commerce venture JioMart for countering Amazon and Walmart-owned Flipkart.

The digital services business, though smaller than retail in revenue, is valued much higher, at ₹4.9 lakh crore. One reason is fast growth. Reliance Jio Infocomm posted a 87.65 per cent rise in net profit to ₹5,562 crore in FY20 driven by subscriber additions and third-quarter tariff increase. It posted a 63.5 per cent rise in EBIT to ₹14,363 crore and a 40.7 per cent rise in revenue to ₹68,462 crore. Jio continued to extend its lead over rivals in January by adding 6.56 million users even as cash-strapped Vodafone Idea's subscriber base eroded, according to data from the Telecom Regulatory Authority of India. Reliance Jio's subscriber base at the end of January was 376.57 million, while Vodafone Idea was second at 329 million. Jio's subscriber base further increased to 387.5 million at the end of March. Ambani aims to take Jio Fiber to more than two crore households and is targeting 99 per cent population coverage. The company is also planning to target five crore-plus households for cable networks DEN and Hathway.

Mark Zuckerberg, CEO of Facebook, told analysts during the recent earnings call, "Certainly, all the products and technology that we're building to enable that (Jio) partnership are going to be things that we want to do around the world." Facebook, through its WhatsApp platform, brings in synergies for RIL's JioMart initiative. There are also immense possibilities in e-payments, blockchain and social media transactions. Facebook has got one board seat in JPL.

In the traditional business, Ambani wants to switch focus from fuel manufacturing/refining to high-margin petrochemicals as the fossil fuel business is facing hardships due to advent of electric mobility and falling demand due to a global slowdown. RIL has invested about ₹1 lakh crore to expand petrochemical capacities in Jamnagar, Gujarat. Saudi Arabia has agreed to invest ₹1.14 lakh crore in Reliance O2C Ltd for a 20 per cent stake.

Ambani wanted to do the Aramco deal quickly in view of his plan to make RIL a net debt free company by March 2021. While the world was waiting for the details of the Aramco deal, the coronavirus pandemic and crash in crude oil prices played spoilsport. It was at this point that Isha and Akash managed to pull off the deal with Facebook.

The Aramco deal could provide RIL financial muscle, says HSBC Global Research. Besides creating a benchmark valuation for RIL's O2C business of ₹5.7 lakh crore, it will provide an additional ₹1.1 lakh crore in cash flow, taking it to a strong net cash position from a net debt position, the research firm says in a report. "With a stake in RIL, Aramco would not just have a stake in one of the world's best refineries and largest integrated petrochemical complexes but also access to one of the fastest-growing markets — a ready-made market for its crude and offering a potentially bigger downstream role in future," says the report.

GOING DEBT-FREE

RIL, which has a gross debt of ₹3.36 lakh crore, has signed agreements to sell 17.12% stake in Jio Platforms for ₹78,562 crore

Deal with Saudi Aramco for selling 20% stake in Reliance O2C at ₹1,14,000 crore (due diligence on)

RIL rights issue of ₹53,125 crore (25% will come in June, another 25% in March 2021 and the rest in September 2021)

BP Plc to pick 49% stake in fuel station business at ₹7,000 crore (transaction stage)

Zeroing in on Debt

Ambani recently sold the tower InvIT and pipeline infrastructure to Brookfield for ₹25,215 crore and ₹13,000 crore, respectively, as the first step to pare debt. RIL has net debt of ₹1,61,035 crore. The outstanding debt stood at ₹3.36 lakh crore in March 2020 while cash and cash equivalents were ₹1.75 lakh crore. The standalone balance sheet has a debt of ₹2.62 lakh crore, while Jio and Reliance Retail have debts of ₹23,000 crore and ₹4,600 crore, respectively.

JP Morgan Equity Research says, "Given increase in debt and continued elevated capex, the deals are welcome and should allow for deleveraging." It says transfer of ₹70,000 crore debt to two InviTs in tower and optical fibre, pending capital expenditure payments of ₹50,000 crore and spectrum fee of ₹20,000 crore are not part of the gross debt of ₹3.36 lakh crore. However, Bernstein says stake sales and rights issue will reduce net debt to net cash of ₹50,000 crore by next financial year. Besides, slowing capital expenditure and rising free cash flow will accelerate deleveraging.

Does this mean all challenges have been overcome? India Inc has seen huge investments by global corporations in the past also, including acquisition of Flipkart by Walmart for $16 billion; Essar Oil by Rosneft for $13 billion; and Hutch by Vodafone for $11 billion. In many cases, including Docomo's stake in Tata Tele, Daiichi Sankyo's stake in Ranbaxy and Walt Disney's stake in UTV, foreign acquirers burnt their fingers. Chevron, which picked up a 5 per cent stake in Reliance Petroleum, also had to exit in losses. BP Plc had to write off a part of its $7.2 billion investments made in 2011 in RIL's exploration and production assets due to losses. The new entrants in RIL are expecting a more profitable journey. **BT**

@nevinjl

Digital Infrastructure: Key to Unlocking India's $5 Trillion economy

India has undergone a digital transformation over the last few years, as a result- it has emerged as the second-fastest digital adopter in the world. Such rapid advancement has been possible with an affordable and reliable digital communications infrastructure, including cloud computing, fixed broadband, mobile communications, and localised data centres. We have come a long way with technology adoption, and yet this is just the beginning. India can leapfrog to become a global economic powerhouse and digital infrastructure is set to play a key role in this journey.

India's $5 trillion economy will be powered by Digital Infrastructure

The US, China, Japan, and Germany are the largest economy in the world, each with a GDP of more than $4 trillion. India is the fifth-largest economy with a GDP of $2.94 trillion. The top 4 economies are spending 1-2% of GDP each year on digital infrastructure while India is spending much lower. The on-going Covid-19 crisis has brought forth the importance of Digital Network Infrastructure to revive our economy and as an essential requirement matching food, education and healthcare.

Our economy will bolster with the right digital infrastructure – one that spans across urban and rural India. Fast and ubiquitous connectivity will keep us more informed and educated - what we produce, how we produce it, and how we engage in commerce. Digital Infrastructure will enable schools, healthcare infrastructure to be more efficient and save critical investments for the government, generate 60-65 million jobs over the next 5 years, and help India to become Atmanirbhar. Digital Infrastructure can be a springboard for India to leverage Make-in-India, increase economic activity, and realise the $5 trillion economy vision at an accelerated pace.

Gaurav Basra,
Chief Strategy Officer, STL

However, digital infrastructure development requires sustained investment at scale that private players simply cannot achieve alone. The government has an important role in building India's digital infrastructure. It needs to collaborate with private players to ensure the time-bound creation of digital infrastructure – fibre based tower backhaul, localised data centres and fibre-to-the-home (FTTH) and enterprise along with rural broadband connectivity.

Growth needs investment, and the government has to lead

While in the mid-term and long-term, the government can review and revise policies and plan for necessary investments for the next 5-10 years, in the immediate term, it can reallocate budgetary spend towards strengthening digital infrastructure.

- Reallocate funds from other infrastructure projects such as road, transport, power, railways, and petroleum. Investment in digital infra is at least twice as productive as physical infra.
- A central government led "Broadband Infra Fund" can be set to finance digital infrastructure investment and financing options for the fund could be explored with multilateral agencies and international banks.

Swift implementation is possible

There are many ways to drive this digital infrastructure creation. It can be led by the government or private parties. The recommended model would be one that has the best of government leadership and private entities' expertise. This model would enable speedy planning and decision making, initial allocation of budget and deliver tangible results much faster.

The government could also look at global best practices towards digital infrastructure creation and modernisation. For example, in Australia, NBN took the Region-first approach, while in Nordic countries the Business-first approach was deployed. India can explore a hybrid of the two models, depending on its population density, topography, ease-of-deployment, and economic potential of broadband. India has started adopting digital infrastructure, but now the time has come to speed up the process and aggressively invest in building digital infrastructure, one that is future-ready and will power our country's $5 trillion economy vision.

How to Unshackle The Economy

CENTRE HAS ROLLED OUT SOME QUICK-FIXES, BUT IT'S STILL A LONG, ARDUOUS ROAD AHEAD

BY JOE C. MATHEW
ILLUSTRATION BY NILANJAN DAS

H**as India pressed** the accelerator on reforms? On May 12, Prime Minister Narendra Modi set the ball rolling by announcing plans for an Atma Nirbhar Bharat (ANB) or self-reliant India. Over the next five days, in daily briefings, Finance Minister Nirmala Sitharaman explained the broad contours of the plan – a mix of immediate assistance to vulnerable sections of society, easy credit, interest subvention, extension of tax compliance dates, new legislation proposals and more. One word which resonated throughout was the "reform" agenda.

What are the reformist components in the ANB plan? In the PM's own words, self-reliant India will stand on five pillars – a fast-growing economy, infrastructure push, technology-linked systemic changes, young population and a fifth element connecting all the above to revive the cycle of demand and supply. Arguing for bold reforms, Modi proposed structural changes in the agri-supply chain, reforms for a rational tax system, good infrastructure, capable and competent human resources, and building a strong financial system. "These reforms will encourage business, attract investment and strengthen our resolve for Make in India," Modi said in his address.

Business Today takes a deep dive into some critical components of the economy – agriculture, manufacturing, financial services, healthcare, among others, to examine what more needs to be done to reform and unshackle the Indian economy beyond the ANB package. In some cases, the package is in sync with dream reforms the Indian economy seeks, but in many, it falls short of expectations. In agriculture, the government has attempted to address the age-old concerns of stakeholders. Freedom to price the produce, freedom to stock, freedom to sell – the government plans to bring about all these changes.

In logistics, it intends to bring an overall technological upgrade. In power, there is a move to privatise distribution, rationalise tariffs and push renewable energy. In healthcare, where investment has become critical in the wake of Covid-19, the government proposes to strengthen district-level facilities. However, it is a fraction of what the sector needs. When experts call for increasing the per capita expenditure on healthcare from $83 to $200, there appears a wide gap between government action and what the situation demands. The change in the definition of micro small and medium enterprises to permit higher investments in plant and machinery is a major move. The turnover limit of MSMEs has been increased, incentivising growth. Both proposals have been in the air for long now, a notification is what is needed. Sometimes, as in direct taxation, the need is for stability and certainty in tax regime.

Fast-track investment clearance initiative and self-reliance in defence production, are measures that find mention in the package. But that alone may not realise the "Make in India" dream.

Especially, when good intent meets poor implementation. As former Planning Commission member Abhijit Sen says: "Most reforms, at least in agriculture, have been discussed ad nauseam over the past 15 years." The question is, when will reforms materialise, and when will government look at more measures, such as the ones brought forth in the following pages? For dream reforms, it still seems a long road ahead. **BT**

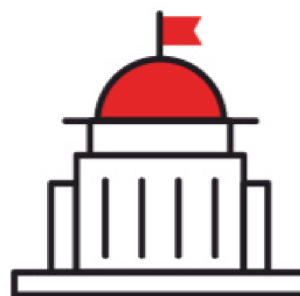
@joecmathew

MY TOP REFORMS

GOVERNANCE

SANJEEV SANYAL,
PRINCIPAL ECONOMIC ADVISOR, GOVERNMENT OF INDIA

Ensure contract enforcement and rule of law. Government and judiciary will have to work in partnership. The government, in partnership with judiciary, has to make the judicial system work, especially lower courts, where 80 per cent of cases are stuck



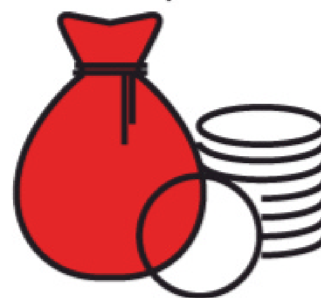
AGRICULTURE

DR. ASHOK GULATI,
INFOSYS CHAIR PROFESSOR FOR AGRICULTURE, ICRIER

Abolish Essential Commodities Act for all commodities barring rice and wheat

Suspend APMC Act for at least two years, if it cannot be done permanently. Arhtiyas (commission agents) exploit farmers and buyers

FINANCE



ABHIJIT SEN,
ECONOMIST AND MEMBER, 14TH FINANCE COMMISSION

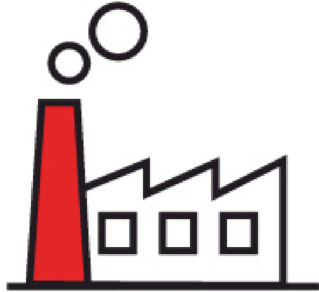
Putting conditions on states to borrow more is a bad idea. Most have to do with ease of doing business, which are so difficult to measure. There will be so much confusion that it cannot be done

Even if the conditions have been put on recommendations of the Finance Commission, they are meant to be met over years, not in the few months of massive expenditure

In the 14th Finance Commission, we finally said no to conditionalities. If the 15th Finance Commission is bringing back conditionalities, good luck to them

Policies not appropriate for automobile industry MSMEs. Any industry's competitiveness depends on quality and cost of the product, which are determined at the doorstep of MSMEs that produce it. The supply chain has to be as competitive if not more. Cannot treat millions of MSMEs in the country as one

INDUSTRY



R.C. BHARGAVA, CHAIRMAN, MARUTI SUZUKI

VINAYAK CHATTERJEE, CHAIRMAN, FEEDBACK INFRASTRUCTURE

Massive public works programmes to build six coastal economic zones like free trade zones

At least five new state capitals to decongest big cities

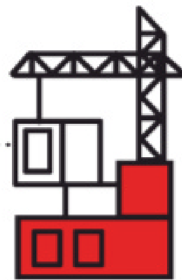
Plan for river linking aggressively. It could be one of the finest public works programmes with significant ecological benefits

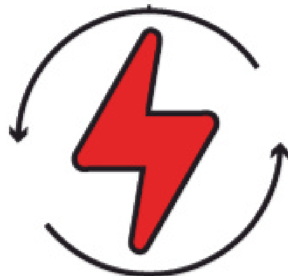
Strive for 24/7 tap water for all households with the same zeal as 24/7 electricity

Upgrade healthcare system.

BUSINESS TODAY ASKED TOP ECONOMISTS, BUSINESSMEN, LAWYERS AND BUREAUCRATS WHAT OTHER KEY REFORMS INDIA NEEDS TO UNSHACKLE THE ECONOMY. A ROUND-UP

INFRASTRUCTURE





ENERGY

SUNIL MATHUR, CEO & MD, SIEMENS INDIA

Make clear-cut energy plan explaining how to decarbonise old power plants, what the future energy mix will be and how to ramp up generation, transmission and distribution

VINEET AGARWAL, MD, TRANSPORT CORPORATION OF INDIA

Bring fuel under GST because that will impact overall cost of transportation

A New Farm Deal

DIRECT SALE OF FARM PRODUCE, PRICING FREEDOM, DIGITISATION AND TRACEABILITY IN POULTRY, LIVESTOCK AND FISHERIES SEGMENTS WILL GO A LONG WAY IN ACCELERATING THE FARM ECONOMY

BY JOE C. MATHEW
ILLUSTRATION BY RAJ VERMA

One of the problems that agri-business major ITC faced during the initial weeks of the Covid lockdown was labour shortage and limited availability of trucks. Instead of waiting for the situation to improve, the company carried out new supply chain interventions such as multi-point rake movements, loading containers directly from villages and *mandis* and coastal container movement. Even bag-less supply chain (loose grains) was tried out, says S. Sivakumar, Group Head, Agri and IT Businesses, ITC.

For the company, such a crisis might have been temporary, but for Indian agriculture, it remains one of the biggest perennial problems. The ability to ensure remunerative prices to farmers, handling of post-harvest produce with minimum losses, maximising value addition and transporting fresh produce and processed food seamlessly within the country and abroad have been the holy grails of India's agricultural sector reforms. The Covid stimulus announced by Finance Minister Nirmala Sitharaman some days ago recognised most of these concerns. Most of the ideas are not new. Implementation has been the main hurdle throughout.

Rolling The Ball

The need for the changes is critical now. According to the 3rd advance production estimates of major crops for FY20, released by the agriculture ministry on May 15 – the day agriculture stimulus measures were announced – the country saw a record production of foodgrains (295.67 million tonnes) like rice, wheat, coarse cereals and maize. Oilseed and cotton production are also setting new records. It is time to manage the produce efficiently. Individual companies can do their bit, but the country cannot move ahead without a national framework. "Scientific agriculture practices, innovation in organised credit, better post-harvest management, extending shelf life of produce, efficient storage, smart logistics and a plethora of other options are available from smart entrepreneurs. This is the right time to bring that bouquet to farmers," says Palat Vijayaraghavan, Founder & CEO, Lawrencedale Agro Processing India

HOW TO UNSHACKLE ECONOMY

Exemption from Essential Commodities Act, which specifies stock limits if prices rise beyond a level

Suspension of APMC Act mandating that farmers can sell produce only in *mandis*

Stringent health and safety measures in animal husbandry, poultry, fisheries

Massive co-operative movement among farmers

Policy to develop national agri-logistics infrastructure

MODI GOVERNMENT'S MOVES

Amendment of the Essential Commodities Act to reduce its use

Central law to bypass the APMC *mandi* system

Universal immunisation of cattle to eliminate foot and mouth disease

Encouraging formation of farmer producer organisations

₹ 1 lakh Crore agri-infrastructure fund

Awaiting Implementation

WHAT THE COMMITTEE ON DOUBLING OF FARMERS INCOME RECOMMENDED IN SEPTEMBER 2018

RECOGNISE AGRICULTURE AS AN ENTERPRISE

Adopt NITI Aayog's Model Land Leasing Act

Make cultivators farm managers by outsourcing services

REDEFINE MANDATE OF AGRICULTURE

Go beyond food and nutrition security

Include generation of raw materials to feed industrial enterprises

ADOPT MARKET-LED CROP GEOMETRY AND PRODUCT MATRIX

Preference to nutrition yielding, job creating and income generating crops

Change from only farm activities to farm + on-and-off farm activities (primary + secondary agriculture)

ALL POLICIES AND STRATEGIES MUST ADOPT 'FORK TO FARM' APPROACH, NOT 'FARM TO FORK' APPROACH

New market architecture comprising GrAMs (Gramin or rural agriculture markets) and alternative wholesale and export markets

Target 2022: 5,000 GrAMs, linking of 1,500 markets onto online platform, $100 billion agri exports

REVITALSING OF EXTENSION SYSTEM BY BLENDING MANPOWER AND ICT

Transition from government-led to partnership-based delivery

Arrangement of additional manpower for market extension services

(LEAF), an Ooty-based agriculture value chain firm.

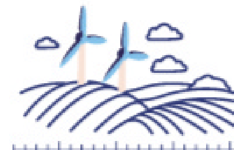
The government was aware of these requirements much before the Covid-19 stimulus. One of the key recommendations of the Doubling of Farmers Income (DFI) Committee in 2018 was to adopt various structural reforms and a governance framework to solve these issues. "Several of the committee's suggestions are already being implemented. The government is working on institutional mechanisms for effective coordination and convergence of manpower, material, money, time," says Ashok Dalwai, Chairman of the DFI committee. The Covid-19 stimulus measures for agriculture include a financing facility of ₹1 lakh crore for funding agriculture infrastructure projects at farm-gate and aggregation points (Primary Agricultural Cooperative Societies, Farmers Producer Organisations, agriculture entrepreneurs, start-ups, etc). The fund will be created immediately, Sitharaman said.

Equally important is the freedom to sell. "Allow farmers and wholesale dealers, businessmen, etc., to buy and sell products wherever they wish without the restrictions of the APMC Act," says farmer leader Pushpendra Singh, President, Kisan Shakti Sangh.

Agriculture economist Ashok Gulati wants the APMC Act, which limits farmers' ability to sell in local markets or *mandis*, to be suspended for at least two years. "APMCs have become a source of rent seeking for *arthtias* (middle men). They exploit farmers and buyers. Most of these market committee members are from the political class. The government should break this chain," he says. According to him, *mandi* cess, commission and charges used to add up to 14.5 per cent in Punjab. After GST, it is 8.5 per cent, which is still high. "What happens then? The roller flour mill in Punjab will not buy from Punjab. Instead, it will source from UP, as it does not have to pay taxes there. This means prices become non-compatible as you have added 8-10 per cent taxation." The system should be abolished. "This APMC

Agri Numbers

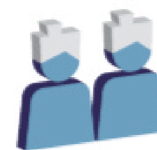
AGRICULTURAL LAND IN INDIA
328.73 million hectares



NET AREA SOWN
140.71 million hectares

NET IRRIGATED AREA
57.1 million hectares

INDIA'S POPULATION
1.3 billion



TOTAL WORKERS
481.9 million 54.6% of whom are agricultural workers

Source: Agricultural Statistics 2018

"THE GOVERNMENT IS WORKING ON EFFECTIVE COORDINATION AND **CONVERGENCE OF MANPOWER, MATERIAL, MONEY, TIME**"

Ashok Dalwai, Chairman, Doubling of Farmers Income Committee

"ANIMAL HUSBANDRY WILL **HAVE TO BECOME MORE ORGANISED, HYGIENIC**. EVEN LIVE BIRDS MAY GIVE WAY TO FROZEN STUFF"

T. Nandakumar, Former Chairman, National Dairy Development Board

system, if you can't suspend or abolish it, allow anybody to buy directly from the farmer without paying any commission, market fee or cess," says Gulati.

