Economy

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WORDS OF CAUTION

Shaktikanta Das, governor, Reserve Bank of India

"So, just because a bank is offering higher interest, the depositors themselves should be very careful before putting in money while chasing such high returns because usually, our experience is that high returns or high interest rates are associated with higher risks.

FISCAL HEALTH

Govt unlikely to declare capital infusion for PSBs in Budget

PRESS TRUST OF INDIA
New Delhi, December 12

THE GOVERNMENT IS unlikely to announce capital infusion for public sector banks (PSBs) in the Budget, as their financial health has improved on the back of reduction in bad loans, sources said. To augment their resources, banks would be encouraged to raise funds from the market and also by selling their non-core assets, they added.

During the current financial year, the government has earmarked ₹20,000 crore for recapitalisation of PSBs.

It is to be noted that the net profit of PSBs surged to ₹14,012 crore in the first quarter, which further rose to

₹17,132 crore in the second quarter ended September 2021. The combined profit of the first half of the current fiscal is close to the total profit earned in the entire previous financial year.

During the last financial year, PSBs raised capital funds to the tune of ₹58,697 crore, the highest amount mobilised in a fiscal.

The capital adequacy ratio (CAR) of PSBs increased to 14.3% at the end of June 2021 while the provision coverage ratio rose to an 8-year high of 84%.

In some of the non-performing assets, banks have done provisions of up to 100%, sources said, adding that recovery from those accounts will straightaway form part of the bottom line.

Banks have been asked to focus on the recovery process as this would further boost their financial health.

Meanwhile, banks are also working to expand their balance sheet under the credit outreach programme started October 16, 2021.

Various reforms undertaken by the government including recognition, resolution and recapitalisation resulted in progressive decline in non-performing assets (NPAs) and subsequent rise in profit.

NPAs of PSBs declined from ₹7,39,541 crore as on March 31, 2019 to ₹6,78,317 crore as on March 31, 2020 and further to ₹6,16,616 crore as on March 31, 2021 (provisional data). The provision coverage ratio (PCR) at the same time increased sequentially to 84%.

As a result, PSBs in aggregate recorded a profit of ₹31,816 crore, the highest in five years, despite a 7.3% contraction in the economy in 2020-21 due to Covid-19 pandemic.

Gold ETFs attract ₹683 cr in Nov on Omicron emergence

PRESS TRUST OF INDIA
New Delhi, December 12

GOLD EXCHANGE TRADED funds (ETFs) continue to attract investor attention and have garnered net assets worth ₹683 crore in November, as correction in the prices of the yellow metal and Omicron worries pushed investors towards safe haven assets.

This was higher than the net inflow of ₹303 crore in October and ₹446 crore seen in September. Prior to this, the segment saw a net inflow of ₹24 crore in the previous month, data with the Association of Mutual Funds in India (Amfi) showed.

"Gold ETFs saw a prominent inflow for the month too. As the scare of a new variant of SARS-CoV-2, Omicron is looked like a potential cause of worry for the economy now, investors could be resorting to the traditional form of investment as a hedge from market volatility," Priti Rathi Gupta, Founder, LXME, said.

Himanshu Srivastava, Associate Director — Manager Research, Morningstar India, said the correction in gold prices in November and concerns over the emergence of Omicron variant of coronavirus enhanced the appeal of safe haven assets such as gold.

With the latest inflow, the net infusion in Gold ETF category has reached to ₹4,500 crore so far this year.

The segment witnessed just one month of net outflow, which was in July 2021 of around ₹61.5 crore.

This points towards investors' liking for yellow metal as part of their investment portfolio.

The latest inflow helped in pushing the number of folios in the category by 10% to 29.29 lakh in November, from 26.6 lakh in October in the preceding month.

Less govt interference will make start-up ecosystem grow: Goyal

PRESS TRUST OF INDIA
Pune, December 12

THE LESS THE government interferes in the startup ecosystem, the more potential the latter will have to become successful, Union minister Piyush Goyal said here on Sunday.