Sitharaman's stimulus package tries to address this by proposing a Central law to bypass the APMC Act and allowing farmers to sell anywhere. The problem is that a Bill can take a long time to become a law that is implemented in letter and spirit, especially if it is about agriculture, which is predominantly a state subject.

Pricing Freedom

The government has said that it will amend the Essential Commodities Act that empowers administrations to fix stock and price limits for all essential items. The issue is not the existence of the Act but the practice of invoking it whenever there is a surge in prices of commodities.

Abhijit Sen, former member of the Planning Commission and a professor at the Jawaharlal Nehru University, says the best thing the Central government can do is to leave agriculture, especially marketing and logistics reforms, to states. Citing the example of the Central government's Covid response, Sen says the Central government is coming out with statements to promote agricultural activity but not any coherent policy. "You have to leave it to state governments to do it," he says. "There is a decline in demand for fresh produce as hospitality industry is closed. You cannot pretend that the problem doesn't exist. Let state governments try within the broad set of constraints. Don't send Central teams all over the place," he says.

A massive cooperative movement among farmers is another reform that will bring scale to farm or village level procurement operations. In February this year, Prime Minister Narendra Modi announced the nationwide launch of 10,000 farmer producer organisations (FPOs). The Budget allocated ₹6,865 crore for providing ₹15 lakh to each FPO. If well organised, FPOs can ensure better access to technology, inputs, finance and market for member farmers.

Animal Spirits

The biggest reform, in the context of increasing cases of zoonotic diseases caused by mutant viruses in animals, as is suspected in Covid-19, is a national policy to bring in stringent health and safety measures, including traceability, in cattle, poultry, fisheries, etc. T. Nanda Kumar, former Chairman, National Dairy Development Board, says post-Covid, the animal husbandry sector will need to go through a transformation. "It will have to become more organised, hygienic. Even live birds may give way to frozen stuff," he says.

Finding ways to help farmers make extra money has always been on cards, but there is a ₹20,000-30,000 crore opportunity that is awaiting government push, says Fauzan Alavi, Director of Allanasons, India's largest buffalo meat exporter. Alavi is talking about the policy for salvaging the male calf. "There are about 10 million male buffalo calves in the system. Earlier, farmers used them for farming or transport. The male buffalo has little utility for the farmer today. The scheme to incentivise farmers to tend male buffalo calves can give them an assured guarantee as buffalo meat export units will give 100 per cent buyback guarantee for the animal," he says. He says bovine meat has the highest potential in agri exports. Incidentally, the government has already announced a programme for eradication of the foot and mouth disease. Encouragement to scientific way of managing livestock, while taking care of health and traceability, can change the fortunes of the Indian farmer.

The use of digital technology in farming and storage also needs to be encouraged. "Setting up scientific warehousing management companies, encouraging newer technologies to manage existing infrastructure can address the majority of the issues (in the agriculture produce storage system)," says Sandeep Sabharwal, CEO of agri-logistics firm Sohan Lal Commodity Management.

The government has one advantage. It does not have to search for the path to enhance agriculture incomes. There is no area of agriculture that the 14 volume report of the DFI Committee has not covered. The final recommendation of the DFI deserves particular mention: Speedy and quality implementation of government policies. **BT**

@joecmathew

TAX REGIME NEEDS GREATER STABILITY, PREDICTABILITY AND LESS LITIGATION

Changing

BY DIPAK MONDAL
ILLUSTRATION BY RAJ VERMA

L**ast year, the government** reduced the headline corporate tax rate from 30 per cent to 22 per cent, taking a ₹1.45 lakh-crore revenue hit. In this year's Budget, it lowered income tax rates. Both were bold 'reforms', which simplified the tax structure. But reforms are not just limited to tax rates. They are also about stability in tax policies and change in mindset of officers towards taxpayers, say experts.

Stability of Tax Laws

A committee under former Central Board of Direct Taxes member Akhilesh Ranjan has made several recommendations on this front, but they have not been implemented. Ranjan, who retired on December 31 , 2019, told *Business Today*, "We had suggested delinking the direct tax policy from the Budget. Tax policy should be considered in consultation with stakeholders and then a consolidated policy statement with a draft amendment Bill should be circulated." According to Ranjan, making changes every year in the Budget creates uncertainty among businesses and taxpayers. All tax rates should come under the Income Tax Act itself so that there is stability as far as laws and tax rates are concerned.

Litigation Management

As on March 31, 2019, ₹9.56 lakh crore was under dispute at different tax tribunals and courts. "Every single issue of large magnitude gets litigated year after year... If there is a matter in which an addition has been made, by the time the matter reaches the Supreme Court, it is already 12-15 years. Nobody can wait for 12-15 years to resolve a matter," says

HOW TO UNSHACKLE ECONOMY

- Bring stability in tax laws by delinking tax policies from Budget
- Have a mediation system to avoid litigation
- Allow loans to corporates against refund certificates issued by government
- Tax farm income beyond a threshold to increase tax base
- Revamp the way assessments are done

MODI GOVERNMENT'S MOVES

- Release of refunds to charitable trusts, non-corporate businesses/professions
- Reduction in TDS and TCS rates by 25% for remaining period of FY21
- Due date of I-T returns and audit extended
- Date for payments without additional amount under Vivad Se Vishwas Scheme extended to Dec 31

Mindsets

Dinesh Kanabar, CEO at tax advisory firm Dhruva Advisors. Kanabar thinks the department should consider getting into a negotiated settlement with the taxpayer.

The Akhilesh Ranjan committee has suggested a mediation process to resolve the dispute before it reaches the court or the appeal authority. "You can have a mediation panel of ex-tribunal members or people who know about tax matters, but are not with the department, who can mediate between the taxpayer and the authorities," says Ranjan.

The decision of the panel will be non-binding, non-mandatory. If the taxpayer likes it, he can continue, if he does not, he can appeal, he says.

Taxing Agricultural Income

With the government initiating reforms in the agriculture sector to make farming more remunerative, it is the right time to tax agriculture income. Farmers will now be allowed to sell at attractive prices without having to sell mandatorily to licensees in Agricultural Produce Market Committees. They will also be able to trade inter-state freely and will get access to a framework for e-trading. Sudhir Kapadia, National Leader, Tax, EY India, says, "If your income is above a certain threshold, say ₹10 lakh, then the agricultural income should also be taxed... If I am able to digitise (transactions), trace the income, then why can't I tax rich farmers?".

This will also increase the tax base, which remains low, with just 5.5 crore individuals filing returns in assessment year 2018/19.

Refunds To Corporates

Recently, while announcing the stimulus package, Finance Minister Nirmala Sitharaman said all refunds up to ₹5 lakh and those of non-corporates will be released immediately.

Delay in settling refunds has been a long-pending complaint of companies, as for most of them, refunds run into crores. According to tax laws, the moment you file a return, you get an in-principle acceptance and are required to be refunded the money except if there are any calculation errors, past dues, etc. Thereafter, if there is an assessment and demand, the taxpayer has to pay. But as per tax experts, there is a provision that says if granting of refund is prejudicial to the interest of the government, it should not be granted. The Centre often uses this power to deny refunds.

"If the Centre does not have the money, it can issue a certificate to say this person/company is entitled to this much refund. The company can go to the bank and encash the certificate," says Kanabar of Dhruva Advisors. He says whenever the government pays the refund, there is a 6 per cent coupon. "So, let the bank charge an 8 per cent interest against the certificate. Nobody will mind paying an extra 1-2 per cent but at least liquidity will be taken care of."

Also, lots of disputes arise because of the assessment process. While the recommendations of the Akhilesh Ranjan panel to have e-assessments have been implemented, this is just a part of revamping the system. Ranjan says the tax department needs to trust the taxpayer. If there are errors and if the taxpayer wants to file additional income, let him do it without facing any penalty. Hence, processes, including reopening of assessments, need to be changed. This will require a change of mindset among tax officers.

Over the years, a lot of changes have been made in the Income Tax Act to make it non-adversarial. However, new and stricter provisions have also been brought in, showing a trust deficit between the department and taxpayers. Unless this mindset changes, litigations will continue to hurt the system. BT

@dipak_journo

A Quantum Miss

INDIA'S STAGNANT MANUFACTURING SECTOR NEEDS LAND, LABOUR AND SUPPLY CHAIN REFORMS URGENTLY. STIMULUS MEASURES FALL SHORT OF EXPECTATIONS

BY SUMANT BANERJI
PHOTOGRAPH BY SHEKHAR GHOSH

F**or the hype around** India's manufacturing prowess, its share in overall GDP is nothing to gloat about. Ever since the licence raj was dismantled, the expectation was the economy would prosper on the back of manufacturing. Yet, almost three decades since liberalisation, manufacturing continues to account for just around 16 per cent of GDP.

There are many impediments that hold the country back. Archaic labour laws, difficulties in acquiring large tracts of land for big projects, bureaucratic hurdles, procedural delays, a less-than-efficient dispute resolution mechanism and high power, logistics and capital costs are some of them.

Land, Labour and Logistics

"Reforms are required in the three Ls—labour, land and logistics. We need to take action to produce in a more cost-efficient manner," says D.K. Joshi, Chief Economist, Crisil. "We also need policy certainty to give more assurance to foreign investors. You require good infrastructure to attract investments."

The scope for improvement is substantial. In 2019, the

World Economic Forum, in its annual World Competitiveness Index, ranked India at 68, down 10 places during the year. India was the worst performer with its score declining on eight of the 12 parameters. Other countries, including those competing directly for investments relocating from China, improved. In one year, South Africa (60), Vietnam (67) and Philippines (64) became more competitive than India. Indonesia (50) and Thailand (40) are anyway ahead while China is streets ahead at 28.

"The government needs to review policies, infrastructure, regulations to create an environment more conducive for FDI and industry needs to look at product quality, efficiency of operations and develop world-class capabilities," says Ashish Nanda, Supply Chain Leader, EY India. "India needs to adopt self-sufficiency by augmenting domestic value addition in manufacturing."

High logistics cost is a big bump in the road. In India, logistic and freight costs account for 14 per cent of GDP against single digits in most other countries. "In India, we pay among the highest logistics costs as there are hardly any waterways while railways cross-subsidise mobility," says Naveen Jindal, Chairman, Jindal Steel and Power. "Cost of power is prohibitive due to cross-subsidisation."

India's push to build highways and a cross-country GST have smoothened freight movement. But benefits have somewhat been negated by toll charges rising six times in the last few years and high cost of fuel. "We should look at how we can bring fuel under GST because that will allow us to avail input credit," says Vineet Agarwal, Managing Director, Transport Corporation of India.

The infrastructure that supports manufacturing needs an overhaul. It is an area the government has been trying to tackle – ambitious special economic zones (SEZs) and cluster development programmes have been undertaken, but results have been below par. "It is time we initiate a massive public works programme," says Vinayak Chatterjee, Chairman, Feedback Infrastructure. "We should build six coastal economic zones in the nature of free trade zones. These can be used to direct investment that may rebound off China."

"At least five new state capitals should be built to decongest our cities. The river linking plan could be one of the finest public works programme with ecological benefits," he adds.

The biggest issue is red tape. Snail-paced bureaucracy creates procedural hurdles that impact every facet of conducting business in India. The biggest is land acquisition. From highway construction to bullet train and steel plants, almost every project – big or small – gets delayed or suffers cost overruns due to this. The failure of South Korean steel major Posco's $12 billion project in Odisha due to land acquisition issues is a poor advertisement of India's ability to get projects off the ground.

HOW TO UNSHACKLE ECONOMY

- Reforms to bring down high logistics cost (nearly 14% of India's GDP)
- Guidelines to help states formulate balanced labour laws in line with global best practices
- Land reforms to enable easier acquisition of land in a time-bound manner
- Reforms to reduce bureaucratic hurdles, cut down on statutory regulations and clearances
- Steps to reduce cost of capital for industries in the country
- Expansion of public infrastructure projects to kickstart the economy and make local manufacturing competitive

Ease of Doing Business

According to the World Bank's ease of doing business rankings, India fares poorly in registering property and enforcing contracts. It takes 58 days and costs on average 7.8 per cent value of the property to register it. Resolving a commercial dispute takes nearly four years (1,445 days) on average, three times more than in any OECD economy.

Reforms have been initiated, but progress is slow and timelines unclear. The government has talked about power tariff reforms that will do away with cross-subsidisation but stops short of giving a deadline. On labour reforms, Uttar Pradesh, Madhya Pradesh and Gujarat recently came up with new regulations to attract investors but are facing opposition from unions, including those close to the ruling coalition. "Big-ticket infrastructure projects need to be expedited. The government is committed to the idea. We, however, do need a push. In manufacturing, there are issues relating to labour, land, liquidity, and laws," says Jindal.

R.C. Bhargava the chairman of India's largest carmaker Maruti Suzuki, believes the problem lies more in the attitude of the bureaucracy that is tasked with execution rather than overall policy. "The rules, regulations and policies on paper in India are not anti-manufacturing as such. It is the attitude of the bureaucracy and its unwillingness to act as a facilitator that creates problems," he says. "The private sector is looked at with suspicion. Corruption is most rampant as it is taken for granted that a businessman is there to be squeezed."

Some reforms like labour and land are politically difficult. Others like bringing down cost of fuel by including it under GST are also not easy as most states depend on fuel taxes for a large chunk of their revenue. Experts say India should resort to incentives. "Incentives for self-reliance and put-

ting up facilities with world-class scale to reduce cost should be considered," says EY's Nanda. India also scores low on starting a business as myriad procedures make the process cumbersome. The underlying problem is too much state interference.

"Much has been done to improve ease of doing business. It shows in the improved ranking (63 in 2019 from 77 in 2018) but there is scope for more," says Athar Mohammad, Partner, PwC. "Some reforms have to be undertaken by states as subjects they deal with are in state list or concurrent list."

The time to do it is now. The world is at a tipping point right now and the new structure that will emerge out of the debris of the coronavirus ravaged global economy will throw up opportunities.

Tying into Global Supply Chain

Countries are looking to decouple from China, the factory of the world for over two decades now, and realign their supply chain. With a large domestic market and a favourable demography, India stands at a good place to benefit from this. But, it needs a fresh script and incorporate, if not all, most of the reforms talked above.

"We need to make the environment more conducive for companies looking to move out of China. There is a push factor now given the need to realign global supply chains that were established over decades," says Joshi of Crisil. "History is against us. Going by past experience, many companies had moved to nimble countries like Vietnam and Philippines. (But) It is a once in a lifetime opportunity."

To reach the new GDP target of $5 trillion, manufacturing has to do the heavy lifting and increase its share to at least 25 per cent. "As we aspire to become a $5 trillion economy, the journey needs to be supported by deeper reforms and simplified regulatory regime in various areas," says Dilip Chenoy, Secretary General, Federation of Indian Chambers of Commerce and Industry. "The growth rate of manufacturing needs to be in double digits to ensure adequate employment for our young labour force."

So, when Prime Minister Narendra Modi addressed the nation for the fifth time in less than two months on May 12, announcing a ₹20 lakh crore economic package, he raised hopes of deep structural reforms to spur manufacturing. Modi exhorted India to become economically self-reliant saying the country needed a quantum jump and not just incremental change.

MODI GOVERNMENT'S MOVES

- Commercial mining in coal sector and seamless mineral licences
- FDI limit in defence raised from 49 to 74 per cent; ban on import of specific weapons to aid domestic manufacturing
- Progressive reduction in cross-subsidies in power.
- Emergency working capital facility worth ₹3 lakh crore for businesses, including MSMEs
- Empowered group of secretaries to fast-track investment clearance
- Project Development Cell in ministries to prepare investible projects, coordinate with investors and Centre/states
- Sops for promotion of new sectors such as solar PV, advanced cell battery storage, etc

Over the next five days, as the package was unveiled by Finance Minister Nirmala Sitharaman, expectations rose to a crescendo. A host of measures with a smattering of reforms were announced but did not justify the hype. "To say it is disappointing is an understatement," says a promoter of one of Delhi's old business houses who did not wish to be identified for fear of antagonising the government. "The heartburn is not because nothing was done. We are used to being ignored. It was because the government raised expectations of some big-bang reforms. People started talking about this as the 1991 moment, when the economy was liberalised. It is quite a damp squib."

It is not that nothing has been done. Among the measures undertaken, allowing commercial coal mining, raising FDI limit in defence manufacturing to 74 per cent will have far-reaching consequences. Much stress has been laid on local manufacturing and reducing dependence on imports. But it has not culminated into a policy that can be applied to all sectors.

Not Really Reforms

"The steps taken can hardly be called reforms. They are policy interventions at best," says a senior executive at a Chennai-based company that makes heavy machines. "Make industries your priority and simplify procedures."

In his paper "Make in India: The Components of a Manufacturing Strategy for India", Dr. Santosh Mehrotra, who teaches economics at JNU, blames the lack of a coherent industrial policy for the manufacturing sector's inability to thrive. India has not had an industrial policy since 1991 and the last time a policy for manufacturing was formulated was in 2011. A new policy is in the works but is delayed by over four years.

"The planning in the central government must be revived to devise and implement a national industrial strategy. This requires recognition in the top leadership that without a serious manufacturing strategy, and policies to match it, India will never become a major manufacturing nation," he says.

The economic package that promised big bang reforms has not quite delivered on its premise. The opportunity, is still within reach, but the clock is ticking. **BT**

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WARNING !!! AGAIN A DEADLY CRASH HAS STARTED IN INDIAN STOCK MARKET 2020.

NIFTY IS GOING TO TOUCH MINIMUM 2500 LEVEL SOON.

LAKSHMI NARAYANAN SUNDARAM
Research Analyst (SEBI Certified)

Again a deadly crash has started in Indian Stock Market 2020. In this big crash NIFTY will fall and reach minimum 2500 level. Once NIFTY reaches 2500 level, the fall will be calculated 80% fall from the life high. This is going to be registered as the biggest fall in the INDIAN STOCK MARKET history. Recently in the month of march 2020 NIFTY got corrected nearly 40% from life high and rest 40% will fall drastically very soon . Therefore investors and traders needs to be very careful to deal with the crash since it will impact investors and traders wealth severely said by the RESEARCH ANALYST Mr. LAKSHMI NARAYANAN SUNDARAM.

LESS LAW, MORE WORK

Neeraj Dubey, a labour law expert, recalls how one of his clients was once issued a notice for not putting spittoons at designated places in his factory. In another case, a factory inspector issued a notice to a businessman for not having enough plants around his factory. "These are the kind of issues over which employers are harassed," says Dubey, a partner with law firm Lakshmikumaran & Sridharan Attorneys, while arguing for overhauling the Factories Act, 1948.

The law is one of the over 200 enacted by the Centre and states that deal with safety, health, efficiency and well-being of people in a factory or production unit. Complying with complex provisions of each of these is nearly impossible. That is why, for decades, businesses have been demanding repeal of most of these and simplification of others. This demand has become amplified in the wake of the hit industry has taken due to coronavirus that is forcing it to scale down operations. The Industrial Disputes Act of 1947 is turning out to be a big hurdle in closing down factories and reaching a settlement with workers. "One of the biggest problems industries face is because of the Industrial Disputes Act. It restricts firms from retrenching employees even when the unit is unviable. Another is the Minimum Wages Act to protect workers; it distorts the labour market," says D.K. Srivastava, Chief Policy Advisor, Ernst and Young.

While there is a need to reform the decades-old labour laws to make India competitive, the government has to protect workers' rights, too, given that India has excess labour.

Labour Surplus

As many as 39.5 lakh job-seekers registered themselves on 997 employment exchanges across the country in

EASIER AND SIMPLER LABOUR LAWS, AND FLEXIBILITY TO MANAGE EMPLOYEES, CAN WORK WONDERS FOR BUSINESSES

BY NIRBHAY KUMAR
ILLUSTRATION BY RAJ VERMA

2017 (the latest data available) but only 4.25 lakh, or a little over 10 per cent, got jobs through these platforms. While many may have found work through other means, this is indicative of a poor job scenario. In the last two years, with GDP growth falling, the job market has seen an unusual spike in unemployment (see *Unemployment Rate at Worrying Levels*). The coronavirus has made the situation worse.

Without unemployment benefits and social security, workers are always at the risk of slipping into poverty. The existing labour laws have benefitted only organised sector workers, who account for 10 per cent of the workforce. "Those who think that the complex web of federal and state labour laws protect workers must realise that these have been primarily responsible for 90 per cent of our workforce of 47 crore people (pre-lockdown estimates) remaining in informal/unorganised sectors without minimum wages or access to social security," says Jayant Krishna, Senior Fellow, Center for Strategic and International Studies and Executive Director, Public Policy, Wadhwani Foundation.

The coronavirus outbreak has exposed the fragility of the Indian labour market. Mahesh Vyas, Managing Director and CEO of Centre for Monitoring Indian Economy, has estimated job losses at 12.2 crore in April.

HOW TO UNSHACKLE ECONOMY

Flexibility to hire and fire will allow companies to adjust their operations in line with market conditions

Decriminalising provisions of labour laws

Subsuming multiple laws into one to make compliance easier as in case of GST

Digitising procedures and doing away with duplicacy in filing returns

Putting an end to inspector raj and shifting to self-assessment for most compliances

Consolidating Laws

The 44 Central labour laws are being compressed into four. The Code on Wages has already been adopted by Parliament, while three others are awaiting approval. "The Code on Wages has been notified. The rules are being framed. Two other Codes are under consideration of the (Parliamentary) Standing Committee, which is expected to give its report in the next 10-15 days. The fourth Code will soon go to the Standing Committee," says Labour and Employment Minister Santosh Kumar Gangwar.

The Code on Wages 2019 subsumes The Payment of Wages Act, 1936, a pre-independence law, and 71-year-old the Minimum Wages Act, 1948. The other two laws merged with the Code are the Payment of Bonus Act, 1965, and the Equal Remuneration Act, 1976. The aim is to simplify the definition of wages (there are 12 definitions in different labour laws). This is expected to make compliance easier and minimise chances of dispute while calculating compensation or bonus.

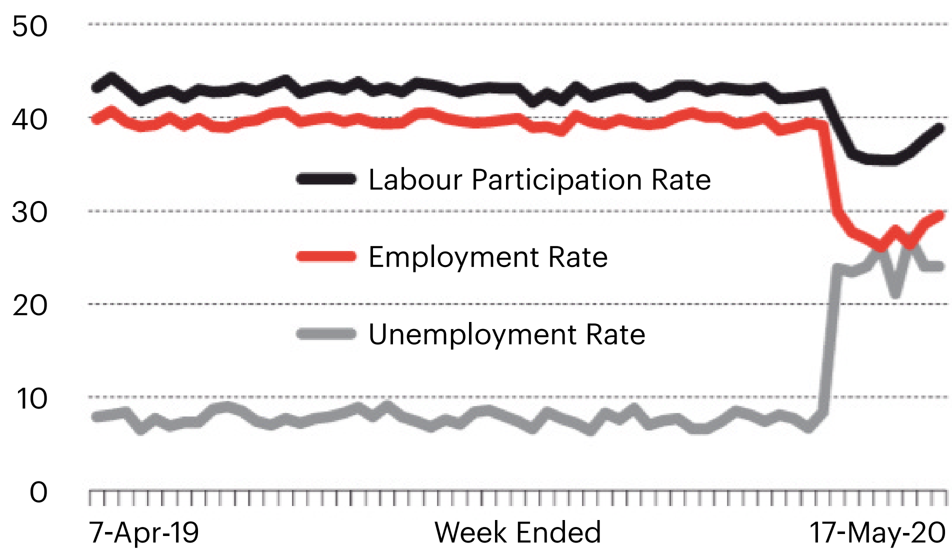
Similarly, the Occupational Safety, Health and Working Conditions Code, 2019, subsumes and replaces 13 labour laws, including the Factories Act, 1948, relating to safety, health and working conditions. The Code on Social Security & Welfare will subsume nine laws such as the Employees' Compensation Act, 1923, the Maternity Benefit Act, 1961, the Payment of Gratuity Act, 1972, and the Unorganised Workers' Social Security Act, 2008.

The Code on Industrial Relations will simplify three central acts – the Trade Unions Act, 1926, the Industrial Employment (Standing Orders) Act, 1946, and the Industrial Disputes Act, 1947.

"The codes seek to simplify the rules. They seek to strengthen rights of workers. Once they are enacted, many actions of companies will not result in criminal action. They will be treated as irregularities," says former Labour Secretary Shankar Aggarwal. "They will give flexibility in hiring and sacking," says Aggarwal, instrumental in initiating these reforms.

These changes are vital as moves to improve the ease of doing business have largely benefited big companies. Smaller players continue to suffer from a high compliance burden. "The

Unemployment Rate at Worrying Levels



Figures in %; Source: CMIE

ease of doing business for small and medium enterprises in most of India is traumatic. This is the key problem. It is not the issue of the Centre. There is lack of responsiveness and indifference at state and local government levels," says Ravi Venkatesan, founder of coalition Global Alliance for Mass Entrepreneurship and former Chairman of Microsoft India.

Employer-friendly?

Many labour law experts say the new codes are going to give employers a lot of leeway in dealing with workers. "The codes will dilute the elaborate labour rights that were conceived in each and every law," says XLRI Jamshedpur Professor and Labour Economist K.R. Shyam Sundar.

The Code on Industrial Relations has provisions for fixed-term employment, making it easier for companies to hire and fire. Also, while a provision requires companies employing 100 or more people to take government approval to retrench staff, the threshold can be changed through a notification, diluting the law in favour of employers. The draft Bill has also redefined strike to include mass casual leave.

In the middle of all this, some states such as Uttar Pradesh, Madhya Pradesh and Gujarat, presumably with tacit support from the Centre, have diluted the laws, triggering uproar among labour unions. The dilution ranges from suspending key laws for three months to 1,200 days. One of the contentious decisions has been an increase in working hours in factories from eight to 12 to help industry increase production to make up for the output lost during the lockdown. But it has not gone down well with labour unions. "Suppose, in a factory, 4,00,000 man days of work is created in a year. Considering an eight-hour shift, it will require 50,000 workers. Now, if work hours are increased to 12, about 34,000 workers will be needed. This means the number will come down by, say, 15,000 or so," says Indian National Trade Union Congress Vice President and former Rajya Sabha member R.C. Khuntia.

While labour unions have come face to face with state governments over easing of labour laws, some say even the draft Codes introduced in Parliament will have to be re-looked at in the post-Covid scenario. "In the light of the experience of the pandemic, enormous changes need to be made in the scope of these laws. For example, Occupational Wage Survey (OWS) does not cover the unorganised sector. You now need OWS in the unorganised sector, too," says Ravi Srivastava, Director, Centre for Employment Studies, Institute for Human Development.

Not only that, former JNU professor Srivastava says the new codes will make things worse. Further, different codes have defined key terms such as enterprise, establishment differently, leading to more ambivalence, he says. "Because they have tried to condense too much into too little, important aspects of the law have been taken out and relegated to rules or notifications. Basically, it will empower labour bureaucracy. This is neither in the interest of employers nor workers," he says.

MODI GOVERNMENT'S MOVES

The Centre has moved ahead with subsuming 44 central labour laws into four Codes to standardise definitions, rules and compliance. The Code on Wages 2019, the first of the four, has already been passed

Finance Minister Nirmala Sitharaman has announced that issuing of appointment letter and annual health check-up of workers will be must

E-dispute portal is being run on a trial basis in six states

Unified online annual returns have been made mandatory in case of eight labour laws. The returns, which were half-yearly/annually, have to be filed online annually only

The Way Forward

Industry wants minimum interference in the labour market and wants to leave wage discovery to market forces. Many consider the current pandemic as an opportune time, with least protests expected, to unleash reforms to make India an attractive destination for foreign players, especially those planning to exit China amid changing world political equations. "The government should relax labour laws to attract foreign investment but for that the government should create zones, let's say the Kandla zone, where investments worth hundreds of billions can come. You can relax labour laws to some extent but it does not mean hire and fire. It only means that the rigour of labour laws which are there today should not apply. It also does not mean labour should not be provided congenial working conditions," says senior Supreme Court advocate Dushyant Dave.

At a time when nations are competing for foreign investment, rigid labour laws could be a dampener. For instance, the proposed Labour Code on Industrial relations retains the provisions of the current law on trade unions which say that seven or more members of a trade union can apply to register a union that has membership of at least 10 per cent of the workers or 100 workers, whichever is less. Labour law practitioners who take up cases of companies say minimum workers needed to register a union should be increased as this will expand the scope of diverse viewpoints which will benefit both employees and employers. This will also curb multiplicity of unions in a factory and weed out nuisance makers, says industrial and labour law advocate M.S. Sankhla.

There is urgent need for a legislative framework that facilitates growth and investment while according equal importance to welfare of workers. As coronavirus pandemic has exposed the conditions under which labourers work, the government may need to add provisions for universal social security coverage and unemployment benefits in the new laws. While proposed labour codes are generally seen as employer friendly, a balancing act could be done by providing unemployment benefits on the lines of the US and Europe. "While laws are being modified to offer labour flexibility to firms, they also have to ensure labour welfare to protect the interest of all stakeholders," says Pooja Ramchandani of law firm Shardul Amarchand Mangaldas. "One of the ways to do this is to provide unemployment benefit. It is currently available to a very small section of people, earning less than ₹21,000, under the Employees State Insurance Act. There should be unemployment benefits for everybody, except CXOs," she says. BT

(*With inputs from Sonal Khetarpal*)

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Needed, A Helping Hand

GIVE INFORMAL WORKERS SOCIAL SECURITY, SAY IN LAWS GOVERNING THEM

BY SONAL KHETARPAL
ILLUSTRATION BY RAJ VERMA

A **leather factory** in Kanpur refused to pay its 10 workers. A handloom workshop in Varanasi asked its five artisans not to show up from the next day. And, with no customers, a tea stall vendor in New Delhi's Connaught Place shut shop, leaving the helper to fend for himself.

This section of society (there are 45 crore unorganised workers in the country), accounting for 90 per cent of the country's workforce, has been hit the hardest by the nation-wide lockdown to counter the Covid-19 threat. CMIE data shows that out of the 12.2 crore people who lost jobs in April, 75 per cent were small traders and daily wage labourers. The government has announced many schemes to help them, including free ration, credit assistance to street vendors and additional funds for MGNREGA, but these will address only the immediate concerns. In order to give these workers a modicum of financial security and tap their skills/efforts for economic revival, the government will have to overhaul its approach towards labour laws which, right now, serve only 10 per cent of the labour market that is organised.

It is not an easy task but a beginning of sorts has been made.

Recognition & Voice

The first hurdle is the sheer size of the unorganised sector and lack of data. "If there is no data of how many people are engaged in which activity and where, providing benefits is difficult," says Partha Chatterjee, Head of Economics Department, Shiv Nadar University.

In a small step towards recognising their rights, the finance minister recently announced that informal workers should be issued an appointment letter. However, not many expect even this token step to be followed, though technology can help. Chatterjee suggests an app-based system using the Aadhaar card (or any identification document) for registration. "This will give us a better idea of the size of the economy and labour market movements," says Chatterjee.

Experts say time has come to draft policies to give these workers some protection from vagaries of economic forces. Priya Naik, CEO, Samhita Social Ventures, says it is critical to ensure that all stakeholders are at the table while drafting the policies. "The priority should be to keep the most vulnerable in mind in terms of their most pressing needs."

Ravi Venkatesan, Founder of coalition Global Alliance for Mass Entrepreneurship, who was on the global board of Volvo, says it is mandatory for Swedish firms to ensure that labour representatives comprise a third of company boards. He says: "Their voice on the table meant everyone understood the value of human capital. It was for the first time I saw what responsible union leadership is." To follow such enlightened polices, a country needs a high proportion of formal workers, and that is not possible unless businesses themselves get incentives to join the formal economy.

Formalisation Efforts

A simple way to reduce unorganised work is to formalise firms. Businesses prefer to remain informal because of high compliance burden. "Harassment by inspectors and long list of approvals and rules come in the way of conducting business. So, people prefer to stay under the

HOW TO UNSHACKLE ECONOMY

- Build mechanism to collate data on informal workers
- Provide social security umbrella
- Incentivise firms to formalise workers
- Co-opt unorganised workers regarding concerns and priorities
- Start skilling programmes

radar," says Venkatesan.

"At state level, there are 387 labour laws, at the Centre about 44, apart from 27,000 compliances and 13,033 filings. This is way too much. We need labour laws, but simpler, lesser and easy to understand laws," says Rituparna Chakraborty, Executive Vice President of staffing firm TeamLease. She suggests that a single labour commission can look at streamlining these provisions into one labour code. The Centre has already started the process by consolidating labour laws into four codes. The first on wages has been enacted. The rest are pending in Parliament.

The cost of formalisation has to be cut too. Compliances around hiring increase the cost of employing people on payroll. "The burden could be as high as 30-40 per cent of workers' cost. ESIC itself is 4 per cent, and provident fund 24 per cent. Then there is gratuity, bonus, at 8.33 per cent, all of which informal employees are not getting today. They are not getting minimum wages but market rates. The total burden will easily be 40 per cent or more," says Lohit Bhatia, President, Indian Staffing Federation. This fear of spending 40 per cent more on salary has led to rise of platform-based work where workers earn on the basis of tasks done.

MODI GOVERNMENT'S MOVES

'One Nation, One Ration Card'

Additional ₹40,000 crore for MGNREGA

₹5,000 crore assistance to street vendors; loans up to ₹10,000

Shishu loan to small entrepreneurs under Mudra

Loans of ₹3 lakh crore for MSMEs

Social Security

The International Labour Organisation report, "ILO Monitor 2nd edition: COVID-19 and the World of Work", has estimated that 40 crore informal workers are at the risk of falling into poverty due to Covid-19. There is a need to provide some social security to informal workers. The government can look at extending the scope of existing social security schemes, says K.R. Shyam Sundar, Professor, HRM Area at Xavier School of Management, Jamshedpur. Under the Pradhan Mantri Shram-Yogi Maandhan, informal workers aged 18-40 years and with monthly income up to ₹15,000 will get a monthly pension of ₹3,000 through direct benefit transfer. This could be extended to provide unemployment benefits to migrant workers and five million street vendors also, suggests Sundar. He says the rationale should be to put more money in hands of workers, which will increase consumption and, hence, generate demand.

Bhatia of ISF says to protect individuals like *chowkidars,* drivers and maids who are hired by multiple employers in individual capacity, the government had prepared a draft legislation for domestic workers in 2008. It was not ratified. This will offer social security to these five crore people who are hired without offer letters.

Providing healthcare benefits for this section of society is also crucial. Chatterjee of Shiv Nadar University says the government recognises this and has extended insurance cover to informal workers through schemes like Ayushman Bharat. "To begin with, the government can start by extending ESIC facilities to informal sector workers as well," he says.

While the informal sector waits for these basic reforms, the key to their success will be in implementation. **BT**

(With inputs from Joe C. Mathew)

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COVER STORY

BANKING

Bankrolling the Future

CHANGES IN RBI MANDATE, NEW INFRA FINANCING MODELS AND RULES FOR NEW-AGE BANKS CAN REV UP THE BANKING ENGINES

BY ANAND ADHIKARI
ILLUSTRATION BY RAJ VERMA

W**hen written in Chinese,** the word 'crisis' is composed of two characters – one represents danger, and the other represents opportunity," US President John F. Kennedy once said. The young Kennedy was instrumental in pulling the American economy out of recession in the early 60s.

In today's world, "Covid opportunity" has emerged as the new business lingo among companies, regulators and in government circles. Coronavirus has created a disruption of sorts, and it will require prompt action from both the government and regulators. For instance, the government needs to invest majorly in infrastructure because of falling growth and rising unemployment. But the big infrastructure financiers, the banks, have turned cautious in lending to long-gestation projects.

Similarly, existing banking models such as payments banks, small finance banks and new-age NBFCs built around migrants or urban poor or gig workers are finding themselves in a crisis. With most of their customers losing jobs or going back to villages, the business model of these new players are facing new challenges.

Also, the Reserve Bank Bank of India, which is on a fire-fighting mode at several front from monetary policy, liquidity, currency, regulations, has the additional responsibility of arranging the government debt at the lowest cost. But, with government slipping on the fiscal deficit big time, is it the right time to set up an independent public debt management office?

Banks for Long-term Lending

Development financial institutions (DFIs) are long gone. DFIs-turned banks such as ICICI Bank, IDFC First Bank or IDBI Bank are no longer keen to fund long-gestation projects with high pre-commissioning risks. They have shorter-duration deposits in their books, which creates asset-liability mismatches. Countries such as China and South Korea still have DFIs, wholesale banks, as well as multiple platforms to support long-gestation infra and so-

cial projects. In India, there are hardly such institutions or fund-raising mechanisms. For example, local authorities in the US and other developed economies raise bonds to fund sanitation, water, sewerage projects. "India can explore these areas by strengthening municipalities' governance standards as well as improving transparency," suggests Zarin Daruwala, CEO, Standard Chartered India.

Similarly, the government and the regulator should encourage wholesale banks, which were part of the plan to have differentiated banks like payments and small finance banks. But experts says the problem arises when a wholesale bank reaches a certain size, say ₹1 lakh crore, when the ability to raise long-term finances, especially retail term deposits, gets restricted.

"We have to think in terms of developing capital markets for long-term funding. Banks and other financial institutions can participate for a short duration," says Barendra Kumar Bhoi, Former Head, Monetary Policy Department, RBI. "We should develop the market for credit default swaps (CDS). In these times of extreme risk aversion, the market can still be active with CDS," says Samuel Joseph Jebaraj, Deputy MD, IDBI Bank.

Strengthening NBFC Regulations

Regulations for non-banking financial companies (NBFCs) need to be strengthened in the light of emergence of Fintechs, new-age NBFCs and peer-to-peer (P2P) players. These new models are catering to the under-banked and under-served segments, and need to be encouraged.

Also, the Insolvency & Bankruptcy Code (IBC) for corporate restructuring is gradually stabilising, but the risk of financial majors going bankrupt is also rising. Yes Bank's bailout by SBI and private players, and LIC bailing out IDBI Bank are cases in point. Existing strong institutions won't be able to always absorb the losses of bailing out weak ones. While efforts to set up an institutional framework for the financial services sector have failed, there is now an urgent need for a law. "We should have a full-fledged insolvency law covering all categories of financial services companies and including personal insolvency, which needs to be notified," says Jebaraj of IDBI Bank. The Indian Banks Association (IBA) has suggested setting up of a Bad Bank as it would help banks park assets, which have long-term potential, in a separate entity, instead of taking them to cleaners.

The RBI wears multiple hats – managing monetary policy, currency, regulating banks, managing financial stability, lender of the last resort and also the government's debt manager. Now, the task of managing the government's borrowing programme has also fallen upon the RBI. In fact, the borrowing target has almost doubled from the FY21 budgeted figure. The issue of conflict of interest often arises because the RBI being the monetary authority sets interest rates and also ensures that the government gets to pay lowest on its debt paper. There is a long-standing demand of having an independent Debt Management Office, but not much progress has been made. An independent office will put pressure on the government to be more prudent because of the higher interest burden, while the RBI will focus on its inflation-targeting role.

The time, therefore, is just right to undertake structural reforms in the sector. BT

HOW TO UNSHACKLE ECONOMY

New models like wholesale banks (which serve only institutional customers)

Strengthen regulations for NBFCs; accommodate needs of fintechs, peer-to-peer (P2P) lenders and new-age non-banks

Plug gaps and scale up payments and small finance banks

Bankruptcy mechanism for financial services industry and individuals

Create Bad Bank, free banks to drive growth

MODI GOVERNMENT'S MOVES

MSME guarantee mechanism for risk-averse banks

Liquidity facility of ₹30,000 crore for NBFCs and HFCs

Partial guarantee by the government to buy investment-grade debt of NBFCs and MFIs

Increase in the minimum threshold for applications under the IBC to ₹1 crore from ₹1 lakh earlier

Long-term repo supporting the bond market, but only short-term reprieve

Holding Company for PSBs

In the last six years, the government has taken measures, including setting up of an independent Banks Board Bureau for recommending CEOs and directors for PSBs. The next logical step was to create a holding company or Bank Investment Company for PSBs as suggested by the RBI-appointed P.J. Nayak Committee. "The government is the holding company for public banks. They are also regulated by the government. A separate institution will be good," says Bimal Jalan, former governor of RBI.

After a series of bank mergers, there are now a dozen large PSBs. "There should be a material change in governance, efficiency, corporate governance. The merger or consolidation should be seen in terms if efficiency," says Bhoi. "Legal reforms are highly desirable to empower the RBI to fully exercise the same responsibility for PSBs as private banks," former RBI Governor Urjit Patel had said before demitting office in December 2018.

@anandadhikari

Healthcare, Heal Thyself

PHOTOGRAPH BY PANKAJ NANGIA

PHOTOGRAPH BY YASIR IQBAL

STATE PUBLIC HEALTH EXPENDITURE IS JUST 1 PER CENT OF GDP. THE TIME TO INVEST IN HEALTHCARE IS NOW

BY E. KUMAR SHARMA

Covid-19 has put the focus squarely on the healthcare sector. "If there is one clear message, it is the spotlight on healthcare. India's per capita public expenditure on health is just $83, compared to $500 in China and $9,400 in the US. We need to increase it to at least $200-300 per capita," says B.S. Ajaikumar, Chairman and CEO, HealthCare Global, a chain of cancer hospitals. The numbers are after accounting for purchasing power parity or PPP. In absolute terms also, it is a low $25 per capita, or ₹1,765. The government spends just about 1.09 per cent of GDP on public health. The National Health Policy aims to increase it to 2.5 per cent of GDP by 2025.

The Centre recently announced setting up of infectious disease wards in district hospitals and public health laboratories at block levels to increase testing facilities, in a move to combat the virus outbreak.

Invest More for Better Outcomes

"There are a number of states which spend substantially more than the national average. Kerala, Arunachal Pradesh, Goa, Himachal Pradesh, Jammu and Kashmir, Mizoram, Sikkim and Puducherry with some of them spending as much as between ₹3,500 and ₹10,000 per capita on health, over twice the national average. The health outcomes of these states are the best in the country. It's no surprise that these states are the least affected by Covid-19," Ravi Duggal, an independent researcher, has said in a detailed study of healthcare spending by states. "Compare them with lowest spenders like Bihar, Uttar Pradesh, Jharkhand, Madhya Pradesh, Odisha, West Bengal, Karnataka, Maharashtra and Punjab, which shows in their weak primary healthcare system," he adds.