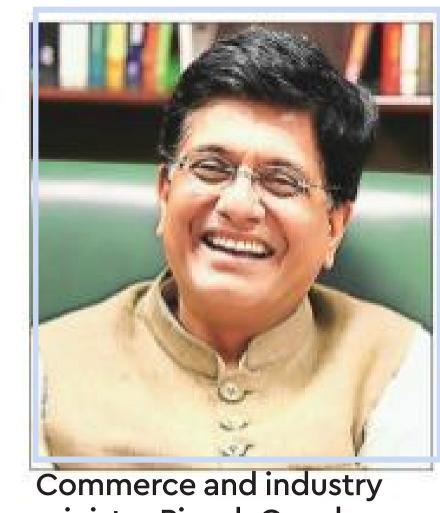
He added that India may have a billion problems, but it also possesses billions of brilliant entrepreneurs to solve the issues through extremely cost-effective solutions.

The minister of commerce and industry was addressing a gathering during a visit to the Science and Technology Park at the Savitribai Phule Pune University (SPPU).

"Look at the IT sector. It is successful in India, because the government has no role to play. Allowing entrepreneurs to operate with less amount of government interference or involvement will them help come up with cost-effective and affordable solutions, and to improve their quality and designs. Crutches only help them in the short run. If we really want to let this ecosystem grow and go to great lengths, then we have to let it work on its own," he said.

The less the government interferes in the startup ecosystem, the more potential it will have to become successful, he added.

"If I take the list of unicorns, almost none of them have taken government's support to



Commerce and industry minister Piyush Goyal

become what they are...Government can play a role in reducing taxes. We have reduced the charges for startups and women entrepreneurs in patent filing, etc. Government can be a good facilitator," he said.

It is the enterprising spirit of the young boys and girls and entrepreneurs that truly defines success, Goyal said.

Unicorn is a startup company with a value of over $1 billion.

The minister said it was encouraging that 46% of the startups registered with the DPIIT (Department for Promotion of Industry and Internal Trade) have women as part of the ecosystem, and expressed hope that women will lead the startup culture in Maharashtra.

Recalling the contribution of social reformer and educationist Savitribai Phule, Goyal said she had started the first school for girls in Pune and hence it is befitting that women entrepreneurs showcase their work in the Sci-Tech Park here.

"Today, we have the startup ecosystem across the length and breadth of India. 45,000 startups have been registered in India. It is third largest (startup) ecosystem in the world," he said.

As per the DPIIT registrations, Pune has 3,200 startups, while Mumbai has 3,274, the minister said, adding, "This healthy competition between Pune and Mumbai should continue."

"I like the idea of rating the incubators and escalating funding to those that do a good job. The Modi government recognised the power this country has and the Startup India programme was initiated. Today, we have grown to be the third largest startup ecosystem in the world," he said.

Likening the incubators to parents, he said they are like guides and support system that the startups need.

"India may have a billion problems, but it also has billion brilliant entrepreneurs to solve these problems with extremely cost effective solutions for farmers, divyangs and poor," he said.

Stating that Pune is in a unique position to support the startups due to the presence of industry, IT and the finest academic institutions, the minister added that it is now time to increase the international collaboration in the startup ecosystem.

Deposit insurance reforms to instil confidence among people in banking sector, says PM

PRESS TRUST OF INDIA
New Delhi, December 12

PRIME MINISTER NARENDRA Modi on Sunday said deposit insurance reforms undertaken by the government will instil confidence in account holders on the banking system.

Parliament in August passed the Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021, ensuring that account holders get up to ₹5 lakh within 90 days of the RBI imposing a moratorium on the banks.

This was done keeping the 'Depositors First' spirit in mind, Modi said while announcing that over 1 lakh depositors have got about ₹1,300 crore of their money with stressed banks in the past few days with the enactment of the legislation.

He assured that about three lakh more such account holders will get their deposits with the banks that are under the RBI moratorium, soon.

At an event here at Vigyan Bhawan, the Prime Minister said banks play an important role in the progress of any nation.

"For the growth of banks, the safety of depositors' money is crucial...if we have to save banks, we have to provide security to depositors," he said.

Deposit insurance covers all deposits such as savings, fixed, current and recurring deposits in all commercial banks.

From the Front Page

Budget FY23 to fall short on reforms

"Appetite for reforms is much less in the government now as it does not want to antagonise the electrorate. DBT-fertiliser can wait," another official said.