This can be seen globally as well, says Dr Devi Prasad Shetty, cardiac surgeon, and Chairman and Managing Director of Narayana Health. "Germany, which did better than many other European countries in fighting Covid-19, has 29 intensive care units per 1 lakh population, compared to 12 in Italy, seven in the UK and just one or two in India," he adds.

The First Point of Contact

Reforms in the sector need to focus on some key areas. One

is strengthening district hospitals and primary health centres (PHCs), the first points of contact for most Indians. The second is building a cadre of healthcare professionals. Leveraging nursing capabilities in rural areas, and creating more medical seats, can go a long way in strengthening the system.

Former Health Secretary Keshav Desiraju says: "Every district hospital (there are about 750 across the country) should be fully equipped to handle epidemics, sudden increase in number of patients, etc. A district hospital is where a person goes, or ought to be able to go, with any complaint." It needs surgeons, anaesthetists and a functioning blood bank backed by qualified nursing staff.

Bridging the Specialist Shortfall

However, creating a team of medical staff and specialists is not easy. "Arunachal, Mizoram, Himachal Pradesh, Jammu & Kashmir, Sikkim, Goa and Puducherry do very well with 20-40 government doctors per lakh people and less than 25,000 people per PHC. With adequate number of doctors, district hospitals and teaching hospitals in these states also function better. Bihar, Uttar Pradesh, Maharashtra, Karnataka and West Bengal have the lowest access to such facilities. They have more than 30,000 people per PHC and less than the national average of nine government doctors per lakh population," says Duggal. "We need to know how many specialists – anaesthetists, cardiologists, gynaecologists and paediatricians – are there, and only then can we draw up plans on how many we need," says Dr Shetty.

One way to bridge the talent gap, says Dr Shetty, is doubling the number of medical seats from 70,000 to close to 1.5 lakh, mainly in the government sector. The quickest way to achieve this, he says, is by asking each government college to set up another college, taking in 100 students every year. "Given that most of them have sprawling campuses, the initial part of medicine study – the pre-clinical areas of anatomy, physiology and biochemistry – can be done in the same campus of the older college, and for clinical learning, newer colleges could tie up with district hospitals."

Building a Cadre

Crucial to this ramp-up in the number of doctors is the issue of building a cadre of healthcare professionals in the country. Says Desiraju, "An ideal public health cadre will have three tiers — a Director of Public Health at the state level on a par with the Director Health & Family Welfare, a District Public Health Officer, on a par with the Chief Medical Officer or civil surgeon, and field-level workers, including auxiliary nurse midwifes (ANMs), ASHAs, Anganwadi and male multipurpose workers. The duties and responsibilities of each of them should be clear apart from the training and qualification required."

The Centre can give guidance, but states have to execute those. Dr Shetty feels one of the important changes that the policy must look at is to "ensure that all nurse practioners, trained in primary care and serving in rural areas should be allowed to prescribe 47 basic drugs."

HOW TO UNSHACKLE ECONOMY

District hospitals should be fully equipped to handle epidemics

Central assistance to upgrade primary healthcare centres

Detailed curriculum for Master of Public Health, Auxiliary Nurse Midwife and Anganwadi and ASHA training programmes.

Need to increase medical seats to address shortage of doctors and specialists.

The Centre should invest in vaccine manufacture directly or in public private partnership or through equity holding in private firms

MODI GOVERNMENT'S MOVES

Infectious disease wards in district hospitals, public health laboratories at block level

Increase in number of health and wellness centres in urban and rural areas

Public health labs that offer epidemiology services at the block level

Better Grip on Vaccines, Devices

One important gap in the healthcare system that coronavirus has brought to the fore is the dependence of the government on outside entities for dealing with the crisis. After having shut all public sector manufacturing of vaccines by 2008, it was left with no option but to wait for Indian private vaccine makers to tie up with international bodies or with Indian entities such as the National Institute of Virology (NIV) to develop a vaccine.

"There is a reason for the government to invest in vaccine manufacturing. It is very risky for the government to be dependent only on private sources. All of India's measles vaccines come from the Serum Institute, Pune. It is an excellent institution and India's best chances of developing and commercially manufacturing a Covid-19 vaccine are in the Serum Institute. However, if for any reason there is a crisis and a shortfall in production, the country's immunisation programme will collapse. We cannot afford to let this happen," says Desiraju. "There are other elements in the medical manufacturing space where the government does not necessarily need captive units like medical equipment, ancillaries, disposables, hospital equipment, highly sophisticated equipment such as those used for cancer care, etc. But vaccines are not one of them," he adds.

Dr Shetty, however, is in favour of making medical equipment, devices, implants and consumables in India, either by private companies or by multinationals. This will prevent dependence on other countries, like China in the recent case, for crucial supplies, he feels. BT

@EKumarSharma

COVER STORY

POWER

Free-ing Power

INDIA NEEDS TO MOVE TOWARDS REAL MARKET PRICING TO BUILD A FUTURE-READY ELECTRICITY ECOSYSTEM

BY P.B. JAYAKUMAR

M anoranjith came to Thoppumpady in Kochi a decade ago and started ironing clothes for a living. He toiled for years with coal-fired iron to save some money. Then, he took a small loan, rented a shop in a housing colony, bought five electric irons, and employed seven workers. Despite enough work, he ran into losses. Power bills were high and workers idled for hours due to long power cuts.

Things changed when an oil company executive introduced him to an LPG-powered iron. It cost only ₹7,000 per box with a five-kg LPG cylinder that lasted two-three months even if used for 8-10 hours daily. Now, he is making profits. This is a perfect example of how frugal innovations in energy use can change lives, says an energy expert.

After decades of starving for electricity, India is now aspiring to provide quality, cheap, uninterrupted power to all citizens. Though it has been able to liberalise the power sector to some extent over the last two decades, more reforms are needed, of which some are in the pipeline. The overarching bureaucracy still regulates the sector, after all, say industry stakeholders.

An unregulated energy market driven by supply-demand, technology-driven products to build efficient generation and transmission systems, futuristic hybrid power generation and storage, generation of more clean energy and modernising of old fossil fuel power plants are some of the solutions that energy producers and consumers are looking at for meeting India's long-term power needs.

Liberalised But Highly Regulated

The draft Electricity (Amendment) Bill, 2020, an attempt to repair the Indian power ecosystem in place since 2003, has provisions that can fundamentally change the sector. One of its major provisions is cost reflective tariff, which allows state regulators to determine tariffs that reflect costs, so that distribution companies (discoms) are viable. Further, tariffs will be determined by regulatory commissions without taking into account subsidy, which will be given directly to consumers. Apart from the Central Electricity Regulatory Commission, a Central Electricity Contract Enforcement Authority, headed by a retired high court judge, will be set up to honour contracts related to purchase, sale

HOW TO UNSHACKLE ECONOMY

Market-driven power wholesale market with minimal regulatory interference

Common reform road map for Central government agencies, state authorities, system operators and utilities

Promotion of hybrid renewable power, latest power storage solutions, monetisation of solar parks, grid stabilisation and T&D system modernisation

Modernisation of old power plants; advanced common national grid

Instead of quick-fix loans, make discoms viable by building modern network, checking theft and reducing subsidised power

MODI GOVERNMENT'S MOVES

A new policy tariff determining mechanism to help states buy viable power instead of long-term PPAs

Subsidy benefit be given directly to consumers. An additional regulator, Central Electricity Contract Enforcement Authority, to ensure contracts are honoured

New policy for hydro power and penalty for those not buying minimum renewable power

Measures to reduce T&D losses and privatise power distribution in Union Territories;

₹90,000 crore low-cost funds to discoms to reduce debt

or transmission of power.

Load dispatch centres will ensure adequate payment security before scheduling dispatch of contracted electricity. Higher penalty, strengthening of appellate tribunal for disputes, a separate policy for renewables, minimum hydro-power purchase and penalty for not buying stipulated renewable power are some of the changes envisaged as part of the proposed reforms.

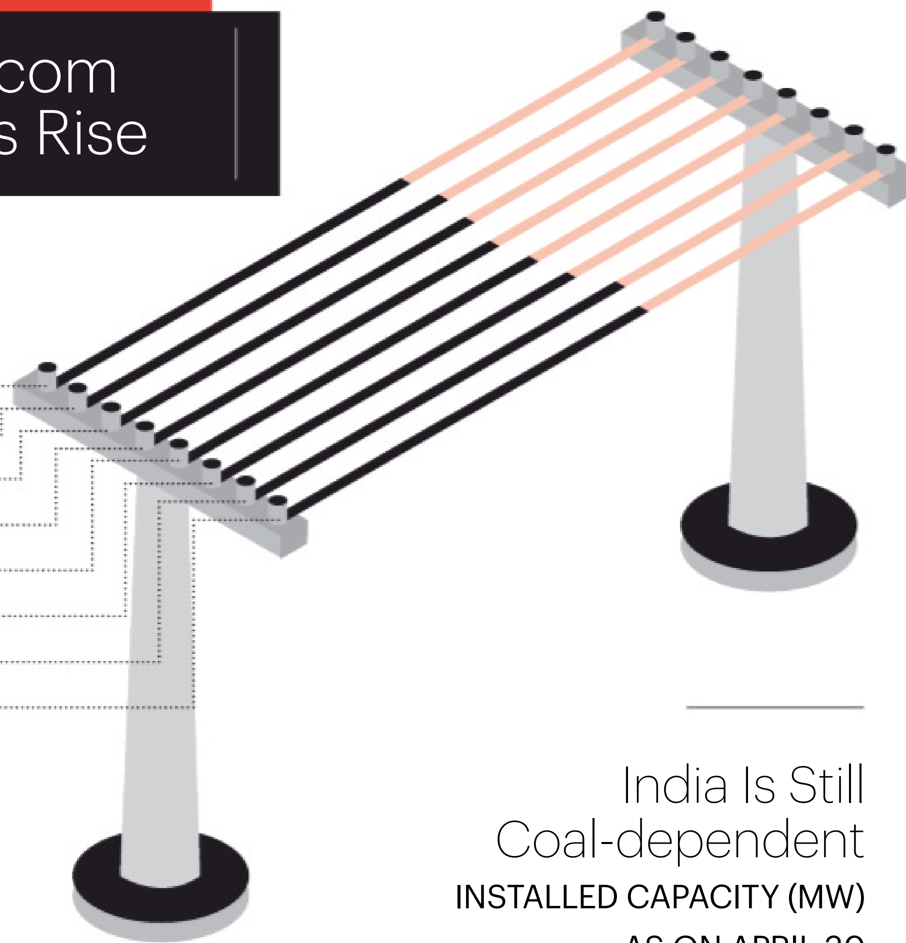
At present, 87 per cent of electricity is sold through long-term (normally 25 years) fixed power purchase agreements between discoms and generators. Many were entered into without much deliberation during the 2003 to 2010 'liberalisation' period. Over the years, cost of power generation has come down, but discoms and consumers are being forced to pay higher prices. "Enhancing liquidity of discoms and difficulty faced by generating companies in recovering dues are ongoing issues. As we saw during this lockdown, discoms, sitting on over ₹90,000 crore dues, struggled to get payments from consumers. So, payments to generators got delayed," says Bhaskar Rakshit, Lead Principal-Power, Kearney India. As a quick-fix, Finance Minister Nirmala Sitharaman's Covid-19 stimulus package provided discoms ₹90,000 crore low-cost loans from PFC/REC. It also announced privatisation of power distribution in Union Territories.

Experts say quick fixes are not the solution. "Electricity is a highly politicised sector. It is used by politicians for mobilising votes. Everybody knows that theft, illegal industrial connections, never-ending subsidies and weak bureaucracy are fundamental issues in the power sector," says an expert, who did not wish to be quoted.

Earlier attempts to give funds to discoms had failed. The current dues are in excess of the pre-UDAY (Ujwal Discom Assurance Yojana) days of 2015, an attempt to restructure and make discoms profitable, say experts. UDAY is now coming back in a new packaging – now called Atal Distribution System Improvement Yojana (ADITYA) – which will allow discoms to run in the public-private partnership mode and improve efficiency by switching to prepaid smart meters in three years. The power ministry claims UDAY reduced efficiency loss of discoms from 24 per cent to 18 per cent of revenue, and ADITYA will reduce it further to 12 per cent. "Many provisions are welcome steps to make India a secure energy market, but they need to be implemented carefully," says Jyoti Kumar Agarwal, Director (Finance), JSW Energy.

Experts say the fundamental issue is that power is in the Concurrent List and powers of the Centre are confined to framing rules while states call the shots. That is why earlier attempts to amend the Electricity Act had met with little success. The current draft is the fourth one. "In mature

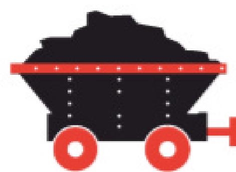
Discom Dues Rise



Date	₹'00 cr
Aug-19	885
Sep-19	897
Oct-19	881
Nov-19	860
Dec-19	876
Jan-20	889
Feb-20	929
Mar-20	906

India Is Still Coal-dependent

INSTALLED CAPACITY (MW) AS ON APRIL 30



COAL 1,98,524

MNRE 87,027

HYDRO 45,699

GAS 24,955

NUCLEAR 6,780

LIGNITE 6,610

DIESEL 509

MNRE includes 4,683.16 Mw small hydro, 37,693.75 Mw wind, 9,875.31 Mw co-gen, 147.64 Mw waste to energy & 34,627.82 Mw solar; Source: CEA

markets, power demand-supply equation is determined by de-regulated market mechanisms. During the lockdown, one state could save over ₹40 crore by purchasing power at cheap spot rates," says Rajiv Srivastava, CEO and Managing Director of the Indian Energy Exchange (IEE).

Global experts say India needs to go a long way to reform the sector. The success of the proposed reforms and progress to an improved wholesale real-time market requires country-wide national grid as a backbone, says the International Energy Association (IEA).

A Futuristic Power Market

Srivastava of IEE says India needs to relax its rigid power procurement norms and give flexible options for all stakeholders. "Technology is going to play a major role. We need to create more hybrid renewable power, new storage solutions like lithium batteries and focus on grid stabilisation and a modern T&D network," he says.

A major fundamental change that is going to happen is increased digitisation across the energy value chain, says Sunil Mathur, CEO and Managing Director of Siemens India. "That is evident from enquiries we are getting from customers in the last two months. A lot of SMEs and large companies are interested in digital solutions that can reduce capex, headcount, and increase efficiencies," he says

Creation of a competitive market is vital to improve utilisation of capacity. Current challenges include surplus capacity, lower utilisation of coal and natural gas plants, increasing share of variable renewable energy and huge 'stressed assets' in coal and gas-based generation, though the country now has the institutional framework needed to attract investment, says the IEA.

Domestic renewable energy tariffs are two-third of domestic coal-sourced power tariffs and half that of power from new imported thermal power plants. "With a few policy tweaks, India could be back on track to meet its ambitious target of 450 gigawatts of renewables by 2030," says a recent study by the Institute for Energy Economics and Financial Analysis (IEEFA). Tim Buckly, IEEFA's Director of Energy Finance Studies and Kashish Shah, the co-author of the study, say India could attract $500-700 billion new investment in renewables by 2030 by urgently expanding transmission capacity, monetising solar mega parks and improved centre-state coordination on renewable energy development.

"IN MATURE MARKETS, **POWER DEMAND-SUPPLY EQUATION** IS DETERMINED BY DE-REGULATED MARKET MECHANISMS"

Rajiv Srivastava, CEO & MD, Indian Energy Exchange

"DURING THE LOCKDOWN, **DEMAND FELL OVER 25%, BUT IS LIKELY TO GROW 4-4.5 PER CENT IN 2020/21**, PROVIDED THE COVID-19 SCENARIO DOES NOT WORSEN"

Jyoti Kumar Agarwal, Director (Finance) JSW Energy

Augmenting balancing capacity (batteries, demand response management and more flexible thermal capacity) also needs immediate attention. Instead of trying to make Indian manufactured solar cells competitive by increasing the price of imported modules, the industry needs an assured offtake in domestic markets and export incentives, they say.

Bhaskar Rakshit says the lockdown was an eye-opener for power generators. "Plants with lower costs were much less impacted by loss of demand," he says. Another issue generators faced was availability of contract manpower to run the plants.

Modernising coal-fired power plants, which supply over 64 per cent of electricity, is also a must. Plant Load Factor (PLF), which determines the health of a power plant, is only 56.5 per cent in India. The government had mandated coal plants to implement Flue Gas Desulphurisation (FDG) before February 2022 to reduce emissions. Of nearly 440 units generating over 165 gigawatt, at least 60 with 48 GW are yet to comply for want of funds. "Quality FDG costs ₹40-70 lakh per MW. Funding, extending the time to implement it in the Covid-19 scenario and giving pass-through (to consumers) need attention," says Jyoti Kumar Agarwal of JSW.

Experts say India's future power demand scenario is bright. According to the IEA, India's energy demand is set to double by 2040, while electricity demand may triple. "During the lockdown, demand fell over 25 per cent, but is likely to grow 4-4.5 per cent in 2020/21, provided the Covid-19 scenario does not worsen," says Agarwal. India's per capita electricity consumption was 1,181 kWh in 2018/19 as against 4,500 kWh in China and the global average of over 3,000 kWh.

While the future of the power sector looks rosy, committed policy changes with a future outlook are required, say experts. BT

@pb_pbjayan

COVER STORY

LOGISTICS

A Digital Bet

INDIA NEEDS TO FULLY DIGITISE LOGISTICS AND REDUCE DEPENDENCE ON ROADS FOR EFFICIENT MOVEMENT OF GOODS

BY NIRBHAY KUMAR
ILLUSTRATION BY RAJ VERMA

HOW TO UNSHACKLE ECONOMY

Railways needs to do away with cross-subsidisation of passenger segment with freight earnings

Need to digitise the logistics chain

Formalisation of trucking industry

Major shift towards railways and waterways

An integrated IT platform bringing all operators in the supply chain on a common network

Out of its annual requirement of about 14 million tonnes of steel, Maharashtra buys nearly six million tonnes from mills in Odisha and Andhra Pradesh. This steel is transported on rail and roads criss-crossing various states. Jagannarayan Padmanabhan, Director and Practice Leader (Transport and Logistics), Crisil, says coastal shipping can bring down the cost of transporting steel significantly, freeing up the infrastructure for other cargo.

The country's leading logistics player, Transport Corporation of India (TCI), has found that moving a container from Ludhiana to Kochi using rail and coastal shipping instead of trucks can reduce freight cost by 15-20 per cent.

Changes in mode of transport for bulk items can result in huge savings for the $200 billion logistics industry. But India's efforts to move to the optimal modal mix have been slow, the reasons being uncompetitive rail freight, unorganised road transport sector, lack of digitisation and absence of an integrated logistics policy. The share of road transport in the country is 60 per cent, unusually high compared to the global benchmark of 25-30 per cent. The shares of rail and water are 31 per cent and 9 per cent, respectively, as against the global norm of 50-55 per cent for railways and 20-25 per cent for waterways. The government is working on reforms to remove bottlenecks in faster movement of goods.

New Logistics Policy

A logistics policy has been in the works since 2017. It is yet to see the light of day. However, the delay has proved to be a blessing in disguise, as the policy will now also incorporate lessons learnt during the coronavirus-induced lockdown. The empowered group on logistics, one out of the 11 such groups constituted by Prime Minister Narendra Modi to ensure smooth supply of essential goods across the country during the lockdown, has gained several new insights to make the sector more efficient. For example, doing away with manual paper work and moving to digitisation can

cut cost and time substantially. This can also help the government ensure a more controlled closure and opening of the supply chain in case of any coronavirus-like crisis in future. "If you want to do a controlled closure and opening of the economy in a sanitised manner, our logistics assets have to be digitised so that we can identify areas where no disruption is required. These are some of the things which will go into the policy and its implementation as we move forward," says Pawan Kumar Agarwal, Special Secretary (Logistics), Ministry of Commerce.

The key objective of the proposed policy is promotion of multimodal transport for more efficiency. Prime Minister Narendra Modi has laid emphasis on local manufacturing. But that is not possible without an efficient and globally competitive logistics sector with low costs, paperless movement and increased digitisation.

Removing Roadblocks

Following the roll-out of the Goods and Services Tax, trucks have been covering 300-325 km a day on an average as against about 225 km earlier. This is far lower than in other BRICS countries where trucks cover nearly 600 km in a day. In the US, it is 800-900 km. Not only that, the freight-carrying capacity of multiaxle trailers in developed countries is far higher than in India. "We need to optimise our road assets. Addition of road length does not mean higher efficiency. New highways are being built but increase in vehicle numbers is adding to congestion on roads. If we move to high-capacity multiaxle trailers, the per tonne freight cost will come down, leading to effective use of highway assets. What is happening right now is that higher number of vehicles is adding to traffic and congestion, taking away the gains," says S.P. Singh, Senior Fellow at Indian Foundation of Transport Research and Training. Apart from congestion on roads, another problem is stopping of trucks by law enforcement authorities of each state

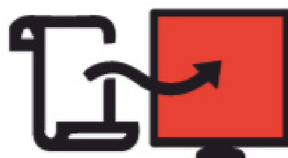
What the Government Has Done

SETTING TRANSPORT MODAL-MIX RIGHT

The logistics wing under the commerce ministry is set to kick off inter-ministerial consultations for finalising the logistics policy. It aims to optimise the modal mix – roads, rail and water – to bring down transport costs. As against the current share of various transport modes – road (60 per cent), rail (31 per cent) and waterways (9 per cent), the government is aiming at global benchmarks of 25-30 per cent (road), 50-55 per cent (railways) and 20-25 per cent (waterways)

WISDOM FROM LOCKDOWN TO TRIGGER CHANGE

One of the key findings of the Covid-19 empowered group on logistics is the need for eliminating the role of multiple authorities to keep tabs on goods vehicles. This will be incorporated in the proposed policy



RELIANCE ON TECHNOLOGY AND DIGITISATION

The government is keen to eliminate paperwork across the supply chain. Integration of data held by various government agencies such as GSTN, Customs, Ports, Freight Operations Information System of Railways will make movement seamless

DIGITAL OVERSIGHT OF VEHICLES

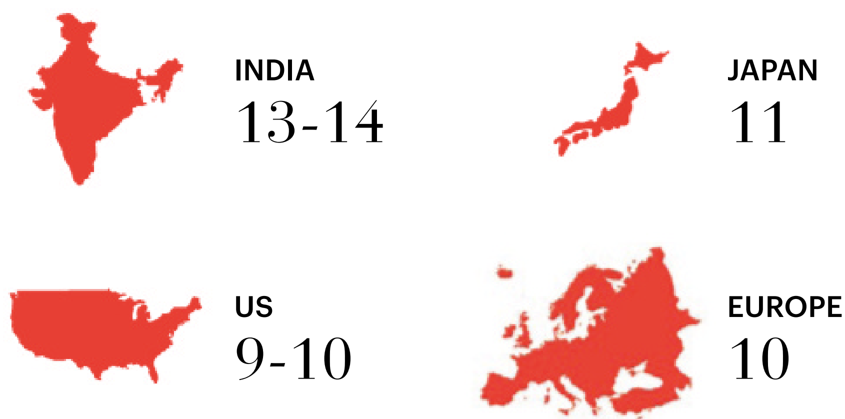
Extensive use of technology to ensure that only high-risk category vehicles, ascertained through data analytics, are stopped by law enforcement authorities. In case other vehicles are stopped, the system will generate an alert, and accountability will be fixed

CONTAINERISATION OF LOCAL FREIGHT

This will help in better tracing and tracking, reduce freight handling costs and help in use of different modes based on traffic flow data. This will also promote multiaxle trailers, reducing the per tonne cost of freight movement

Share of Logistics Costs to GDP (%)

Soruce: BT Research



"IF YOU WANT TO DO A CONTROLLED CLOSURE AND OPENING OF THE ECONOMY IN A SANITISED MANNER, OUR LOGISTICS ASSETS HAVE TO BE DIGITISED"

Pawan Kumar Agarwal, Special Secretary (Logistics), Ministry of Commerce

"ADDITION OF ROAD LENGTH DOES NOT MEAN HIGHER EFFICIENCY. NEW HIGHWAYS ARE BEING BUILT BUT INCREASE IN VEHICLE NUMBERS IS ADDING TO CONGESTION ON ROADS"

S.P. Singh, Senior Fellow, Indian Foundation of Transport Research and Training

from which they pass. As per a World Bank report, halving delays due to the range of stoppages, including toll, police, could reduce freight time by 20-30 per cent. This can also lower logistics costs significantly.

Lowering Freight Cost

Experts say this is an opportune time to remove cross-subsidy in rail freight considering subdued passenger movement in coming months due to coronavirus. Indian Railways incurs heavy losses in the passenger segment and cross-subsidises it with higher freight charges. The low passenger movement may make it possible for it to reduce freight charges. In a report tabled in Parliament in December 2019 on Indian Railways, national auditor CAG had said that almost 95 per cent profit from freight traffic was utilised to cover the loss of ₹37,936.84 crore on operation of passenger and other coaching services in FY17. "Because of Covid-19, there will be a dip in passenger movement. It can be a blessing in disguise for the railways. If they reduce losses because of lesser movement of people, it will give them elbow room to reduce freight charges," says Jagannarayan Padmanabhan of Crisil. He emphasises fast-track operationalisation of Dedicated Freight Corridors (DFCs) to considerably ease traffic congestion on roads. "If you want modal shift, at least on the DFC, it has to be price competitive and without cross-subsidisation," he says.

Future of Logistics

While re-writing the proposed logistics policy, the government is set to come up with measures to promote modal shift in cargo movement and offer ways to make logistics sector competitive. It will also help develop an integrated IT platform bringing all operators in the supply chain on a common network. There will be heavy reliance on digitisation. Rajesh Neelakanta, Executive Director & CEO, BVC Logistics, says transportation is the laggard in tech adaptation.

Given the high growth in e-commerce and need for faster movement of parcels, the required logistics infrastructure has to be in place in time. "The trend is going to be multi-modal. E-commerce is growing exponentially. It will increase at a B2B level also. A report had earlier showed that 110-120 million packets, including food packets, are delivered in China daily, while in India, it is 10-12 million. In the last 10 years, we have seen a shift towards multi-modal transport, digitisation and e-commerce. It has a huge future," says TCI Managing Director Vineet Agarwal.

Apart from this, a huge consolidation is expected in the fragmented transport sector. This will help in automation and containerisation of cargo (only 15-20 per cent non-Exim cargo is containerised at present).

With key reforms, India could make a big leap and find its place in the club of countries scoring high on the World Bank's Logistics Performance Index. BT

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Less Tax, Better Policies

PROTECTING USER DATA, ENHANCED CAPITAL SUPPORT TO START-UPS AND CHANGES IN IT SECTOR LAWS CAN TRANSFORM INDIA INTO A DIGITALLY EMPOWERED SOCIETY

BY RUKMINI RAO
ILLUSTRATION BY RAJ VERMA

"It's a fight for survival now and I hope youngsters don't lose heart," says a leading angel investor, who has been spending a lot of time these days "trying to boost the morale" of start-up founders of his portfolio companies.

Last year, the government released a report on how India has the potential to create $1 trillion of economic value from the digital economy by 2025, up from the current $200 billion. Nearly 50 per cent is expected to come from new digital ecosystems in sectors such as financial services, agriculture, healthcare, logistics, e-governance and others.

The virus outbreak has, however, thrown a spanner in the country's growth story. Though $1 trillion looks like a distant dream, timely changes in policy and subsequent implementation can still do some damage control.

Data, the New Gold

According to the latest report published by the Internet and Mobile Association of India (IAMAI), India had 504 million active Internet users at the end of March 2020. The country added 30 million rural users compared to March 19, a growth largely fuelled by cheap data. Indians are generating a huge amount of data, which has led to a number of deals in the tech space. Among the big-ticket ones is the Reliance Jio-Facebook deal, where Facebook invested $5.7 billion (₹43,574 crore) in Jio platforms for a 9.99 per cent stake.

The deal has exposed shortcomings in India's data protection laws. Though both companies have not stated how they plan to leverage data on Indian customers, former Supreme Court judge, Justice B.N. Srikrishna, who headed the committee on data protection laws, has raised a red flag over the lack of a regulator to oversee privacy concerns emanating from such deals. Such a data deal happened "precisely because there is no law", Justice Srikrishna said in a webinar. Raising concerns around the lack of a redressal mechanism in case of a data breach, Justice Srikrishna said, "Without the Personal Data Protection Act coming into force, where is the regulator?"

Echoing his view, Rahul Matthan, Partner, Trilegal, said the country desperately needs privacy laws. "These deals will happen and without a regulator, we are relying on the two respective companies being good citizens and not violating the terms of their own privacy policy," he adds.

Another incident that brought data protection laws in focus is the compulsory download of the government's own contact-tracing app Aarogya Setu. Internet freedom groups slammed the move, after which the government softened its stand on the download.

India's Personal Data Protection Bill, 2019, introduced in the Lok Sabha in December last year, has been referred to a Parliamentary Standing Committee. The Bill aims at the establishment of a Data Protection Authority.

Digital Infrastructure

It is critical to build/scale up capacities such as data centres, broadband connectivity and adoption of 5G technology to support industries embracing cloud automation, artificial intelligence and machine learning, more than ever now. According to a KPMG report, less than a fourth of cell towers in the country are connected to the fibre laid. "Currently, most of the network connectivity in India is microwave-based, which accounts for 75-80 per cent of cell sites. For the network to be robust, there is need for 100 per cent fiberisation," the report said. Even the Confederation on Indian Industries (CII) has said India is still far behind in the global digital readiness index and a significant overhaul is needed. The CII has suggested increased budgetary allocations and the creation of a Broadband Infrastructure Fund.

Bolstering Start-ups

Covid-19 has hit all sectors hard, particularly start-ups. Entrepreneurs, venture capitalists and industry associations had already approached the government, pre-Covid,

seeking help to tide over the crisis. Organisations, including the CII Start-Up Council, iSPIRT, IVCA, Indian Angel Network, venture investors such as Mohandas Pai of Aarin Capital, Accel, Blume, Chiratae, 3one4capital and start-up founders like Rahul Garg (Moglix), Sriharsha Majety (Swiggy) Aloke Bajpai (ixigo) and Amod Malviya (Udaan) had sought a slew of measures – fiscal support to save jobs, relaxation by authorities such as no fresh notices by the tax department and quicker refunds, among others.

Though the government announced certain reform measures, including a Fund of Funds with a corpus of ₹10,000 crore to provide funding support to MSMEs and ₹15,000-crore refinancing facility to SIDBI, there's no clarity if the same is applicable to start-ups.

Says Raman Roy, Co-founder, Indian Angel Network: "I think at this time easing policies that allow M&As is critical for the survival of start-ups. Just creating an option to take debt will not work."

"The government should clarify if start-ups automatically qualify for the sops announced for MSMEs, since there is no separate allocation for start-ups under the stimulus package," adds Dipti Lavya Swain, Corporate M&A Lawyer and Partner, HSA Advocates.

Harshavardhan, CEO, Lil'Goodness, says simplification of access to bank capital is a much-need reform. "In the current scenario, give interest moratoriums on working capital loans for start-ups through banks with simple procedures."

Mohandas Pai, Chairman, Aarin Capital, had said in an earlier interview that "the income tax regime is very hostile to start-ups". He had pointed out that while overseas investors paid lower long-term capital gains tax for unlisted start-ups, the tax burden on Indian counterparts was more than double.

HOW TO UNSHACKLE ECONOMY

- Enact personal data protection laws to protect individual data
- Change DoT rules and labour laws to help IT companies look at WFH on permanent basis
- Easy capital access for start-ups to include it under MSME sops
- Provisions for imposing capital gains need to be made simpler

MODI GOVERNMENT'S MOVES

- Tenders of up to ₹200 crore reserved for domestic firms
- Fund of Funds with a corpus of ₹10,000 crore to provide equity funding support for MSMEs
- ₹15,000 crore refinancing facility to SIDBI for on-lending and refinancing to firms

In Step with IT, ITeS

The one industry that adopted itself quickly is IT/ITeS. IT companies equipped 90 per cent of their workforce to work from home in a matter of days, renegotiating contract terms and scouting for opportunities in the digital, cloud and automation business space. The government, too, responded quickly, relaxing rules around connectivity norms for virtual private networks (VPN) applicable to other service providers, which helped the Global Capacity Centres. Speaking on further concessions, Ashish Aggarwal, Senior Director and Head, Policy Advocacy, Nasscom, said: "We had suggested the extension of the SEZ policy for another five years since the tax holiday came to an end in March 2020. In the context of Covid-19, we have asked for an extension of at least one year."

As companies take a more long-term view around how businesses operate, the industry body is also working with the government to find a permanent solution to the Department of Telecommunications' restrictions on work from home for the ITeS industry. According to Nasscom's Aggarwal, once the large employee base of IT companies moves to the work-from-home mode on a more permanent basis, changes in labour laws and social security laws will be the need of the hour. To ensure social security for contract staff working remotely, "Option should be given to employers in the new labour codes, where one can opt for either the National Pension System or the Employee Pension Scheme," he adds.

@rukminirao

Food in a Tinderbox

The restaurant industry is close to irreparable damage. Can it be saved?

BY MANU KAUSHIK
ILLUSTRATION BY RAJ VERMA

Industry

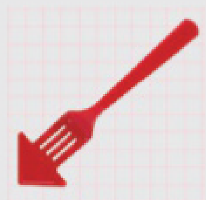
G**urugram-based restaurateur** Zorawar Kalra, Founder and MD of Massive Restaurants, is surprised. In the five tranches of the economic stimulus package released by Finance Minister Nirmala Sitharaman, the ₹4-lakh crore restaurant industry didn't even find a mention. Kalra claims that the industry is the second-largest employment generator in the country after agriculture, and feels that it should have been given some stimulus. Yet, he remains hopeful, primarily because he thinks that the industry is important, and will not be ignored by the government.

"In London, where I am operating an outlet, the government has paid 80 per cent staff salaries. In Canada, the government and landowners are paying 75 per cent of real estate rentals. The government has ad-

7.3 million

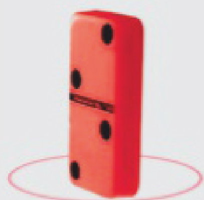
The number of people employed in the Indian F&B industry

The Problems



With zero revenues for almost three months, and 50 per cent after that, five lakh restaurants are expected to lose up to ₹80,000 crore in 2020

Industry body FHRAI says that without stimulus, there will be a definite closure of at least 70 per cent restaurants and hotels



Only four-five large players like Jubilant FoodWorks, that operates Domino's Pizza and Dunkin' Donuts brands, have reserves to stay afloat beyond three months

Even at 20% closure level, over 1.5 million people will lose jobs

The restaurants association, NRAI, expects the business to stabilise in 9-12 months after the lockdown is lifted

The players are particularly miffed with the government not releasing ESIC funds despite requests

dressed the concerns of the agriculture sector well, and as a result, I still believe that something is around the corner," he says.

The stimulus, whenever it is announced, would not have come a day too soon. Rahul Singh, Founder and CEO of seven-year-old alco-beverage chain, The Beer Café, has the numbers on his fingertips; how much he is losing every day and losses the industry will have to incur in the current financial year. Singh had learnt the business hard way, after failing in his indoor golf venture some years ago, where he realised the importance of the restaurant business. Singh says it's now back to square one for him.

Dineout, a dining out and online table reservation tech platform, says the F&B (food and beverage) industry contributes about 3 per cent to the GDP and employs more than 7.3 million people. With the coronavirus pandemic, nearly 30 per cent of those employed are at the risk of losing jobs; the monetary loss could be as high as ₹1 lakh crore.

Food Services Market Size

₹1.48
LAKH CRORE
Total organised food services market

₹2.76
LAKH CRORE
Total unorganised food services market

₹4.24
LAKH CRORE
Total food services market

Source: NRAI

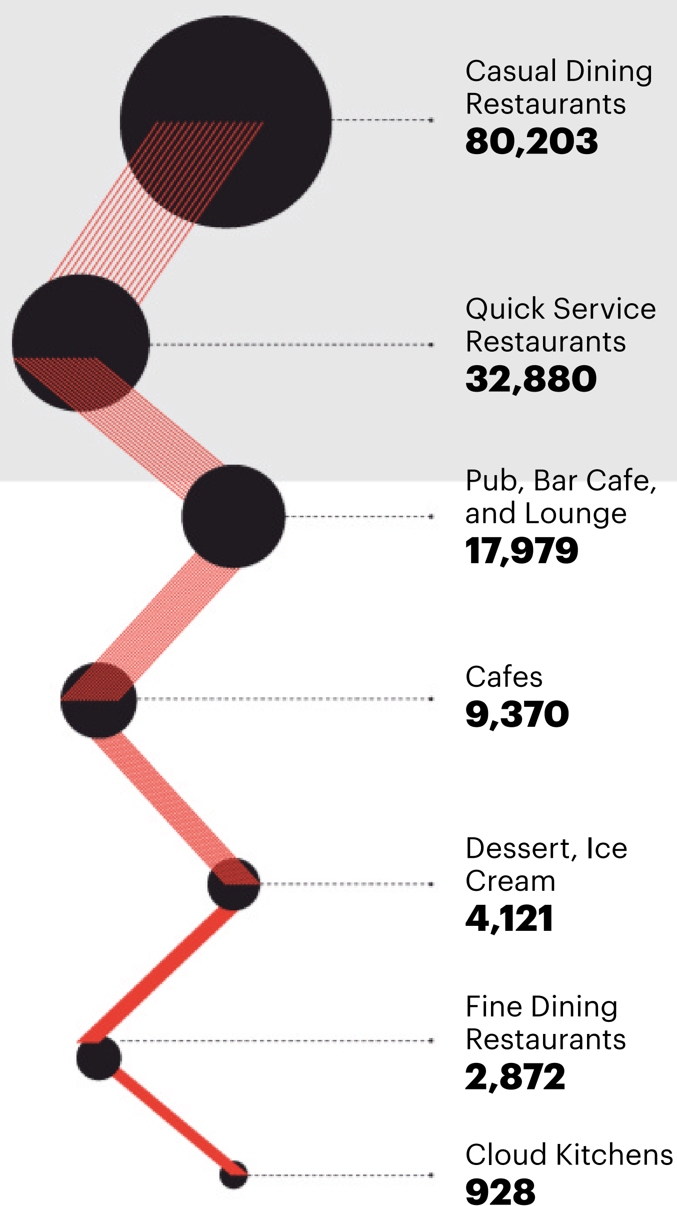
The Unfolding of a Crisis

Since the lockdown started, restaurants have been shut, barring cloud kitchens and some who are delivering food either themselves or through apps such as Zomato and Swiggy. Take Lite Bite Foods. Out of the 200 restaurants that it operates, just eight are functional (for deliveries), in addition to a central kitchen in Gurugram. Zomato has been hit, too; still the COO of its food delivery vertical, Mohit Sardana, urges customers to order food only when they absolutely need to. "Food delivery, in the middle of a pandemic, is an essential service, and not a leisure service," he says.

Revenues of Lite Bite Foods have fallen sharply, yet the chain has been paying full salaries to its 3,300-strong workforce. But time is running out. "We don't have money left. Restaurants are a long-gestation business where corporate-level profits are low," says Rohit Aggarwal, Director, Lite Bite Foods. As per some estimates, most restaurants in India have a cash buffer of 15 days, which they exhausted long ago.

While estimates vary, most industry players are expecting revenues to fall by 50-70 per cent year-on-year for six-nine months after they resume operations. Typically, restaurant chains operate at 5 per cent EBITDA (earnings before interest, taxes, depreciation and amortisation) margins, which are extremely low to weather a crisis of this mag-

Break-up of Organised Food Services Market



nitude. Big players like Jubilant FoodWorks (which operates Domino's Pizza, Dunkin' Donuts and some other brands), which had reserves and surplus of ₹1,192 crore as on March 2019, might survive. Others will likely report losses, shut shop or shrink their presence.

"It's early to say this but at least 15 per cent of my restaurants will never reopen," says Priyank Sukhija, CEO and MD, First Fiddle Restaurants. Veteran restaurateur A.D. Singh, MD, Olive Bar & Kitchen, says the impact of the pandemic is so huge that many restaurants will just fold up, especially in the unorganised segment. "If there's no government support, 30-40 per cent restaurants may not be able to reopen," he says.

However, the owners are making plans to minimise costs after they restart. As nearly 90 per cent restaurants in the country operate on premises taken on lease, and given that it's the second-biggest expense at the outlet level, most owners will negotiate a lower rent with landlords.

Lite Bite Foods' Aggarwal says the practice of fixed rentals has to be suspended for some time and the industry has to work on a revenue-sharing model. "I will be happy if I can break even at the outlet level in six-eight months. Of course, that will require a series of changes such as reduced menu, more focus on delivery services, lower rents and reduced workforce," says Aggarwal.

But renegotiations are not going to be easy as a large number of restaurants have stopped paying rents despite landlords raising full or partial bills. When services are resumed, this will lead to ugly disputes. "We have been trying to bring down costs by renegotiating contracts with landowners. That's where the relationship with them matters," says Olive Bar & Kitchen's Singh, who runs 27 outlets across nine brands.

Even though most organised chains have resisted layoffs till now, most announced salary cuts in April. At Olive Bar & Kitchen, for instance, the entire senior management has taken salary cuts. First Fiddle has paid basic salary to almost 50 per cent of the 1,100 employees, especially the junior ones. Manpower costs are about 30 per cent of expenses. If revenues drop 50 per cent, this may rise to 60 per cent, which is going to be untenable. Hence, retrenchments are unavoidable, say some owners.

But The Beer Cafe's Singh has an atypical viewpoint. He says saving jobs is crucial for the economy. "There are four wheels of the economy: demand, supply, capital and labour. While demand and supply have gone for a toss, there has been a significant erosion of capital in the past few weeks. The only wheel we can preserve is labour," he says.

Given up for Lost

Talk to any large restaurant operator in the country, and all you will hear is anger and hopelessness. In the first phase of the lockdown in March and early April, the sector was sanguine about getting some relief from the government. It submitted a list of demands to different authorities, including Finance Minister Nirmala Sitharaman and NITI Aayog CEO Amitabh Kant.

"We are sure in our assessment that our sector is staring at a complete decimation and seek a few urgent interventions from you to keep ourselves afloat... We reckon that our business will take anywhere between

six and twelve months to gain any respectable traction in the post-Covid era. We request you to extend support to the extent of 50 per cent salary for employees for the entire financial year...," said a letter that industry body NRAI (National Restaurant Association of India) sent to Kant on April 9.