"Small farmers will appreciate a scheme which will ensure they get fertiliser subsidy duly in their bank accounts. But I think that the government may not touch this issue right now," said PK Joshi, agricultural economist and a member of the SC-appointed panel on the recently repealed farm laws.

"More freebies are likely to be distributed in the run up to elections," feels Ashok Gulati, Infosys Chair Professor for Agriculture at Icrier and another member of the panel on farm laws. He listed loan waivers, enhanced PM Kisan payouts, higher MSPs and commitments to hike procurement of crops among the ideas that the government could embrace at this juncture.

Even though the government has successfully managed to privatise ailing national carrier Air India this year, it has slowed down on privatisation of fuel retailer-cum-refiner BPCL despite being at an advanced stage of the process (the financial bids are being delayed). Similarly, its FY22 Budget announcement to privatise two banks has not been seriously followed through and is unlikely to be executed in the current financial year. The implementation of four labour codes – which, along with steps to boost labour welfare and rights, contain provisions to ease labour market rigidities for the benefit of industry-- is also hanging in balance due to the government's ambivalence. The labour reforms require support of the state governments and the larger political spectrum for their implementation.

The rise in the global prices has inflated budgetary fertiliser subsidy to an all time high of ₹1.43 lakh crore in FY22 from ₹1.27 lakh crore (thanks partly to clearance of ₹65,000 crore arrears) in FY21 and ₹81,124 crore in FY20. The surge in fertiliser subsidy has been triggered by rising global prices with urea (most commonly used fertiliser) prices tripling to about $990/tonne while di-ammonium phosphate (DAP) prices have more than doubled to $700-800/tonne compared with one-and-half year ago

Prodded by the Supreme Court, the Centre is also likely to frame a national level scheme to provide cooked food to the poor in both urban and rural areas at ₹10/plate. The proposed scheme will likely keep food subsidy at an elevated level.

On November 24, the Centre extended the free ration scheme – Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) – from May-November till the end of the current fiscal. PMGKAY will cost ₹1.47 lakh crore, taking the total food subsidies including those covered under the National Food Securities Act, to about ₹3.3 lakh crore in FY22. The food subsidy spend in FY21 was ₹5.25 lakh crore including ₹1.34 lakh crore for the free grains scheme.

A development that could stand the government's expenditure managers in good stead is that the burden of fuel subsidy has come down to very low levels. While petrol and diesel are decontrolled, since June 2020, the government hasn't been depositing the subsidy on LPG or cooking gas in the bank accounts of target beneficiaries.

However, the government's outreach to the farmers under the flagship PM-Kisan scheme, launched in February 2019, is estimated to cost ₹65,000 crore in FY22, nearly the same as in FY21. The cost of the scheme may rise if the government expands its scope to cover sharecroppers or increases the annual payout to each farmer from ₹6,000 now (in three equal installments).

The government is keen to roll out DBT for most of the schemes to plug pilferage. Transfer of assorted subsidies and sops to the beneficiaries through the DBT resulted in ₹2.23 lakh crore cumulative savings to the Centre between FY15 and FY21.

Firms re-evaluating return-to-office plans amid uncertainty over Omicron

Roopank Chaudhary, partner and chief commercial officer (human capital solutions), India and South Asia at Aon said that while most companies are in a wait and watch mode to ascertain the impact of the new variant, some have slowed down their plans to get people back to offices.

"In the last couple of weeks, the number of employees going to office has shrunk, given the recent fears of the variant. Most companies are looking to wait till mid-January to renew the efforts to return to office. Some companies have reduced work travel and are going slow on in-person team meetings and conferences, which had started in full flow a month back," Chaudhary said.

According to P S Viswanath, managing director and CEO, Randstad India, companies with shop floor operations and employees on client-facing roles are on high alert to avoid risking the health of their employees and other stakeholders. "Several companies in Tier 1 cities have advised against long-distance travel and in-person meetings in the coming weeks owing to the restrictions imposed at the state level. Some of the large conglomerates and tech giants have mandated strict masking and social distancing norms at their premises while others are expected to roll back to the 'work from home' model until further notice," he said.

At JSW Group for instance, Covid protocols have been reinforced. Only those who are vaccinated with both the doses are allowed to work from office, and the rest are working remotely. Social distancing, wearing of masks and thermal screening for all employees, associates and visitors has been brought back.