Like many other stressed industries, the restaurant sector has not been covered in the FM's stimulus package. Though some relief has come in the form of collateral-free loans (of ₹3 lakh crore) that will be offered to MSMEs (like restaurants) to improve their working capital requirement. These loans, which will come with one-year moratorium period, are termed inadequate by the industry players who were hoping for direct fund injection.

How the Balance Sheet of a Restaurant Chain Might Change

PRE-COVID	In ₹	POST-COVID	In ₹
Revenues	₹100	Revenues	₹56.25
Cost of goods sold	₹35	Cost of goods sold	₹21.38
Gross margins	₹65	Gross margins	₹34.88
Total outlet expenses*	₹50	Total outlet expenses*	₹44
EBITDA (at outlet level)	₹15	EBITDA (at outlet level)	₹-9.13
Corporate-level expenses^	₹10	Corporate-level expenses^	₹6.5
EBITDA (at chain level)	₹5	EBITDA (at chain level)	₹-15.63

*Includes staff costs, occupancy costs, utilities and other costs; ^Includes wages, admin cost, and legal, professional and marketing expenses; Source: BT Research

"We are staring at large-scale closedown of businesses and massive loss of employment in the sector. As stated by the FM, F&B industry is a big consumer of the farming products. With imminent closure of many F&B establishments, this will certainly cause a long-term impact on the farming sector...It is also clear that we will perhaps be one of the last sectors to open up, which means we perhaps need maximum support to stay alive," NRAI said in a statement shortly after the fifth tranche of the stimulus.

Another large association FHRAI (Federation of Hotel & Restaurant Associations of India) said that the industry is looking at a major catastrophe, including massive job loss, bankrupt enterprises and definite closure of at least 70 per cent of hospitality establishments across the country.

Industry leaders say improving the sentiment is not just about injecting large sums of money. Even small gestures can make a big difference. For instance, restaurants serving liquor renew their excise licence in April. Since business has stalled, can this be extended for six months? "It costs between ₹8 lakh and ₹40 lakh a year depending on the size of the restaurant and state-specific rates. It's not going to be a big monetary relief but swing the perception," says the promoter quoted above.

That's not all. There have been repeated requests from the industry to Employees' State Insurance Corporation of India (ESIC), which had a corpus of over ₹75,000 crore last year and covers over 13 crore beneficiaries. "ESIC, which is a social security and health insurance scheme, is meant for times like these. They have a large surplus which should go back to employees not just in the restaurant sector but elsewhere as well. ESIC is like an insurance policy. We have given them money, and they can return it to us," says a large restaurant promoter.

"Are we barking up the wrong tree? In India, the government seems to be in a bind," says Aggarwal, who operates restaurants in seven countries.

"We hire the most number of people directly and indirectly. We also pay high taxes. Intervention is necessary if authorities want the sector to survive," says Olive Bar & Kitchen's Singh.

77%

People in the age bracket of 18-65 years across the country are waiting to dine out once the lockdown ends, according to a survey

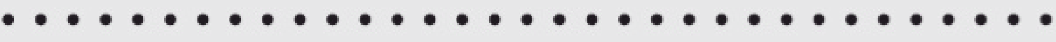
A New World

In the absence of relief, restlessness is rising fast. "Every day, our cash is depleting. We don't know the extent of the problem, whether it's going to take one or four months to restart. Many restaurants have not been able to pay full salaries in April," says Anurag Katriar, President, NRAI.

But some segments within the larger universe of food services business stand a better chance than others. How? Ankit Mehrotra, Co-founder and CEO, Dineout, says fine-dining restaurants will bounce back first as they can follow social distancing measures and provide contactless service more stringently than other segments (casual dining, cafes, etc). "We expect that takeaways and QSRs [quick-service restaurants] will be the next as time spent at these outlets is going to be less," he says.

"IN LONDON, WHERE I AM OPERATING AN OUTLET, THE GOVERNMENT HAS PAID 80 PER CENT OF THE STAFF SALARIES... THE INDIAN GOVERNMENT HAS ADDRESSED THE CONCERNS OF THE AGRI SECTOR WELL, AND I BELIEVE THAT SOMETHING IS AROUND THE CORNER"

Zorawar Kalra, Founder & MD, Massive Restaurants



"UNDER THE US GOVERNMENT'S PPP, WE HAVE GOT FUNDS TO PAY SALARIES IN THE WASHINGTON RESTAURANT FOR TWO-AND-A-HALF MONTHS. IN INDIA, THE GOVERNMENT SEEMS TO BE IN A BIND"

Rohit Aggarwal, Director, Lite Bite Foods

"WE HIRE THE MOST NUMBER OF PEOPLE DIRECTLY AND INDIRECTLY. WE ALSO PAY HIGH TAXES. INTERVENTION IS NECESSARY IF AUTHORITIES WANT THE SECTOR TO SURVIVE"

A.D. Singh, MD, Oliver Bar & Kitchen

A counter-argument is that hotel chains themselves will scale down the number of restaurants – from five-six to two per property – due to lower demand.

As industry players try to make sense of the crisis, consumer preferences are going through a paradigm shift. In a recent survey by Dineout, covering one million people (18-65 age group) across the country, almost 77 per cent are waiting to dine out once the lockdown ends, while over 13 per cent will prefer home delivery. The survey also shows that over 96 per cent people would want to reserve a table before reaching the restaurant (in order to avoid queues) and a vast majority would like to use phones as digital menu (80.8 per cent), to make payments (55.5 per cent) and to give feedback (84.3 per cent). The results are in line with expected consumer behaviour in the post-lockdown world. While most of these digital technologies already exist, their application will become more widespread for maintaining hygiene and driving cost efficiencies.

More wholesale changes are on the cards, too. A large restaurateur says discussions are happening between him and airport operators on the restarting strategy. "We are already good with hygiene but now it's time to play it up in front of customers. It definitely goes beyond keeping sanitisers. We will put TVs in stores, malls and airports that will give customers a glimpse into how we prepare the food," he says.

Indeed, communications and messaging are going to play key role in the near future. "Whenever we restart operations, we will need to refocus communication to bring back customers," says Olive Bar & Kitchen's Singh.

The crisis is expected to bring nasty surprises. As per consultancy firm Hotelivate, hotel restaurants can capitalise on the expected drop in demand for standalone restaurants in the post-lockdown era. "As standalone restaurants are usually smaller than hotel restaurants, people may be more inclined towards a hotel. Hotels have also traditionally been perceived as better in quality and cleanliness...," a recent Hotelivate report said.

So, while large changes are inevitable, it's important to remember that running a successful restaurant is not rocket science. Of course, a push from the government would have helped. But as an old-timer expert puts it simply: "Treat the customers at your restaurant like you treat guests at your home. That's the only secret sauce." BT

@manukaushik

Education's Big Leap

Institutions of higher learning are graduating to new delivery models to engage with students online

BY E. KUMAR SHARMA
PHOTOGRAPH BY YASIR IQBAL

On **April 4,** Professor Anil V. Vaidya, Head, Information Management, SP Jain Institute of Management Research, Mumbai, delivered an entire machine learning session online. "Students were sent reading material, including short videos, and during the online class, we could actually get down to modelling the entire data set already shared with students," he says. At the end of the class, students were actually able to do predictions, be it around customer churn, consumer demand or supply chain. The session was part of a course for an executive management programme, but according to Vaidya, similar exercises were taking place across the institute.

Elements of the new education delivery model, he says, will have to be a mix of online sessions backed by short videos explaining concepts and webinars and assessing lecture absorption by students based on chat and voice responses. Even examinations will get redesigned. In fact, Vaidya even devised a new evaluation method – students were asked to submit a video presentation of the project and a URL for project evaluation instead of the usual paper presentation. In the process, they managed to exhibit their tech skills as well, since the project required video-streaming services and even artificial intelligence (AI) to create subtitles.

The Big Picture

Educational institutions, mainly those into higher education, are gearing up for fundamental changes. India has 800 universities and about 40,000 colleges. Given that the gross enrolment ratio (GER) into colleges is 26.3 per cent (about 36 million students) and considering the average cost per student at ₹50,000 per annum, it works out to close to a ₹2-lakh crore market, or about 1 per cent of GDP. Now, Vijay Govindarajan, Coxe Distinguished Professor, Tuck at Darmouth, argues that if India's GER is to get to 70 per cent, as in many advanced countries, this could mean doubling or tripling the number of colleges. This means inadequate qualified faculty. The online medium could, therefore, open up a potential to bridge this "huge educational gap". It is still early days, but the IIMs and IITs are clearly seeing a shift towards online delivery of content, though the degree and the ways in which it will be offered is still being discussed.

Some of the IIMs have set up training groups to help faculty members migrate to newer forms of delivery. Others are experimenting with a hybrid model where an instructor-led class is held along with a Coursera course. Some are even redesigning class activities and assessing students

Who's Doing What

SP Jain Institute of Management is conducting entire sessions online; students are sent the material in advance, which is then analysed in class; A project evaluation based on video submission of project has also been tried by a professor

IIM Bangalore has set up an in-house digital learning committee to train faculty and support staff; it is launching an online synchronous delivery model (students and instructors are online at the same time) for two of its programmes

IIM Udaipur is experimenting with a hybrid teaching model, offering sessions combining instructor-led online teaching with a self-learning programme on online learning platform Coursera

Education technology firm TalentSprint is working with different IITs and other institutes to develop disruptive programmes in new technologies such as digital health, artificial intelligence and machine learning for online delivery

differently. IIT Madras, for instance, is getting its faculty to use the time now to connect with students online and develop content for online delivery.

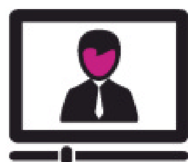
The transition is also throwing up challenges. For instance, how can B-schools make their case-study method of teaching more susceptible to online delivery? Or, how can institutions handle hardware such as laboratories and machineries remotely? There are also concerns regarding the availability of hardware, bandwidth and even power at the student's end. So, for the moment, though physical classroom sessions have been postponed and online lectures and content delivery have taken off, they are still getting finetuned along the way.

quick file sharing to leverage the polling options on the Zoom platform.

The second could be a hybrid model where institutes look at redesigning the four-year residential programme – two-year residential and two-year online course, and then take digital the online-amenable topics. In the process, they could reduce the fees and increase the number of students. And finally, the third could be a 100 per cent online model, where leading brands would offer courses and certificates for programmes, accessed by a larger pool of students.

G. Raghuram, Director, IIM Bangalore (IIM-B), told *Business Today*: "The focus now will be a mix of both asynchronous and synchronous engagement with students.

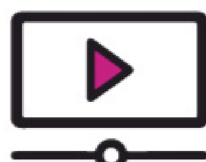
What The Future Looks Like



More online lectures, hybrid models that combine instructor-led teaching and self-learning

Roping in non-varsity instructors on platforms like Coursera for parts of the curric ulum

Using chats and voice to assess how well thre students are absorbing the content



Sharing preparatory material and post-lecture content through short videos and webinars

Investing more in new softwares and tracking tools to conduct online exams

Investing in faculty training and strengthening IT infrastructure at homes of students

New Models, New Deliveries

Vijay Govindarajan, who has looked at the subject closely, says: "I do not believe universities can go back to normal. There will be a new normal in the post-Covid world. People say universities will get disrupted and become obsolete. I do not believe that, but higher education will be transformed." He thinks institutions will gain if they start working now and create task forces to debate models that are likely to emerge, and zero in on one. To him, there are three broad triggers for change – Firstly, the cost of college education has skyrocketed; secondly, digital technologies have matured; and thirdly, psychological barriers to change have come down. Govindarajan feels every institution must set up two taskforces. One that looks at the firefighting triggered by current developments, including budget cuts (lower alumni contributions, lower student intake, especially international students), students seeking lower fees in the medium term (since the mode of instruction will be online), and challenges of reopening campuses and hostels while keeping social distancing intact.

The other task force, he feels, should to be focused on strategy, and should debate three broad models that are currently emerging – first, a residential programme where institutions could retain their form and give students the advantages of digital technologies, like, for example, a

(The asynchronous model being one where the faculty need not be present when the student is going through the MOOC – Massive Open Online Course – for instance, against a live online delivery, which is the synchronous mode). To do that, we will need to keep in mind key elements that have traditionally been best delivered in the in-class mode such as the case method, and other topics where participants need to challenge one another for critical thinking, and see how that can be made amenable for the online delivery mode."

"The faculty may want to change the material, the sequence of sessions or even certain sessions. We need to use hardware equipment and software platforms that have learning-friendly features," he adds.

Some are already tweaking the delivery model. IIM Udaipur, for instance, is offering sessions combining instructor-led online teaching with a self-learning programme on online learning platform Coursera.

On its part, Raghuram says: "We at IIM-B have set up an in-house Digital Learning Committee to train the faculty and support staff for the transition. Students also need to be oriented to engage in this mode. The faculty is sharing experiences and discussing finer points that we need to be conscious of during delivery for maximising the learning experience. It may take a little longer getting used to the

VIJAY GOVINDARAJAN
COXE DISTINGUISHED PROFESSOR, TUCK SCHOOL OF BUSINESS, DARTMOUTH

"I do not believe universities can go back to normal. There will be a new normal post-Covid. People say universities will get disrupted and become obsolete. I do not believe that but higher education will be transformed"

G. RAGHURAM
DIRECTOR, IIM BANGALORE

"We at IIMB have set up an in-house Digital Learning Committee to train the faculty and support staff. The students also need to be oriented to engage in this mode... Once a beginning is made, half the battle will be won"

mode and optimising the learning effectiveness."

The institute has started the process. "We offer many degree-granting programmes. Two of them are starting in May. One (a one-year programme) is targeted at students with experience, while the other (a two-year weekend programme) is targeted at working professionals. Being executives and expectedly familiar with information technology, we are starting with online synchronous delivery," he adds.

The 100 per cent online programme model has already kicked off in India. Santanu Paul, Managing Director and Chief Executive Officer, TalentSprint – an education technology firm, says: "It is a B-to-C model today. About 80 per cent of all seats are sold to individuals, who are banking on a bunch of new financing companies that are willing to provide upskilling financing," He cites the examples of finance firms, including Eduvanz, Propelld and Bajaj Finserv. In the past three years, TalentSprint has worked with leading institutions across the country such as IIT Kanpur, IIT Hyderabad, International Institute of Information Technology (IIIT) Hyderabad and IIM Calcutta to develop disruptive programmes aimed at working professionals and students in areas, including new automobile technologies, digital health, AI and machine learning.

Addressing Accessibility Issues

According to Balaraman Ravindran, Professor, Computer Science, IIT Madras, though institutions had little time to switch to the online delivery model, it is still possible today since there are softwares, tracking mechanisms and online proctoring tools available to conduct foolproof sessions. "One of my students has left his laptop charger behind in the hostel and there is no one in his village who has a charger, so he is unable to access the online lectures. Then there are students who are in areas that do not have high-speed Internet," he says. Other than the bandwidth, the challenge will also be in terms of hardware such as laboratories and machineries, and operating them remotely, he adds.

At the national level, the proposed New Education Policy could provide the much-needed push. One of the elements of the policy document is the creation of a National Educational Technology Forum, an autonomous body. K Kasturirangan, space scientist, who led the panel that drafted the report, told *Business Today*: "In today's context, when there will be substantial increase in the quantum of online content delivery activity and the use of various tools and technologies, a body like the technology forum will make sure that the best practices involving technology for education are properly identified, evaluated and adopted and in the process also attend to the elements of quality and affordability." No one is likely to disagree.

So, educators and institutions are innovating ways to continue with their curriculum, as India looks to pivot its education system to a digital-friendly experience in the face of the coronavirus outbreak. As schools and colleges remain shut and lockdown continues, education's switch to the online model is here to stay. BT

@EKumarSharma

Interview

INNOVATION SHOULD BE GIVEN A BOOST THROUGH TAX INCENTIVES"

In the middle of the current pandemic, India has emerged as a credible supplier of essential medicines. Four Indian pharma companies have just signed a partnership agreement with US-based Gilead for supply of its experimental coronavirus drug Remdesivir. **Satish Reddy**, President, Indian Pharmaceutical Alliance (which represents 24 leading pharma firms) and Chairman of Dr. Reddy's Laboratories, speaks to *Business Today's* **Joe C. Mathew** about how home-grown firms are serving India and the world during the Covid-19 crisis. Edited excerpts.

What has been the impact of lockdown on the Indian pharmaceutical industry?
The industry is not at pre-pandemic levels of capacity utilisation. On an average, we are at the 60-70 per cent mark at the moment. We continue to maintain adequate inventory, despite the challenges in import and export due to delays at airports and ports across the country.

Did IPA member companies see a surge in business? How has the industry tackled lockdown-linked disruptions?
There has been increased demand for active pharmaceutical ingredients (APIs) and sales in a few markets such as the US, Europe and Russia have been good. Demand in India has dropped a bit due to the lockdown. Several companies have innovated to tide over the crisis – one example is the readiness kit we have deployed for sales representatives. The industry is also leveraging virtual platforms to facilitate healthcare access. Our company has a dedicated helpline for both doctors and patients to make medicines available wherever needed. We have a plan and have adapted our strategy to the new way of doing business. I do not foresee shortage of medicines or supply disruptions.

What are the lessons learnt?
With every crisis comes a learning opportunity. Covid-19 has been no exception. One major takeaway has been the power of collaboration. We saw companies that usually compete in the market come together and collaborate. Examples of this were seen across functions. Collaboration was also evident in our work with the government. Indian pharma firms have, throughout the crisis, worked in an integrated manner with the government to ensure safe and continuous supply of medicines. The Central and state governments have also been responsive to the needs of critical industries. While many Indian pharma companies were already investing significantly in automation and digitisation, the pandemic has demonstrated the true potential of technology. What was more exploratory in the past is now a lifeline for industries. I see technology and digitisation playing a greater role in the near future.

The pandemic has shown India's dependence on imports for raw materials. The prime minister talks of self-reliance. How does one achieve it?
Yes, there is a need to become more self-sufficient with regards to pharma. This is economically significant and essential for the health security of the country. Covid-19

has helped us expedite our efforts towards self-sufficiency. Government support is essential to achieve this objective. We are still awaiting details about the recently launched API policy and the investment push of ₹10,000 crore. It is a significant step towards self-sufficiency. The IPA is working closely with the government towards this objective.

Will the industry come together to develop generics if the government wants to supply them to the world?
The IPA believes in a balance between public health and intellectual property rights. Both are extremely important. Indian pharma is already the largest supplier of generics globally. Of course, we would be happy to work together with the government.

Is the pandemic impacting global growth plans of domestic pharma companies?
In the middle of this global crisis, Indian pharma has proven to be consistent and reliable. While this pandemic has thrown up several challenges, it has also created an immense opportunity for the industry. Countries across the globe are now looking at alternative suppliers – Indian pharma can tap this and reclaim the ground it had lost to countries such as China. We have also seen the power of collaboration. I am hoping this will result in greater collaboration in the future. As governments across the world take measures to bolster economies, it will compel them to curtail expenditure across categories, including healthcare. I foresee a greater inclination towards more cost-effective drugs and generics, and therein lies another immense opportunity for us, since we have gained a reputation of being a supplier of high quality and cost-effective drugs to the world.

Will it open up new markets and more opportunities in existing ones? Will it mean more local production in key export markets?
Opportunities in the API segment are visible with more companies wanting to de-risk their over-reliance on China. While most countries may want to increase local production, it would take some time for any trend to be visible due to the large lead time. We would work according to the local needs of the country and ensure we meet our commitment of serving patients.

What should the government do to strengthen the Indian pharmaceutical industry?
In the immediate and short term, there is need to support and streamline pharma manufacturing. Consistent implementation of policies such as movement of manufacturing personnel and streamlining logistics and support to ancillary suppliers is the need of the hour. And these need to be done across states. Our industry is research-based, we owe our success and world dominance to our R&D efforts. The government needs to recognise both the need as well as the inherent risk of innovation in this industry. Innovation should be given a boost through tax incentives, greater access to capital and industry-academia collaboration. The government also needs to look at liberalising drug prices. Easing these restrictions will incentivise the industry to scale up production of essential drugs. We appreciate the government's move to promote domestic manufacturing of key starting materials and APIs. In this regard, accelerating planned investments in infrastructure for bulk drug parks from five years to within two years will go a long way in achieving self-sufficiency. Financial incentives such as soft loans or loans with longer moratorium could incentivise investments. We need to achieve self-sufficiency, as well as capitalise on the shift-away from countries such as China. The time for that is now. BT

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DEBT FUNDS: No Safety Tag

FROM THE NBFC LIQUIDITY CRISIS IN 2018 TO COLLAPSE OF SIX FRANKLIN TEMPLETON SCHEMES, DEBT FUNDS ARE NO LONGER CONSIDERED SAFE

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Debt Funds: No Safety Tag

FROM THE NBFC LIQUIDITY CRISIS IN 2018 TO COLLAPSE OF SIX FRANKLIN TEMPLETON SCHEMES, DEBT FUNDS ARE NO LONGER CONSIDERED SAFE

BY NAVEEN KUMAR
ILLUSTRATION BY RAJ VERMA

On April 23, US-based Franklin Templeton announced a decision to wind up six debt mutual fund schemes in India owing to the liquidity crisis in the wake of the coronavirus outbreak. The news rattled investor confidence and, on April 28, five days later, credit risk funds witnessed one of the biggest single-day redemptions – the process of selling units – with assets under management (AUM) falling by ₹5,223 crore.

The episode busted the myth surrounding safety of debt funds. A debt fund invests in fixed income instruments such as bonds, corporate debt securities and money market instruments. In fact, credit risk funds (debt funds that mainly invest in low-rated securities giving high returns) saw a 36.53 per cent fall in AUM during April 23-May 20, the latest data released by the Association of Mutual Funds in India (AMFI) shows.

The Reserve Bank of India's (RBI's) ₹50,000 crore liquidity window for debt funds to manage redemptions prevented contagion but another shock is likely to aggravate the situation.

We look at some of the most affected debt fund schemes and categories to help you review your investments and take necessary steps.

Investors Worst-affected

Initially, Franklin Templeton tried to manage redemption requests by selling good quality paper, but the situation went out of control. "As AUM shrunk, the fund was left with a higher proportion of less liquid and probably riskier investments. It borrowed money to pay for redemptions but hit the regulatory limit for bor-

rowing," says Prateek Mehta, Co-founder of Scripbox, a mutual fund investment platform. After this, the fund had no choice, but to side-pocket the entire fund.

"If the fund had not been closed, it would have been forced to sell underlying illiquid papers at distress valuations to pay for redemptions. This would have significantly impacted the net asset value (NAV) for existing investors," says Arun Kumar, Head of Research, FundsIndia.com.

There is also a perception that retail investors usually stay away from debt funds and these are mostly favoured by corporates. However, in some of the debt fund categories, including credit risk funds, there is higher-than-average retail participation. "In general, retail participation in debt funds as a category lags their participation in equity funds by a significant margin. It is only recently that retail investors have started looking at debt funds as an alternative to traditional fixed deposits. Given the history of double-digit returns in some of these (credit risk) funds, the share of retail investors in these might be higher than the industry average," says Mehta of Scripbox.

However, corporates are the first ones to sense an impending liquidity crisis and take their money out of risky assets. Since information reaches retail investors late, they often end up on the losing side. "I don't expect majority of companies to be impacted given their strong treasury teams to monitor these risks and their preference for credit quality funds with high AAA ratings and equivalent exposure," says Kumar of FundsIndia.com.

Debt Funds at Risk

When there is a systemic liquidity problem, it spreads from one capital market instrument to another. The problem gets aggravated when fear grips the market. This was evident when unprecedented redemption pressure faced by credit risk funds affected other categories as well.

₹5,502 CRORE

Redemptions in medium duration debt funds

"Apart from overnight funds, most debt fund categories have seen outflows, especially after the Franklin issue, as investors redeemed investments fearing more such announcements from other AMCs and corporate bond defaults due to the ongoing Covid crisis," says Ankur Choudhary, Co-founder and Chief Investment Officer, Goalwise.com – a mutual fund investment platform.

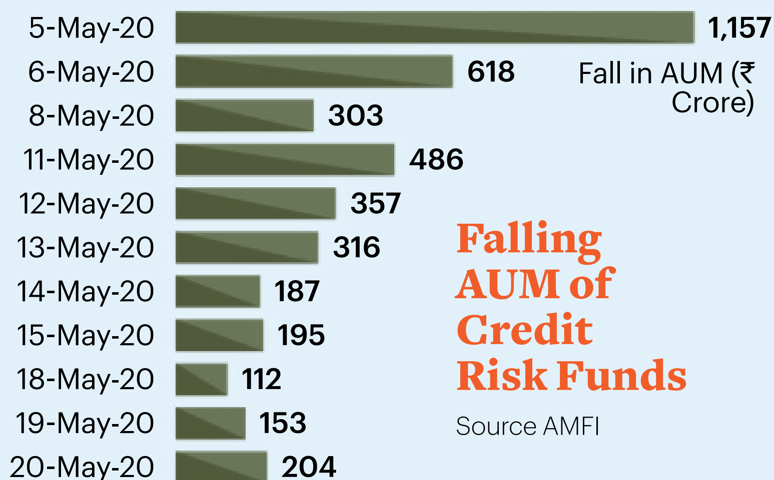
After credit risk funds, the biggest redemption pressure was seen in medium duration funds. The AUM of medium duration funds category fell 21.50 per cent, from ₹25,590 crore on April 23 to ₹20,087 crore on May 20.

"Medium duration funds invest mostly in corporate bonds maturing in three to four years, thereby taking on both credit and duration risks. Retail investors should typically stay away from these funds," says Choudhary of Goalwise.com. Longer duration along with low-quality paper often makes such funds vulnerable to credit as well as interest rate risks.

Another category that witnessed significant redemptions was ultra-short duration funds (AUM declined by ₹3,379 crore). Three of the closed Franklin funds were from low duration, short duration and ultra-short duration categories. People generally invest in these categories because they hold short maturity securities, which makes them relatively less volatile and risky among debt mutual funds.

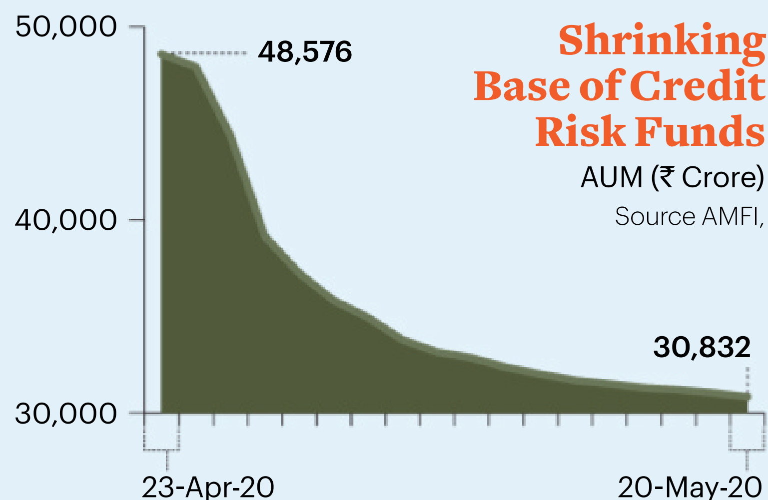
"Winding up of six schemes by Franklin Templeton created a panic in among investors, as out of the six schemes, three were investments for shorter periods. This fear is resulting in lower confidence in short duration and ultra-short duration funds," says Gurmeet Singh Chawla, Director, Master Portfolio Services.

The current crisis has challenged the myth that debt funds with exposure to short maturity papers are generally safe. Going forward, investors will need to be cautious



Falling AUM of Credit Risk Funds

Source AMFI



Shrinking Base of Credit Risk Funds

AUM (₹ Crore)

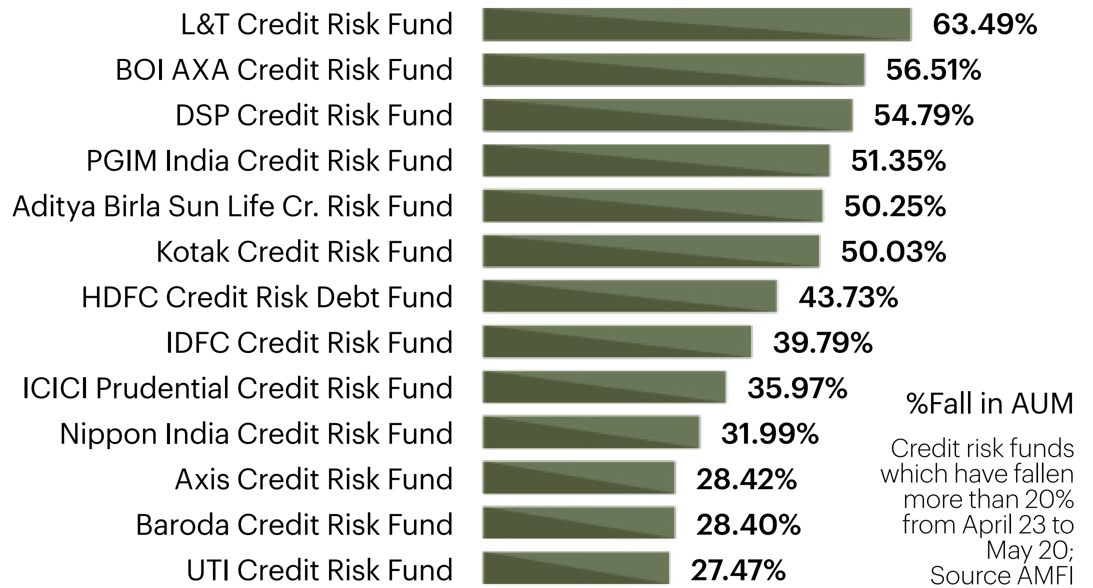
Source AMFI,

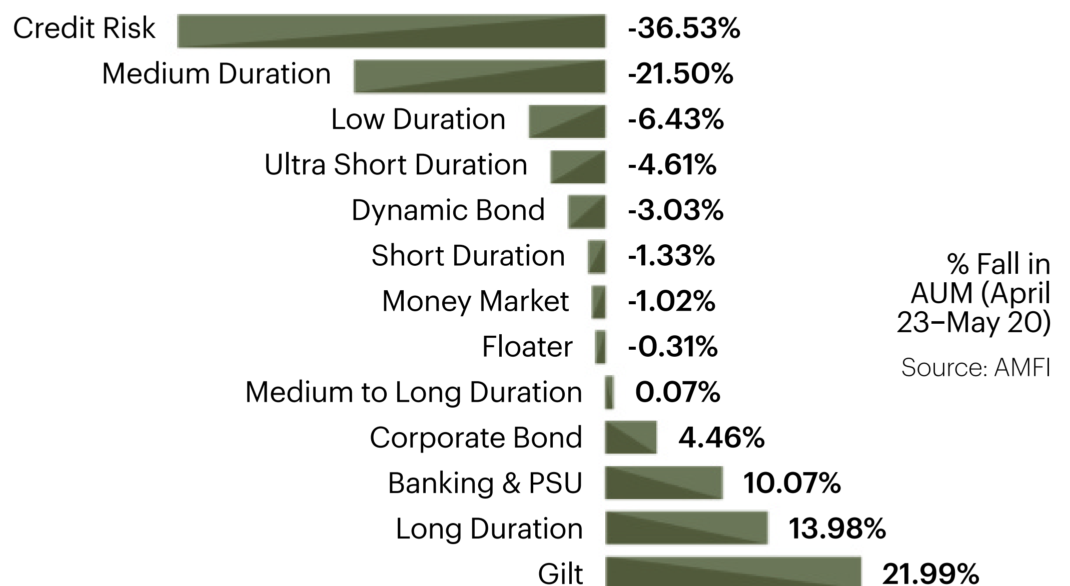
while investing even in short-term debt funds.

Apart from these categories, low duration funds also came under redemption pressure, with AUM falling ₹6.4 per cent, or ₹5,218 crore, from ₹81,096 crore on April 23 to ₹75,878 crore on May 20. "Short-duration funds were also not spared as their AUM fell by ₹1,267 crore."

Floater funds, which primarily invest in floating rate debt instruments, have also been hit badly. The category witnessed a decline of ₹100 crore in AUM, from ₹32,188 crore on April 23 to ₹32,088 crore on May 20. Due to the floating nature of interest rates, this fund has low risk. However, a good amount of its corpus is often invested in risky debt. Hence, investors looking for safety normally stay away from these funds.

"Low-duration funds carry a benefit of lower interest rate risk. Although such funds hold securities with maturities of not more than one and one-and-a-half years, they may have significant exposure to low-quality debt. A large default can cause erosion of capital. Credit risk in debt mutual funds leaves the investor with two options – continue holding discontinued units or book a loss. Another risk is that these funds actively manage the duration to generate returns, which makes them a bit volatile," says Chawla of Master Portfolio Services. So, in case you have invested in one or more of these funds, review your exposure. If you are a new investor, understand the risk in greater detail before investing.





"Investors need to know that the risk with a debt security is not only due to its time of maturity but credit quality as well, which can be analysed with the help of credit ratings given to it. So, they need to look at the quality of securities in the portfolio of schemes they are going to invest in or are already invested in. If it is difficult to understand these issues, it is advisable to consult a financial expert, who can take them through the health of the portfolio, whether it is debt or equity," adds Chawla.

However, there is a good news of impending recoveries from segregated bad assets of some troubled mutual funds. ABSL Mutual Fund has suspended two debt funds, ABSL Credit Risk Fund and ABSL Medium Term Fund, for new investors. This is intended to stop speculators from entering the scheme and diluting gains of other investors.

RBI's Liquidity Push

Though the central bank's liquidity boost helped cool market sentiment for the time being, any further shock can restart the chain reaction. "With the equity index falling sharply, making lows near 7,500, and foreign institutional investors taking out money in the last two months, market sentiment has turned negative and recovery seems far off. In case of debt market, the continuous sell-off in government securities is forcing investors to ask for a higher coupon rate (as in case of the REC bond issue), making companies withdraw their offerings. All this signals a weak appetite among investors," says Hemant Sood, Managing Director, FINDOC, an online trading company.

It is always easy to find a buyer and sell high-rated debt securities that are considered safe. However, to boost returns, many debt fund schemes invest a part of their corpus in risky debt funds, which are often illiquid. "The problem which remains unaddressed is how to provide liquidity and assurance to the segment below the high-grade category. For this, the RBI and the government have to take steps, including developing a fund or an insurance facility for default on bonds during crises," says Sood of FINDOC.

Need for Regulatory Action

"One noticeable difference is in the liquidity. Equity markets, despite extreme volatility, have seen decent liquidity, compared to high-risk debt instruments," says Aishvarya Dadheech, Fund Manager, Ambit Asset Management. This helps in preventing liquidity woes in the debt market from spreading to equity markets.

Product regulation is another area that regulators should focus on. Many debt instruments can work better if they are held till maturity, while changes at the product level can reduce risks. "Given the illiquid nature of underlying portfolios, credit-risk strategies are better played in a close-ended structure or an open-ended fund with a three-year lock-in similar to ELSS funds. This can ensure that redemption risks are mitigated to a large extent," says Kumar of FundsIndia.com

Investors who want higher yield can explore P2P lending

However, the biggest problem is the breach of regulatory guidelines in terms of exposure to risky assets. Not all funds are allowed to make such high-risk exposure a significant part of their portfolios. But, some schemes have breached the regulatory mandate and invested higher amounts in risky debt products. Regulators need to focus on these. Even in case of the credit risk category, there is scope for tighter rules. "The credit risk category needs to be monitored for the underlying credit quality of the portfolio and risk of continuous redemptions. As the Securities and Exchange Board of India (SEBI) does not mandate a credit quality boundary for other categories (except corporate bond funds category), some asset management companies (AMCs) have funds that follow credit risk-oriented strategies under other categories. This can be found by checking the per cent of AAA & equivalent papers in the underlying portfolios," says Kumar of FundsIndia.com.

What Should Investors Do?

Many retail investors had willingly got into high-yield chasing debt funds without taking into account the inherent risk. Seniors citizens often get lured into investing in these funds with the promise of high returns, and as a replacement to bank fixed deposits. The recent fiasco should serve a lesson for investors to priorities risks before returns. "Considering that high-yield funds are unlikely to meet the risk-tolerance levels of a significant number of senior citizens, they may wish to evaluate an exit from high-yield schemes," says Vishal Dhawan, Founder and CEO, Plan Ahead Wealth Advisors.

One of the best ways to manage liquidity risks is to hold the debt paper till maturity. "Investors should ideally match their investment tenure with the debt fund's modified duration. For investors seeking to create emergency funds, liquid funds are a good bet, while for those looking at long-term investments in debt, a combination of short-duration debt funds with good credit quality, which are well-diversified, are good options," adds Dhawan of Plan Ahead Wealth Advisors. If you have aligned your debt product's maturity with life goals, it could help in managing liquidity risks.

In case you are a new investor planning to bet on debt funds, you should understand the risk first, and then invest in schemes that match your risk appetite. "New investments in debt funds should be carefully selected. Possibly the lowest-tenure debt funds are best suited for first-time investors, especially those who invest in money markets and have a significant high exposure to sovereign-backed securities," says Sousthav Chakrabarty, Co-Founder and CEO of investment advisory firm Capital Quotient.

For those with high risk appetite, "it is important to note that chasing returns in a debt fund is a dangerous game as out-performance usually comes at the cost of high credit risk since a fund manager invests in high yield but low-quality paper to boost returns. From an asset allocation perspective, equity is where retail investors should take risks and the debt part should be in stable and conservative liquid or ultra-short funds," says Mehta of Scripbox.

There are many alternatives that can give you proportionate returns for the high risk that you are willing to take. "Investors who want higher yield and have some risk appetite can explore alternatives such as peer-to-peer lending, venture debt and convertible and non-convertible debentures, but after understanding the issuer and the issuer's business well and checking the impact of Covid-19 on those businesses," says Chakrabarty of Capital Quotient.

Investing in equities such as large-cap funds could also be considered if the investment horizon is five years and above. "Contrary to conventional wisdom of debt instruments protecting capital, investors have lost capital in risky debt instruments lately. This will bring investors to question the sanctity of investing in credit risk funds or other high-risk debt instruments and not in equity, especially since the risk is similar and equities have a higher pay-off," says Dadheech of Ambit Asset Management. BT

@naveenkumar80

Covid-proof Equity MF

THE DISRUPTION ACROSS SECTORS DEMANDS A REVIEW OF YOUR EQUITY MUTUAL FUND SCHEMES

BY APRAJITA SHARMA
ILLUSTRATION BY RAJ VERMA

The Mutual Fund Sahi Hai campaign has helped draw hundreds of crores into equity mutual funds (MFs) over the last couple of years. A market downturn coincides with rising retail investments in MFs – something marketmen associate with a maturing investor class. However, a consistent fall in MF net asset values (NAVs) after the coronavirus-led market crash has left investors wondering if they have made the right decision. NAVs of equity MFs have plunged up to 36 per cent over one year up to May 19.

Should one exit, hold or invest more in the current scenario?

Given the virus-led disruptions, many schemes with high exposure to the worst-hit sectors may be in for more pain going ahead. This calls for a review of your investments. We have compiled lists of worst and best performers in key categories – large-cap, mid-cap and multi-cap – to help you manage your equity MFs better.

Dig Deeper for Insight

Large-cap funds are supposed to be the safest as they rarely fall steeply. Since they invest in companies which have become winners after struggling through several economic cycles, they are expected to fall the least in a market crash. However, these funds have lost up to 29 per cent in the last one year. Nippon India Large Cap, HDFC Top 100 and Tata Large Cap Gr are the three worst performers, losing between 23 per cent and 29 per cent. Bank stocks account for one-fourth portfolio of Nippon India. Some of the scheme's top holdings are ICICI Bank, ITC, SBI, HDFC Bank, and Larsen & Toubro, which have fallen up to 55 per cent in the last one year.

A Snapshot

Top large-cap, mid-cap, small-cap funds giving one-year returns of -8,09%, -2.31% and -7.62%, respectively

Bottom large-cap, mid-cap and small-cap funds giving one-year returns of -29.26%, -27.52% and -36.06%, respectively

Worst-hit sectors are banking, NBFCs, services, capital goods, real estate and automobiles

NBFCs with heavy exposure to SMEs and personal loans to underperform

Sectors to outperform include pharma, FMCG, stock exchange, TV media, mobile telecom, cement & steel, HCVs and specialty chemicals

Even within sectors, performance of companies varies widely

HDFC Top 100 has nearly 36 per cent exposure to the banking sector. It also has exposure to ITC and L&T, which have fallen by 42 per cent each.

Tata fund has invested over 37 per cent of its money in banking. Some schemes have, however, fallen in single digits. Axis Bluechip Fund Gr and Canara Robeco Bluechip Equity Reg Gr have shed only 8 per cent during the period. "That is because both funds have a focus towards high-growth quality large-cap stocks. This is the segment of the market that has done exceedingly well for the last couple of years running up to the market peak in January 2020. Axis Bluechip has also been holding significant cash positions, which has helped it in the market fall," says Kaustubh Belapurkar, Director and Manager, Research, Morningstar India.

Mid-cap funds have been hit badly with worst-performing funds such as ICICI Pru Midcap Gr, Aditya BSL Mid Cap Gr, Sundaram Mid Cap Gr, Motilal Oswal Midcap 30 Reg Gr and Franklin India Prima Gr falling 22-27 per cent. The category best performer – Axis Midcap – is down 2 per cent for the year, while others have lost 4-9 per cent. In small-cap funds, even top five best performing schemes have lost 7-15 per cent, while the worst performers have shed up to 36 per cent. Overall, value-oriented category had the worst fall (24.22 per cent), followed by smal-cap (23.72), large-cap (20.22 per cent), ELSS (19.84 per cent), large mid-cap (18.86 per cent), multi-cap (17.34 per cent) and mid-cap (18.66 per cent).

In comparison, international funds stood tall, with 8 per cent gains for the year. Parag Parikh Long Term Equity fund (down 4 per cent), in fact, arrested losses owing to its up to 35 per cent exposure to US stocks. It was the best performer in the multi-cap fund category.

Has Your Fund Lost Its Way?