"Even with 100% of the workforce at JSW fully vaccinated, the necessary Covid protocols have been reinforced as precautionary measures. Regular RT-PCR screening is conducted in all our plants and even in offices for those who are using public transport for commute, along with strict sanitation and hygiene standards being followed," said a JSW executive.

Mahindra and Mahindra (M&M) is continuing with the policy of having 50% staff work out of offices. The decision to work from office has been left on the employees. However, they have to be fully vaccinated.

Peer-to-Peer lending platform faircent.com's founder and chief executive officer, Rajat Gandhi said, "Considering the news of the new coronavirus variant, we have a comprehensive Covid policy still in place. All our employees are fully vaccinated. Nevertheless, we are monitoring the situation and will take the required action if needed".

At PE Front Office, a software solutions company for alternate assets investment, the situation with regards to Omicron is being monitored. Ankur Agarwal, co-founder & CTO, PE Front Office said the company will take necessary steps to ensure the wellbeing of the employees.

However, at some companies the momentum continues to be as it was at the beginning of the pandemic and no change in work policy so far. Spokesperson for Transport Corporation of India said, "With most employees being fully-vaccinated, the relief factor is prevalent. At TCI, our offices have been operational since May 2020, continuing to follow measures like masking at all times, sanitisation, remote attendance and social distancing".

1,000-plus items to get duty relief

Both the sides started formal negotiations for a comprehensive economic partnership agreement (CEPA), as the FTA is formally called, in New Delhi from September 23. They aim to wrap up talks by December and sign a deal by March 2022 following due processes of ratification.

Prime Minister Narendra Modi may declare the CEPA when he visits the UAE, possibly in January, said the sources.

The India-UAE FTA is expected to raise bilateral merchandise trade to $100 billion in five years following the signing of the pact from about $43 billion in FY21. It also aims to more than double bilateral services trade to $15 billion during this period.

In services, as FE has reported, both the sides might clinch a deal on labour-intensive sectors, which would ensure freer movement of skilled professionals. This is expected to boost job creation in both the countries and spur multifarious economic activities.

The negotiations with the UAE are a part of India's broader strategy to forge "fair and balanced" trade agreements with key economies and revamp existing pacts to boost trade.

The move gained traction after India pulled out of the China-dominated RCEP talks in November 2019. India is also engaged in talks with Australia, the UK and the EU for FTAs.

Balanced FTAs will enable the country to achieve sustained growth rates in exports in the coming years. Already, India has set an ambitious merchandise export target of $400 billion for FY22, against $291 billion in FY21.

The UAE was India's second-biggest goods export market until FY20, behind only the US, before China pipped it in FY21 when the pandemic caused severe trade disruptions.

India's major exports to the UAE include petroleum products, precious metals, stones, gems and jewellery, textiles and garments, food items, engineering goods and chemicals. Its main imports from the UAE include petroleum and petroleum products, precious metals, stones, gems and jewellery, minerals, chemicals and wood and wood products.

Digital lenders wary of RBI regulations

Lately, several rogue app-based lenders who operate on the outsourced LSP model came under the regulator's scanner for lending money on exorbitant interest rates of 60-70% and above. After the Covid-19 pandemic brought havoc in the country, several borrowers reportedly turned to these lenders for quick cash.

But many borrowers who were unable to repay in time were subjected to predatory tactics by rogue lenders who had unfettered access to the borrower's phone contacts, call logs, and through the mobile app.

Recovery agents reportedly used these common contacts to shame the borrower into repayment. Several news reports in early 2021 pointed out that such tactics have led to suicides and state police including Telangana, Haryana, and Kerala hammered down on rogue lenders. The RBI has already identified more than 600 such digital lenders who were able to tap demand from Android and iPhone app stores.

Akshay Mehrotra, co-founder and chief executive of consumer lending app EarlySalary told FE that rogue lenders charge exorbitant interest rates to absorb risk since many of them lend to consumers with low or no credit scores.

"That's not the right way of doing running a lending business. You cannot give loans to 100 people expecting to only recover money from only 50 of them by charging high interest rates. This is something that RBI is trying to address by trying to protect the end consumer from borrowing money from institutions that don't care about consumer safety" added Mehrotra.