Legendary investor Peter Lunch once said: "Everyone has the brainpower to follow the stock market. If you made

Large-cap Funds

BEST PERFORMERS

Scheme	AUM in ₹ crore	1-year	3-year	5-year
Canara Robeco Bluechip Equity Reg Gr	418.00	-8.09	2.65	4.98
Axis Bluechip Fund Gr	12,716.81	-8.54	6.28	6.37
Quant Focused fund Gr	4.12	-9.93	-1.15	4.25
JM Large Cap Gr	564.07	-10.01	-0.08	1.32
BNP Paribas large Cap Gr	747.93	-10.69	0.05	2.89

WORST PERFORMERS

Scheme	AUM in ₹ crore	1-year	3-year	5-year
Nippon India Large Cap Gr	9,860.63	-29.26	-5.73	0.23
HDFC Top 100 Gr	14,831.72	-27.80	-5.74	0.56
Tata Large Cap Gr	651.20	-23.49	-4.32	0.47
Indiabulls Blue Chip Gr	127.95	-21.65	-3.52	2.53
Franklin India Bluechip Gr	5,018.14	-21.58	-5.70	-0.05

Returns in %. The data provided is for information and should not be construed as advice to buy/hold/sell; Return data as on May 19, AUM as on April 30; Source: Morningstar India

Mid-cap Funds

BEST PERFORMERS

Scheme	AUM in ₹ crore	1-year	3-year	5-year
Axis Midcap Gr	5,098.37	-2.31	6.55	6.19
Quant Mid Cap Gr	9.66	-4.48	-0.03	1.42
Taurus Discovery (Midcap) Gr	45.22	-7.58	-1.94	4.38
PGIM India Midcap Opps Fund Reg Gr	145.71	-8.07	-5.67	0.32
DSP Midcap Reg Gr	6,487.64	-9.61	-2.80	6.06

WORST PERFORMERS

Scheme	AUM in ₹ crore	1-year	3-year	5-year
ICICI Pru Midcap Gr	1,483.66	-27.52	-9.08	-1.11
Aditya BSL Mid Cap Gr	1,879.39	-27.04	-11.84	-1.21
Sundaram Mid Cap Gr	4,562.10	-25.54	-10.44	0.18
Motilal Oswal Midcap 30 Reg Gr	1,415.26	-22.88	-9.12	-0.70
Franklin India Prima Gr	6,060.75	-22.46	-7.24	1.43

Returns in %. The data provided is for information and should not be construed as advice to buy/hold/sell; Return data as on May 19, AUM as on April 30; Source: Morningstar India

it through fifth-grade math, you can do it." Hence, you shouldn't take a fund manager's decision at face value and must take note of what he is doing at a time when coronavirus-led slowdown has increased risk for a majority of companies. If your MF scheme has incurred double-digit losses, you need to do an in-depth study of each sector to check out individual stocks where the scheme has invested.

In financial services, for example, if your scheme is exposed to PSU banks or NBFCs with heavy exposure to personal loans and SMEs, you may consider switching to another scheme. "NBFCs were favourites over the last two-three years and some of them were quoting at mind-boggling PEs before the Covid-19-linked crash. MFs with major exposure to NBFCs should be reviewed," says independent market analyst Ambareesh Baliga.

As for PSU banks, even though a further fall is unlikely, estimating recovery is difficult. "PSU banks have been underdogs for the last couple of years. So, there isn't much room for them to fall. Neither will they face any huge institutional selling pressure. The question now is whether the tables will turn after consolidation of PSU banks or will the elephant be too tired to move?" wonders Baliga.

Take stock of more such sectors that may not perform well in the Covid-affected world and exit if your scheme is heavily exposed to them. This is especially true if you have invested in sectoral or thematic funds of such sectors.

"The near-term outlook for metals and oil & gas sectors looks bleak as they suffer the most whenever the global economy slips into severe deflationary or recessionary conditions. Due to the steep rise in unemployment in the US and Europe, IT and IT-enabled services exports from India will be hit significantly. These western economies will promote domestic job opportunities and, hence, outsourcing of services from countries like India will happen at much lower prices. Capital goods will suffer on account of lack of adequate capital expenditures due to deflationary conditions in the domestic economy," says G. Chokkalingam, Founder, Equinomics Research & Advisory.

Besides, travel and tourism-related sectors such as hotels and airlines and the ones dependent on high-ticket discretionary spends such as auto and consumer durables are unlikely to join the market recovery.

Identify Covid-proof Sectors

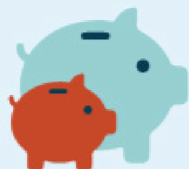
Since the longevity of the crisis is not known, the best option is to bet on sectors that will sail through the crisis unscathed. "Investors should prefer companies engaged in businesses such as pharmaceutical, necessities (FMCG, sugar, etc), stock exchange, TV media, mobile telecom, which people continued to consume even during the crisis," says Chokkalingam.

Baliga says domestic demand will drive consumer staples, spending on infrastructure to revive the economy will drive cement, steel and heavy commercial vehicle demand, whereas the initial shift of global buyers from China could drive many export-oriented segments, especially specialty chemicals.

Besides, even though the financial sector has contributed the most to the fall in the market, it could be among the first ones to recover over the next five years along with FMCG and chemicals. "Banking and finance is the most beaten sector right now and recovery will be gradual but will definitely happen. FMCG has been a consistent performer in India. Chemicals is an upcoming sector and has the potential to generate a couple of large caps in the next five years," says Harsh Jain, Co-founder and COO, Groww.

Action Points for MF Investors

Time to review investments to figure out if you should exit from certain MFs

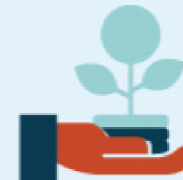


Large-cap and large-mid cap funds are relatively safe bets in long run

Look for MFs whose AUMs fall in the mid -segment as these are 'focussed and nimble'

Small-cap funds may play out over the next two-three years due to past underperformance

Identify well-diversified funds with consistent mandate; let fund manager take sector calls



SIP best route to invest in MFs; invest lump-sum in staggered manner

Hunt for Best Schemes

Restructure your MF portfolio once you are clear about companies whose business models will stay viable.

Although fund managers of active schemes take investment calls as per the changing economic scenario, you must still take note of latest changes in your MF schemes.

If the fund manager has switched sector allocations towards Covid-proof sectors, continue your SIPs in large-cap, mid-cap and small-cap funds. However, consider fresh lump-sum investments across multi-cap funds and index funds in the ratio of 4:1, suggests Sahil Arora, Director & Head of Investments, Paisabazaar.com. "As index funds are passively managed, they will ensure gains from steep market recoveries in case actively managed funds fail to make the most of the market correction."

As for multi-cap funds, these are best suited in the current market scenario when market correction is broad-based. "Valuations have become attractive across market capitalisations. Multi-cap funds are best suited for such a situation as they can invest across market capitalisations based on changing valuations and market fundamentals, without any Sebi-imposed caps," suggests Arora of Paisabazaar.

Multi-cap Funds

BEST PERFORMERS

Scheme	AUM in ₹ crore	1-year	3-year	5-year
Parag Parikh Long Term Equity Reg Gr	2,925.43	-4.53	5.76	7.09
Quant Active Gr	8.96	-8.16	1.84	5.55
Axis Multicap Reg Gr	5,592.12	-8.30		
Canara Robeco Equity Diversified Reg Gr	1896.90	-10.89	2.07	4.14
PGIM India Diverse Eq Reg Gr	129.27	-11.57	-2.33	2.76

WORST PERFORMERS

Scheme	AUM in ₹ crore	1-year	3-year	5-year
Nippon India Multi Cap Gr	7,455.75	-34.77	-9.31	-3.43
HDFC Equity Gr	18,213.66	-28.96	-6.77	-0.10
ICICI Pru Multicap Gr	4,859.60	-24.11	-5.29	1.49
Taurus Starshare (Multi Cap) Gr	179.93	-23.79	-7.68	-2.06
Franklin India Equity Gr	8481.10	-23.25	-6.26	-0.16

Returns in %. The data provided is for information and should not be construed as advice to buy/hold/sell; Return data as on May 19, AUM as on April 30; Source: Morningstar India

Another strategy is to choose mid-ranked fund houses provided the fund house and the fund manager have a credible record. "One should look for MFs whose AUM falls in the mid-segment as these can be focussed and nimble," says Baliga. Besides, large-cap funds having blue-chip stocks should always be a decent part of your portfolio.

However, if you can take risk and have a horizon of two-three years, mid-cap and small-cap funds hold value, thanks to their underperformance over the last few years. "If an investor is willing to wait for another two-three years, he shouldn't exit the small-cap funds. Before Covid-19, 'leaders' were performing well, while small-caps lost substantially. In the Covid period, while 'leaders' from the defensive segments recovered significantly, most small-cap stocks have failed to recover," says Chokkalingam.

But why invest in an underperformer, you may ask? Remember that one theme doesn't play out in the stock market for long. If yesterday belonged to big companies, mid-cap or small-cap segments may rule the roost tomorrow. Risk, of course, is higher in these funds given the changing economic environment due to Covid. "The history of Indian stock markets reveals a fact that they are always moved by certain themes periodically. It is also true that never has the same theme played out again and again. Neither does a particular theme have long durability. That said, themes encompassing small-cap stocks look set to play out over the next two-three years," he adds.

Although Covid-19 makes a review important, you need not make sweeping changes to your portfolio. You must always focus on your asset allocation and investment time horizon before making a decision. During these uncertain times, the best option is to diversify across managers with varying investment styles, which will give good diversification. "Identify well-diversified funds that are run with a consistent mandate and let the professional fund manager take sector calls," says Morningstar's Belapurkar. Thus, make a right choice to build an MF portfolio diversified across Covid-proof sectors. Take the SIP route and, if lump-sum is available, invest it in a staggered manner in preferred large-cap or multi-cap funds. BT

@apri_sharma

Money Matters

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

HOME LOAN INSURANCE

Ankur Arora
I had taken a home loan of ₹35 lakh in February. The EMI is around ₹26,000. I have a term policy with a coverage of ₹25 lakh and the premium is around ₹6,300. Should I increase my life insurance coverage or buy an EMI protection plan?

Naval Goel, *CEO & Founder, PolicyX.com*
You should go for an increase in life insurance coverage rather than EMI protection as term plan is cheaper. Raise the sum assured of the term plan to at least twice the current level. This will give you the required financial cover and help you with EMI protection if needed.

HEALTH INSURANCE

Garima Mishra
I am a 30-year-old looking to buy a family floater policy for me and my husband. We have no plans to have kids. Should we buy individual health plans or a family floater policy? Which are the most suitable plans in the market?

Amit Chhabra, *Health Business Head, Policybazaar.com*
Since it's the two of you, it is advisable to go for a floater policy with adequate sum insured. For the same price, you will get a higher coverage and the risk will be spread across two individuals. Comprehensive cover plans with sum assured as high as ₹1 crore are available at affordable premiums. Also, please note, it is important to declare your health conditions to the insurance company before buying any cover.

Some ₹1-crore family floater plans:

1. Aditya Birla Health Insurance: Annual premium = **₹14,223**
2. Max Bupa's Super Saver plan: Annual premium = **₹14,729**

MUTUAL FUND

Nishant Jain
I am 35. I have two running SIPs of ₹5,000 each for the last two years for my retirement corpus. I am not sure if these will suffice. How do I know how much to accumulate till I turn 60?

Vidya Bala, *Co-founder, Primeinvestor.ins*
With your current savings and SIPs, at the end of say 25 years (a few years before retirement) at a return of 9 per cent (assumed), you will have around ₹1.2 crore. To know whether this is sufficient, you need to first draw an estimate of your current living expenses (outside school fees or EMIs) and make a rough estimate of what is required at your age of retirement with at least a 4-5 per cent inflation. You can use any of the online calculators to estimate how much you will need to save at your current rate of return. You can then try to gradually increase your SIPs. BT

Please send your queries to moneytoday@intoday.com

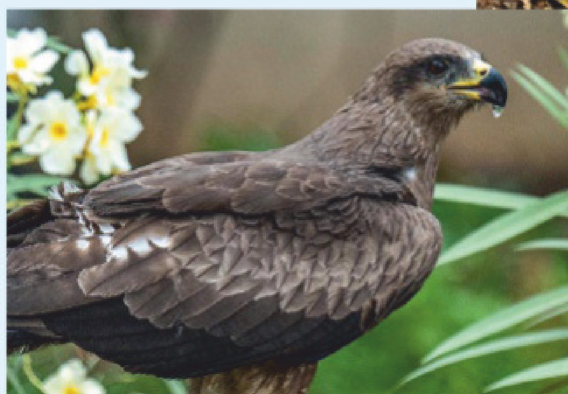
ILLUSTRATION BY RAJ VERMA

Network

Picture Perfect

G.V. Prasad, Co-chairman and Managing Director of Dr. Reddy's, is a passionate nature photographer and loves nature-watching. "I like to watch nature, particularly bird watching," says Prasad. Even the lockdown has not proven to be a hindrance as some of the regular visitors to his verdant garden at his home in Hyderabad's Banjara Hills include the Indian robin, coppersmith barbet, sunbird, golden oriole, black kite and sometimes a kingfisher. His Sony Mirrorless, armed with 200 to 600 zoom lens, ensures they stay back.

Photography piqued Prasad's interest for the first time as a 12-year-old when he was gifted a Kodak camera. Eight years later, he was the proud owner of his first professional camera, a Nikon EM. He learnt the nuances of photography on his own and by experimenting. But for Prasad and Suresh Rayudu Chitturi, his friend and an equally keen photographer, it is more a passion than a hobby today. Both travel each year on nature-watching expeditions be it across India – from Tadoba in Maharashtra, Kanha National Park in Madhya Pradesh to Srisailam in Andhra Pradesh – or globally from Okavango Delta in Northern Botswana to the Maasai Mara National Reserve with its preserved savannah wilderness in south-western Kenya along the Tanzanian border.



The duo has even been to the Arctic region around the North Pole. Last year, Prasad took off to Alaska in the US, capturing rare treasures such as moose, caribou, bears, salmon, whales, bison, puffins, jellyfish to the breathtaking views of the glaciers and fjords, mountains and lakes. Observation skills, patience and just the simple joy of capturing the moment has sustained his interest in nature photography.

– E. KUMAR SHARMA

The Maverick

Earlier this month, when billionaire entrepreneur Elon Musk announced the name of his baby with partner Grimes, people were left wondering what it meant, and more importantly how to pronounce it. An alpha-numeric code – **'X Æ A-12'** – pronounced as **'X Ash A Twelve'** did not exactly seem to be a name anyone would give their child. But with Elon Musk nothing has ever been usual, including his interests.

Even as a self-confessed workaholic, Musk's interests are unique. Space exploration, colonisation of Mars, underground capsule transport and artificial intelligence (AI) hold his interest. As a design maverick, he leads all product designs, engineering and global manufacturing of Tesla's electric vehicles. His "The Boring Company" fuels his dreams of building public transportation systems, Loop and Hyperloop, through underground tunnels. A kid who grew up on comics, mainly science fiction, his $36-billion private enterprise, 'Space X', not only plans to conduct multi-day space tours for private tourists – build fully reusable rockets to ferry people from earth to Moon to Mars and back – but also build a network of satellites to provide high speed connectivity anywhere in the world. In fact, Musk did a cameo in Iron Man 2 just for his sheer love of Marvel comics. He also occasionally dabbles in music. In January, he released a fresh techno track 'Don't doubt your vibe'. – RUKMINI RAO

Nothing-ness of It All

Imagine a trading floor buzzing with activity – some are on the phone taking cues from a big screen highlighting figures in green and red, the rest are glued in to their terminals and keying in orders furiously. It's a typical day on Wall Street. "Not only do you put long hours, but the hours that you work for are also quite intense," says Nitya Sharma, Co-founder & Chief Executive Officer, Simpl – a fintech start-up. He was earlier a bond trader with Goldman Sachs in New York.

It was during one of those rush hours that Sharma felt the need for having a calm mind which can distill the huge flow of real-time information that came to him on a daily basis. "For me, meditation is about controlling my thoughts. In a job where scorecards were written every day and millions were involved, it was necessary for me not to get caught up in the storm. Meditation helped me maintain a calm demeanour to do my job efficiently."

Initially, Sharma learned by reading and watching videos. It was when he moved to India that he visited the Vipassana centre in Nashik for a 10-day course. "You can't even carry a pen and notebook with you. It is only you and your thoughts for the entire 10 days." For Sharma, the major takeaway was how dispensable we all were. "I am a CEO and I am responsible for running my business smoothly, but when I came back nothing had stopped. It's like nobody noticed my absence. We intellectually know these things, but actually feeling it was quite different." Meditation has now become an integral part of Sharma's morning rituals. – APRAJITA SHARMA

The Call of the Wild

As a banker and finance professional, risk has been an integral part of Mahesh Misra's career – whether it is lending to individuals and companies or underwriting risks of insuring a person.

At first glance, his passion for wildlife photography would seem to be an extension of his risk-taking ability. But Misra — CEO, India Mortgage Guarantee Corporation — does not attribute his passion to his risk-management skills in professional life. Instead, he says, his "inherent interest in photography led him to wildlife as a pleasurable means to use lens work productively."

A passion for that one perfect frame and desire to shoot wildlife at its natural best has taken him to several national parks and sanctuaries such as Ranthambore (Rajasthan), Corbett (Uttarakhand) and Pench (Madhya Pradesh). He has also visited Masai Mara, Lake Nakuru and a few privately owned parks in Kenya. It was at Maasai Mara that he had the most thrilling experience as a wildlife photographer when he saw a cheetah trio killing a wildebeest (a large dark African antelope).

But there have been nerve-racking moments as well. At Ranthambore in Rajasthan's Sawai Madhopur district last year, a large tigress (Sultana) blocked his team's path just as the park was about to close, with no other human in sight. "The prospect of spending a night stranded in the jungle with a tigress for company wasn't very exciting," he says.

However, these incidents do not stop him from pursuing his passion. He visits Ranthambore a couple of times a year and Masai Mara once in a few years. "With repeat visits to tiger reserves, one gets to track a family through various stages of life," Misra muses.

Apart from pursuing his passion, these jungle safaris also give him time to introspect and return to 'human civilisation' brimming with ideas. "Years of watching animals in the wild has made me value the importance of timing when it comes to executing a plan. In the jungle, timing determines whether one sleeps hungry or lives to see the next day. One also gets to see the massive value of teamwork in the way groups of animals work together to hunt (for survival)," he adds.

– DIPAK MONDAL

The Storyteller

S.V. Nathan, Partner, Human Resources, Deloitte India, is often asked by his colleagues to give leadership lessons. With over 30 years of HR experience, Nathan obviously has innumerable anecdotes to share. However, instead of the usual PowerPoint presentation studded with HR jargon, Nathan prefers telling inspirational stories that he writes.

"My stories are stories of life, incidents that have happened in my own life, which I blend with folklore," he says. An avid reader of Indian, Japanese and Greek folk tales, Nathan's stories have a distinct influence of all these folklores.

At an investiture ceremony of a leading management school, Nathan spoke about the importance of having the right attitude to succeed and judging talent by attitude and not only qualifications. During the ceremony, he spoke of one such instance from his early professional life. Nathan worked for a holiday resort company, and at their resort in Kodaikanal was a gym-trainer who helped a desperate guest in the hotel take his car out from a puddle near the lake. "The trainer convinced the guest that he would take charge of the situation and he brilliantly did so. We gave him an award for helping the guest and seeing his attitude we also gave him a role in the HR department. The gym trainer today heads the HR department of a leading retail company. "To cut the long story short, the point I tried to drive through my story was the importance of judging a person by his/her attitude. A qualification from a prestigious university shouldn't be the only criteria," he elaborates.

Through his stories, Nathan talks about myriad topics such as the importance of speaking up or standing up for the right cause. His blog SliceOfLife, where he narrates inspiring stories, has made Nathan one of the top three HR influencers in the country on LinkedIn.

– AJITA SHASHIDHAR

Best Advice I Ever Got

"IN PEOPLE MANAGEMENT, TO BE MORE EFFECTIVE, BY DEFINITION YOU HAVE TO BE INEFFICIENT"

MANSI TRIPATHY, VICE PRESIDENT, LUBRICANTS, ASIA PACIFIC MIDDLE EAST REGION, SHELL

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

A: In my previous organisation, I had taken on a global role for the Gillette-P&G integration, one of the biggest in the FMCG world at $56 billion. "People integration" became an important focus area for me, in addition to getting the acquisition economics right, getting processes integrated and having a road map of next 10 years, to name a few. This involved looking at what the new organisation design will look like, which roles can be scaled, which can be optimised, and the most difficult, who will stay and who will not. I realised I was spending lot of time talking to each individual and prioritising it versus other work, which was difficult.

Q. Who did you approach and why?

A: I shared this with my line manager Chip Bergh, the current CEO of Levi Strauss, and who was president of the newly acquired male-grooming line at that time. He also had extensive experience dealing with complex deals and was an accomplished coach.

Q: What was the advice?

A: His advice simply put was that to be more effective in people management, by definition one has to be inefficient. All the things that we have to spend our time on in knowing a person well, in checking on how they are doing, in having multiple and close connects, time spent in talking about "other stuff" than just talk shop may seem to be an inefficient use of time.

Q: How effective was it?

A: One of the definitions of a leader is one who can bring out discretionary energy from individuals. I learnt that till the time you are not genuinely connected with people as individuals, the magic does not happen. We have seen this at play whenever we have started teams and spent time in building a personal rapport as a team (not just team building activities, but genuinely knowing individuals at and outside of work). BT

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