One of the key recommendations made by RBI last month sought to end this menace by regulating the cash flow of loans from the lender to the borrower.

The regulator said that all loans must be repaid directly into a bank account owned and maintained by the balance sheet lender.

Furthermore, RBI said that loan disbursements must always be made into the bank account of the borrower.

The other suggestion also included setting-up a public registry of verified lenders maintained by a nodal body.

"Clear specifications on the flow of money ensures any intermediary firm, managing money cash for a customer does not also pose as a lender. Lending requires both short term and long-term management of funds and miscalculation has high systematic risks.

Rules on flow of money ensures safety of both customers and the firm in the long run," said Anurag Jain, Founder of KredX and Executive Committee member of Digital Lenders Association of India.

In addition, the RBI also sought transparency on proprietary algorithms employed by digital lenders to underwrite the risk of a potential borrower.

Conventionally, banks underwrite loans using tangible collateral but lately, the new breed of digital lenders have developed underwriting algorithms that make use of sensitive user data and other online footprints left by borrowers. RBI said that such algorithms must be available for regular auditing to weed out discriminatory practices.

"RBI's want to ensure that new-age underwriting algorithms are fair and non-discriminatory, because lenders shouldn't discriminate against certain segments or certain types of consumers especially basis on gender, etc. It is in fact a fair ask but such algorithms are in fact confidential company information and may include proprietary technology that lenders may not want to potentially disclose publicly," said Adhil Shetty, CEO, of the online lending marketplace Bankbazaar.

Mehrotra of EarlySalary which processes over ₹250 crores in monthly loans using such proprietary algorithms said that new-age underwriting can help digital lenders not just underwrite risk, but also predict the repayment ability of borrowers who are new to credit.

"One of our variables used in the algorithm include how a user interacts within our app itself...If a user moves through the touch screen with multiple clicks in a fast-paced manner while applying for a loan, we assign a negative score to the borrower. So we have figured out that users who are too fidgety while applying for loans don't necessarily pay back on time," added Mehrotra.

Buy Now Pay Later (BNPL) lenders heavily depend on such algorithms and the RBI has also taken a deep look into this new category of digital lenders. Currently, BNPL service providers such as LazyPay, Simpl, ePayLater and others are not legally classified as credit products since they charge zero interest rates with a 15-30 days repayment period.

RBI's estimates show that around 0.73% of scheduled commercial banks and another 2.07% of NBFCs have exposure to BNPL loans in terms of the amount disbursed in CY2021. The regulator is seeking to change this by potentially looking to create a new framework for BNPL products and classifying them as credit services.

RIL among bidders for Sintex

Other bidders are Easygo Textiles, GHCL, and Himatsingka Ventures, which is working with Shrikant Himatsingka and Dinesh Kumar Himatsingka.

The move by Ambani, whose companies this year purchased intellectual property rights to use the iconic Lee Cooper brand in India and stakes in high-end fashion brands run by stylists to some of Bollywood's biggest stars, is only the second time Reliance has shown interest in an insolvent company.

Sintex provides fabric to global fashion brands including Armani, Hugo Boss, Diesel and Burberry, according to an Economic Times report in October.

Besides acquiring marquee Bollywood brands and assets abroad in recent years, Reliance has also forged partnerships with numerous luxury international names, including Burberry Group, Hugo Boss and Tiffany & Co.

—*Bloomberg*

LETTERS TO THE EDITOR

On Omicron variant

It has been 20 days since Omicron, a SARS-CoV-2 variant, was first reported from Botswana. This new variant emerged close to two years after the detection of the first case of SARS-CoV-2 in China's Wuhan. It was the fifth variant of concern (VoC) to keep the pandemic ongoing – the others being alpha, beta, gamma and delta variants.

— G David Milton, Tamil Nadu

Gujarat HC gives people's verdict

The protection of every citizen's fundamental rights in a vast, populous country is an onerous task for constitutional courts. Not everyone has resources to fight miscarriage of justice. But interventions this week by Gujarat high court held out hope for some very vulnerable individuals living on the margins of society. The absolutism was evident in the casting out of poor street vendors in Gujarat when political functionaries decided against vending non-vegetarian food in public.

— Sanjay Chopra, Punjab

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